

CSEET

REFERENCE READING MATERIAL – I

Part 1 : Business Communication

Part 2 : Legal Aptitude and Logical Reasoning

Part 3 : Economic and Business Environment



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

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(FOR MCQS, PLEASE REFER CSEET GUIDE - I)

PART 1 : BUSINESS COMMUNICATION

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SYLLABUS

PART 1 : BUSINESS COMMUNICATION

Objective:

- To test the knowledge of the candidates pertaining to essentials of English Grammar and critical aspects of Business Communication.

Total Marks : 50

S. No.	Topic	Sub Topic
1	Essentials of Good English	<ul style="list-style-type: none"> ● English Grammar and its usage-Noun, Pronouns, Verbs, Adjectives, Adverbs, Prepositions, Conjunctions, Interjection, Voice, Articles, Tenses, Prefix, Suffix, Combination words and Punctuations ● Enriching Vocabulary-Choice of words, Synonyms and Antonyms ● Common errors in English ● Words with multiple meaning ● One word substitution ● Words frequently mis-spelt ● Homophones ● Idioms and phrases ● Proverbs ● Abbreviations ● Para jumbles ● Sentence completion ● Sentence arrangement ● Sentence correction ● Foreign words and phrases commonly used ● Comprehension of passage and art of Summarizing
2	Communication	<ul style="list-style-type: none"> ● Concept of Communication, Meaning and Significance of Good Communication ● Business Communication - Principles and Process ● Means of Communication - Written, Oral, Visual Audiovisual ● Choice of Modes of Communication ● Communication Networks- vertical, circuit, chain, wheel, star

S. No.	Topic	Sub Topic
		<ul style="list-style-type: none">● Commonly used Mediums of Digital Communication - Email, SMS, Voice mail, Multimedia, Teleconferencing, Mobile Phone Conversation and Video Conferencing● Listening Skills-Types, Purpose, Steps to Effective Listening, Barriers to Effective Listening and Ways to overcome the Barriers● Barriers to Effective Communication and Ways to overcome the Barriers
3	Business Correspondence	<ul style="list-style-type: none">● Business Letters - Its Essentials, Parts, Types and Salutations● Positive Messages, Negative Messages and Persuasive Messages● Business Reports, Inter and Intra-departmental Communication - Office Orders, Office Circulars, Memorandum, Office Notes and Management Information System (MIS)● Concept of Web, Internet and E-correspondence● Intranet- Benefit and Purpose● Email - Features, Procedure to Write a Formal Email and Email Etiquettes● Essential Elements of Email- Subject line, Formal Greeting, Target Audience (Reader), Clarity and Conciseness, Formal Closing, Proof reading and Feedback● Advantages and Disadvantages of Email
4	Common Business Terminologies	<ul style="list-style-type: none">● Terms defined under various Laws, Rules and Regulations including Financial and Non-Financial terms and expressions.

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LESSON 1

ESSENTIALS OF GOOD ENGLISH

ENGLISH GRAMMAR AND ITS USAGE

English language follows a set of rules like all other languages. Broadly speaking, the part of Grammar concerned with changes in the form of words by internal modification or by affixation is known as accidence and the manner in which these words are arranged in the form of a sentence is called syntax. For example, the root word 'contradiction' is a noun. It can be changed into different parts of speech. If you say 'contradict', it becomes a verb and if you say 'contradictory' it becomes an adjective.

Good dictionaries give all the changes that a root word can undergo.

Good to Know!!!

Some words may be used as different parts of speech without any change in their form.

For example, the word beat remains unchanged in the following sentences; though it is a different part of speech in each sentence :

- The angry mob was beating the thief mercilessly. (verb).
- The beat of the drum sent people into frenzy (noun)
- The beat generation (young people with unconventional dress and behaviour as an expression of social philosophy) has its own ethics. (Adjective)

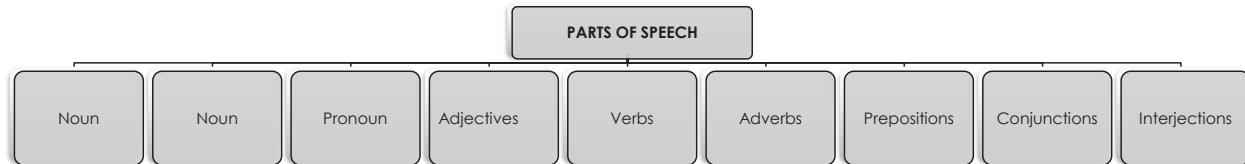
Sometimes it is possible to use the same word, with a slight modification, as a different part of speech:

For example, the root word *confirm* is used here as a noun in the first, as a verb in the second and as an adjective in the third sentence.

- We received confirmation of the order in writing yesterday. (Noun)
- The party confirmed the receipt of the consignment. (Verb)
- He is a confirmed defaulter. (Adjective)

PARTS OF SPEECH IN ENGLISH

Words are divided into eight classes according to the work they do in a sentence. They are as follows:



These word classes are called Part of Speech. They are explained below:

Nouns

A noun is a "naming word". It names somebody or something. Rahul took the dog to the park.

The car makes a lot of noise.

Look at the example above. A noun is a name of a person (Rahul), animal (dog), place (park), thing (car) or idea (noise).

Kinds of Nouns

Nouns may be divided into (a) common nouns and (b) proper nouns.

Common nouns are the names given in common to all persons, places or things of the same class. For example, bank, shop, market, etc.

Collective noun : Common nouns include another class known as collective nouns. A collective noun names a group of people, animals or things regarded as a whole., e.g., batch, company, university, crowd, flock, etc.

Proper nouns are the names of particular persons, places or things. For example, India, Larsen and Toubro, Delhi, January, etc.

Pronouns

Pronouns are used in place of nouns. Pronouns may be Personal and Relative.

Personal Pronouns : To represent a person or things., e.g., I, we, you, she, he, it, him, us, them, etc.

Relative Pronouns : The most common relative pronouns are whom, which and that. A relative pronoun acts as a pronoun and as conjunction at the same time.

This is the boy who saved my life.

Possessive Pronouns : These show possession, e.g., mine, ours, yours, their, its and hers.

Adjectives

A word used to describe or point out, a person, animal, place or thing which the noun names, or to tell the number and quantity is called an Adjective.

Rani is a clever girl (Girl of what kind?)

He gave me six books (How many books?)

Two or more words can be joined with a hyphen to form a Compound Adjective, e.g., government-financed project.

Verbs

A verb is a word that tells or asserts something about a person or thing. Verb comes from Latin Verbum, meaning a word. It is so called because it is the most important word in the sentence.

A verb may tell us :

1. What a person or thing does; as Rohit *runs*.
The bell *rings*.
2. What is done to a person or thing; as Ram is *beaten*.
The door is *broken*.

3. What a person or thing is, as The boy is *hurt*.

The chair is *broken*

I feel *sad*.

Hence, a verb is a word used to tell or assert something about some person or thing.

Adverbs

While **Adjectives qualify** or add to the meaning of nouns, **adverbs modify** the meaning not only of verbs, but also of adjectives, prepositions, conjunctions, etc.

The following sentences illustrate the varied use of adverbs:

Small investors find it very difficult to invest *wisely*.

(The first adverb *very* modifies the adjective *difficult*, and the second adverb *wisely* modifies the verb *invest*).

The CEO is an exceptionally sharp manager.

(The adverb *exceptionally* modifies the adjective *sharp*). The cash counter is *right* behind you.

(The adverb *right* modifies the preposition *behind*).

We have given this book to you only because you are a good reviewer. (The adverb *only* modifies the conjunction *because*).

Preposition

A **Preposition**, by definition, is placed before a noun or its equivalent in order to show its relationship in terms of time, place, etc.:

The space above the room houses the conference facility.

(The preposition *above* explains the relationship between the room and the conference facility).

There are hardly any rules governing the use of prepositions, some people feel that it is inelegant to put them at the end of a sentence since they are basically used as link-words. However, as Fowler points out, "Almost all our great writers have allowed themselves to end a sentence or a clause with a preposition." *The thumb-rule is that the sentence should read well.*

It is largely the usage that determines the choice of a preposition. Americans tend to drop them but it is largely colloquial. A wrong preposition certainly changes the intended meaning. Therefore, we have to learn the use of prepositions carefully. All standard dictionaries list the root word along with different prepositions or adverbial phrases and also show the difference in meaning.

For example:

The root word *get* conveys italicised meanings when used with:

...**about**, move or spread

...**across**, be understood

...**ahead**, make progress

...**along**, manage

...**at**, gain access to

...**away**, escape

...**over**, forget

...**round**, persuade

Conjunction

Conjunctions join words or even sentences conveying related ideas. Two commonly used conjunctions are:

- and
- but.

We received your letter and telegram but regret our inability to attend the meeting.

Conjunctions may also be used in pairs, e.g. *neither-nor*, *either-or*, *not only-but also*, *both-and*, *whether-or* etc.

Such conjunctions are known as **Correlative Conjunctions**.

Interjection

Interjections are words which are used in a sentence to express strong emotion or feeling. They may not form a part of its grammatical structure. Some of the common interjections are: *Hi!*, *Alas!*, *Oh!*, etc.

Types of Voices

As a general rule, we should use **Active Voice** in our sentences. Such sentences are shorter, direct and emphatic.

For example:

Please place the order within sixty days of the receipt of the quotation.

An exception is however made when sending out negative messages or fixing responsibility. For example, out of the two responses given below, the latter is likely to be received better:

You have failed to place the order in time. Unfortunately the order has been delayed.

Passive Voice is also found more suitable while drafting legal formulations as no identifiable subject can be mentioned.

For example:

Follow the traffic rules, while driving. (Active Voice)

The traffic rules should be followed while driving. (Passive Voice)

Articles

The words *a* or *an* and the are called Articles. They come before nouns. *A* or *an* is called the Indefinite Article, because it usually leaves indefinite the person or thing spoken of; as,

A doctor; that is, any doctor.

The is called the Definite Article because it normally points out some particular person or thing; as, He saw the doctor; meaning some particular doctor.

The indefinite article is used before singular countable nouns, e.g., A car, an apple, a table.

The definite article is used before singular countable nouns, plural countable nouns and uncountable nouns, e.g., The pen, the milk, the idea.

The article 'an' is used when the noun to which it is attached begins with a vowel sound (a, e, i, o and u). It is the vowel sound and not the vowels that determines the use of 'a' or 'an'. Vowels with consonant sound take 'a' and not 'an'. For example,

Bring me an apple.

He walks like an Egyptian.

She has planted a eucalyptus tree. He is an honest man.

He has joined a union.

I have lost a one-rupee note.

Usage

Usage implies the manner in which the native speakers of a language use it. The "body of conventions governing the use of a language especially those aspects not governed by grammatical rules", "habitual or customary use" often lays down new standards of acceptance.

For example, 'It is me' is generally accepted on grounds of usage even though 'It is I' is considered grammatically correct.

Usage may be learnt by reading standard texts and listening to educated speakers of a language.

Tenses

"In Grammar – a set of forms taken by a verb to indicate the time (and sometimes the continuance or completeness) of the action in relation to the time of the utterance"; is the meaning that the Concise

Oxford Dictionary assigns to the word 'Tense'. The word tense comes from Latin word tempus, meaning time.

Read the following sentences.

1. I write this letter to my mother
2. I wrote the letter yesterday.
3. I shall write another letter tomorrow.

In sentence 1, the verb write refers to the present time. Hence a verb that refers to the present time is said to be in the Present Tense.

In sentence 2, the verb wrote refers to the past time. Hence it is said to be in Past Tense.

In sentence 3, the verb shall write refers to a future time. Therefore, it is said to be in the Future Tense. Read these sentences :

1. I read a book. (Simple present)
2. I am reading a book. (Present continuous)
3. I have read a book. (Present Perfect)
4. I have been reading a book. (Present Perfect Continuous)

The verbs in all of these sentences refer to the present time, and are therefore said to be in the present tense.

In sentence 1, however, the verb shows that the action is mentioned simply, without anything being said about the completeness or incompleteness of the action.

In sentence 2, the verb shows that the action is mentioned as incomplete or continuous, that is, as still going on.

In sentence 3, the verb shows that the action is mentioned as finished, complete or perfect, at the time of speaking.

The tense of the verb in sentence 4 is said to be Present Perfect Continuous, because the verb shows that the action is going on continuously, and not completed at this present moment.

Thus we see that the tense of a verb shows not only the time of an action or event, but also the state of an action referred to .

Just as Present Tense has four forms, the Past Tense also has the following four forms :

1. I jumped from the window. (Simple Past)
2. I was jumping from the window. (Past Continuous)
3. I had jumped from the window. (Past Perfect)
4. I had been jumping from the window. (Past Perfect continuous) Similarly, the Future Tense has the following four forms :
 - i. I shall/will jump (Simple Future)
 - ii. I shall/will be jumping. (Future Continuous)
 - iii. I shall/will have jumped. (Future Perfect)
 - iv. I shall/will have been jumping. (Future Perfect Continuous)

Hence, we may define Tense as that form of a verb which shows the time and the state of an action or event.

Sentence Construction

Various Purposes of a Sentence

A group of words, which makes complete sense, is called a sentence.

Grammar also lays down rules for arranging words in a certain order to form meaningful sentences. Sentences may be formed to:

- *Make a statement* : The government has decided to disinvest its stake in Air-India.

- *Pose a question* : Would this step enable them to turn this PSU around?
- *Give a command* : Bring about a change of ownership.
- *Make an exclamation* : What a way to bridge the fiscal deficit! A sentence consists of two parts:

Subject : The part which names the person or thing we are speaking about is called the subject of the sentence.

Predicate : The part which tells something about the subject is called predicate.

A **Phrase** is a group of words, which neither has a finite verb nor makes any sense by itself. Depending on its place in the sentence, it may be a:

- Noun
- Adjectival or
- Adverbial Phrase.

Examine the following pair of sentences.

- Raj is a wealthy man.
- Raj is a man of great wealth.

In the first sentence, the word *wealthy* described the noun *Raj*.

In the second sentence of *great wealth* also tells us what sort of man *Raj* is. It qualifies the noun just as an Adjective does. Hence, it is called an Adjective Phrase.

Adverb Phrases

Just as the work of an Adjective is often done by a group of words called an Adjective Phrase, so the work of an Adverb is often done by a group of words. Examine the following pair of sentences.

- He answered rudely. (How?)
- He answered in a very rude manner. (How?)

Since the phrase *very rude manner* does the work of an Adverb, it is called an Adverb Trial Phrase.

Noun Phrase

A Noun Phrase is a group of words that does the work of a Noun. For example,

- My demat account* has been closed.
- To win a prize* is my ambition.

In the above sentences, italicized phrases are noun phrases because they are doing the work of a noun.

Types of Sentences

The basic knowledge of grammar helps us understand different sentence structures or patterns so that we can communicate in a clear, concise and correct manner.

A group of words that form a part of a sentence, and has a subject and a predicate of its own, is called a clause.

The clause that makes good sense by itself, and hence could stand by itself, as a separate sentence is called a *Principal or Main Clause*.

A clause which cannot stand by itself and makes good sense but not complete sense is called a *Dependent or Subordinate Clause*.

A sentence which has only one finite verb and one independent clause is called *Simple sentence*. For example,

This courage won him honour.

A compound sentence is made up of two or more independent clauses. For example, Night come on and rain fell heavily and we all got very wet.

A complex sentence has an independent clause and atleast one dependent clause.

For example,

The human brain never stops working until you stand up to speak in public.

Sentences can be constructed using different structures or patterns. The simplest sentence may have:

- a noun or a pronoun in the beginning,
- a verb in the middle,
- another noun or its equivalent in the end.

For example

The budget affects the stock market.

This sentence structure may also be shown as:

Subject + verb + object

The structure of an imperative sentence is different. Here the subject is understood.

For example,

Mail this letter, is the shorter form of (You) mail this letter.

It is important to use varying sentences structures in your writing so that the interest of the reader is not lost.

Sentence Construction is based on the kind of writing in question.

Sentences are also constructed on the basis of complexity of writing.

Loose sentences are suited to simple style of letter writing and are closer to the spoken form. They begin with the main statement and develop it to its logical conclusion.

For example

The Reserve Bank of India intervened in the forex market as there were strong rumours about an intense speculative activity caused by the spurt in imports.

Periodic Sentences are decorous and emphatic but more difficult to write. The order is reversed and the main statement is made at the end.

For example

As there were strong rumours about an intense speculative activity caused by the spurt in imports, the Reserve Bank of India intervened in the forex market.

Sentence Construction on the basis of Length

The length of a sentence is also an important factor in sentence construction.

Shorter Sentences are easier to write as well as understand. But a long sequence of short sentences may not make very pleasant reading:

Thank you for the order. The goods will be sent soon. The duplicate copy of the bill is enclosed. The payment must be made early.

Longer Sentences are prone to grammatical errors and need careful thought and planning. Such efforts at constructing marathon sentences should be avoided.

It may be a good idea to mix the shorter and longer sentences to sustain the interest of the reader.

For example

The conference opens on the tenth of June in Simla. More than two hundred company secretaries will take part. The purpose is to deliberate on the merits of the new Companies Act, 2013 and propose amendments. The discussions are likely to go on for three days.

Paragraph Construction

The construction of a paragraph is equally important. If a good sentence should focus on a single thought, a good paragraph should restrict itself to a single topic or idea. The topic sentence of a paragraph sums up its central idea and develops it further. It is usually at the beginning or the end of the sentence; though, in some cases, it can be written somewhere in the middle too. Shorter paragraphs should be preferred because they enable the reader to follow the writer's plan.

Prefixes and Suffixes

An affix "is an addition to the base form or stem of a word in order to modify its meaning or create a new word".

(The Concise Oxford Dictionary, Tenth Edition).

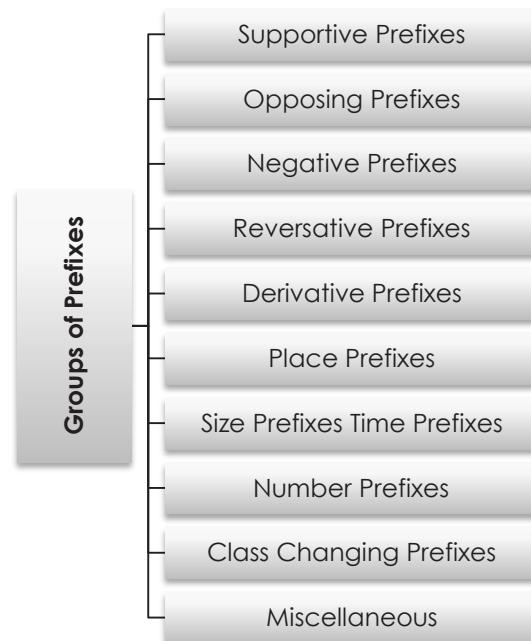
Prefix

If the affix or addition to the root word comes at the beginning, it is called a prefix.

The word 'prefix' in itself is an apt example of a prefix as it is made up of the root word 'fix'-'to join or fix', with the affix 'pre'- meaning 'before', added to it.

Groups of Prefixes

Prefixes fall into a number of distinct groups such as:



Supportive Prefixes are prefixes that support or are for the root word.

*Pro is used with the meaning favouring/supporting as the prefix. Pro, as a prefix has other meanings too, such as 'in substitute of' or 'before in time, pace or order'.

Examples of Pro as a supportive prefix are Pro-choice, Pro-market, Pro-life.

Opposing Prefixes are prefixes that are opposed to the action denoted by the root word.

Anti (against) - antibody, antibacterial, antibiotic, anticlockwise, antidote, anti-inflammatory, antioxidant, etc.

(Spurious) - antihero, antiChrist, antiself (affected person)

Contra (against) - contraception, contraindicate, contravene, contramundum (Contrasting) - contraflow, contra-active, contradict, contradistinction

Counter (opposition/retaliation) - counteract, counter-example, counter- attack, counterblast, counterbalance, counterclaim, counterculture, counter-in-surgency, countermeasure, counterproductive, etc.

Negative Prefixes are prefixes that denote the absence of distinguishing features of the root word. (The prefixes marked with * can convey different meaning besides those specified herein.)

*a (not, without) - amoral, ahistorical, atheist, asymmetric

*an (not, lacking) - anaesthetic, anaemic, anaerobic

*dis (not) - disloyal, disable, disarm, dishonest, distrust, disadvantage

*in (not) - injustice, inactive, inconsiderate, consonant, incomprehensible, incomplete, incompetent, inconsecutive

*il (this is another variation of the prefix 'in' and is used before a word beginning with 'l') - illegal, illiterate, illegible, illegitimate

*im (this is a variation of the prefix 'in' which is used before a word beginning with 'b', 'm' or 'p'.) - imbalance, immaterial, immeasurable, immobile, immovable, impassable, impatient, impossible, imperfect

*ir (this too is a variation of the prefix 'in' which is used before a word beginning with 'r') - irreplaceable, irregular, irresistible, irrational, irrecoverable, irreconcilable, irredeemable, irreducible

non (not) - non-aggressive, non-interference, nonconformist, nonentity, nonsense, nontoxic, non-stop (not-regarded as) - non-person, non-event

* These prefixes also have other meanings in which they can be used in, besides those specified herein
un (not) - unproductive, unacademic, unselfish, unavoidable, unaware, unbearable, unbroken, unburnt

Reversative Prefixes are prefixes that denote the act of undoing the previous act that the root word denotes as being done.

de* (reverses the meaning) - decriminalise, dehumidify, deselect, decontaminate dis* (reverses the meaning) - disqualify, dishonest, disinvite

un* (reverses the meaning) - untie, unscramble, unlock

Derivative Prefixes are those that denote the meaning of removing something or depriving something or someone.

de (remove something)-debug, defrost

de (depart from) - deplane, detrain, decamp

dis (remove something) - disarm, disillusion, disambiguate

un (remove something) - unleaded, unmark, unhouse, uncap, uncover

Pejorative Prefixes are those that express contempt, disapproval, bad or wrong.

mis (badly/wrongly) - miscalculate, misgovern, misspell, mismanage, misalign, misapply, misbelief

Place Prefixes are prefixes that indicate a place or placing of things, situation, etc. ante (before) - antecedent, antechamber, anteroom

circum (around) - circumvent, circumnavigate, circumlocution, circumbulate, circumlunar cis (on this side) - cisalpine, cisatlantice, cislunar

extra (outside/beyond) - extracurricular, extrasensory, extraordinary, extraterrestrial

fore (front/before) - forefinger, forecourt, forearm, forebear, forebrain, forecheck, forefront, foregather

in, il, im, ir (in) - indoors, in-patient, inside, indebt

inter (between) - interbreed, interfere, interject, interracial, international, interdisciplinary, internet intra (inside/within) - intravenous, intramural, intranet

intro (inwards) - introvert, introspect

post (after/behind) - post meridiem (P.M.) postpone, postgraduate, posthoc, postscript pre (before)-prearrange, preface, precaution, prefabrication, preamble

out (outside)-outdoor, out-patient, outhouse (surpass)-outrun, outdistance, outbid, outnumber over (outer/above)-overthrow, overshadow, overcoat

retro (backwards)-retrograde, retrospection, retrospect sub (below)-subway, subsoil, subconscious, submerge

(secondary)-sub-inspector, sub-editor, sub-committee, subtitle, sublet (below the norm)-substandard, subhuman

super (above)-superstructure, superimpose

(beyond the norm)-superhuman, superstar, superpower (excessive)-superconfident, supersensitive, supernatural supra (above)- suprasegmental, supranational

sur (above)-surcharge, surtitle, surtax

trans (across)-transatlantic, transnational, transcontinental

ultra (beyond/extreme)-ultraviolet, ultra-thin, ultra-modern, ultramarine, ultramicroscopic, ultrasonic, ultra vires

under (below/toolittle/subordinate)-underground, undercharge, underpay, undercook, undersecretary
underclass, underrepresent, undersell, undersigned

Size Prefixes denote size. They are -

mega (very large)-megaphone, megastar, megalith, megawatt midi (medium)-midi-computer, midibus

mini (small)-minibus, miniseries, minicab, minimarket

Time Prefixes denote time. They are - ante (before)-antenatal, antedate

ex (former)-ex-wife, ex-president, ex-student fore (before)-forenoon, foresee, foretell, forecast

neo (new, recent)-neo-conservative, neoplasia, neophyte post (after)-post-war, post-modernism, postdate

pre (before)-prepay, pre-existing, predate, preschool re (again)-reprint, reapply, replay, renew

Number Prefixes are those that denote number. They are - mono (one/single)-monorail, monochrome, monopoly uni (one)-unidirectional, unilateral, unicycle, unity

bi (twice/double)-bicycle, bilateral, bilingual di (two, twice)-dioxide, dichromatic duo/du (two)-duologue, duplex

tri (three)-triangle, triplicate, tripartite quadri/quadr (four)-quadrilateral, quadrangle tetra/tera (four)-tetrachloride, teramerter penta/pent (five)-pentagon, pentacle

sex (six)-sextant, sextile, sextuple hexa/hex (six)-hexapod, hexagram

hepta/hept (seven) heptagon, heptamerter octo/oct (eight)-octopus, octuple deca/dec (ten)-decade, decalogue, decinaldeci (a tenth)-decibel, decimal demi (a half)-demigod, demitasse

hemi (half)-hemisphere, hemistock

semi (half)-semiconductor, semidetached

hecto/hect (hundred)-hectogram, hectare kilo (thousand)-kilogram

milli (thousand)-millisecond, millipede

mega (a thousand)-megahertz, megabuck, megabit poly (many)-polytechnic, polygon

Status prefixes are those that denote a status. co (joint)-copartner, coauthor, cofounder pro (deputy)-proconsul, pro-vice chancellor

vice (deputy)-vice president, vice admiral, vice chancellor

Class Changing Prefixes have the effect of changing the word class, like making transitive verbs from nouns, adjectives, an intensifying force of the verbs used, etc.

be-besiege, bewitch, besmear, bewail, belittle, befoul, beribboned

en/em-encode, endanger, ensure, enlist, enroll, embark, embitter, enrich

Miscellaneous : Some of the common prefixes that do not fall into the above categories are eco (abbreviation of ecology)- eco-friendly, ecosystem

Euro (abbreviation of European)- Eurorail, Eurocurrencies para (ancillary)- paramilitary, paralegal, paramedic

para (beyond)- paranormal

quasi (like)- quasi-intellectual, quasi-judicial self- self-motivating, self-denial, self-satisfaction.

Suffix

It is a morpheme (minimal meaningful language unit) added at the end of a word to form a derivative. In other words, an addition to the end of a word to form a derivative of the root word is a suffix.

Groups of Suffix : Suffixes fall into the following categories:

- Noun Suffixes – Adjective Suffixes
- Verb Suffixes – Adverb Suffixes

Noun Suffixes are as follows:

acity (indicates a quality and state of being)-audacity, capacity

ant (denoting attribution of an action or state)-appellant, informant, arrogant, (denoting an agent)-deodorant, oxidant

al (verbal action)-betrayal, dismissal, deferral

age (denoting an action or its result/function/state or condition/set of place or abode/aggregate number of) leverage, spillage, homage, bondage, baggage, postage, vicarage, mileage

ation/ion (denoting an action or its result)-collaboration, exploration, evolution, exaltation, inhalation, communion, oblivion, objection

cle, cule, ule (indicates small size)-minuscule, particle, molecule, capsuleic-lyric, mechanic

ist (denotes a member of a profession, who uses something, etc.)-dentist, flautist, novelist, atheist ity (quality/condition/degree of)-responsibility, technicality, publicity, humility

ling (smallness or lesser stature)-duckling, seeding, hireling
 ment (means or result of an action)-arrangement, embarrassment, curtailment, bewilderment ness (a state or condition)-usefulness, carelessness, willingness, kindness, wilderness
 ship (quality or condition, status, tenure, skill, etc.)-scholarship, companionship, citizenship, workmanship, membership
 tude (indicates condition or state of being)-exactitude, longitude.

Verb Suffixes are as follows:

fy/ify (indicates or becoming)-beautify, purify, gratify, electrify, pacify, personify
 ise, ize (quality, state or function)-capitalise, modernise, popularise, terrorise, expertise

Adjective Suffixes - Some of them are as follows:

able/ible (inclined to, capable of, causing)-audible, uncountable, readable, reliable, terrible, peaceable, profitable
 al/ial (kind of)-tidal, accidental, managerial, musical
 ed (having, affected by)-cultured, heavy-handed, talented
 ful (having the qualities of)-sorrowful, powerful, careful, resentful, fretful, forgetful ic-Arabic, aristocratic, dramatic
 less (free from, without)-careless, harmless, restless, flavourless oid (resemblance)-ovoid, humanoid
 some (a tendency)-meddlesome, awesome
 y (having quality of/inclined to)-messy, funny, sleepy, choosy

Adverb Suffixes : Some of them are as follows:

ly (forms adverbs from adjectives)-amiably, candidly, surprisingly, greatly
 wise (of manner or respect or direction)-clockwise, notewise, taxwise, anticlockwise.

Combination Words

These are word elements or combining forms that can be combined with other words that already exist to form new words. These combining forms have a singular form and a clear and consistent meaning, which is probably because they are of fairly recent origin. Many of them are also technical and therefore their meanings are less susceptible to change. Most combining forms are of Greek or Latin origin. Some of them are:

arch (chief)-archbishop, arch-rival
 auto (self)-autograph, autopilot
 bio (life)-bio-diversity, biology, biography
 crypto (concealed)-crypto-fest, cryptogram, cryptocrystalline, cryptonym
 mal (improper/inadequate/faulty)-malpractice, malnutrition, malpractice, maladminister, maladjusted, maladaptive, malfunction, maltreat
 macro (large)-macro-organism, macroeconomics

micro (small/minute)-micro-organism, micro-computer, microsurgery, microgram, microscope mid (middle)-midfield, midair, midway, midsection, mid-afternoon, midwinter, midnight tele (at a distance)-telescope, television, telephone, telephoto, telecommunications.

Punctuations

The marks, such as full stop, comma, inverted commas, hyphen and brackets are used in writing to separate sentences and their elements and to clarify meaning, are called punctuation marks.

The importance of punctuation in writing can be compared to the importance of pause, intonation and emphasis used in the spoken word.

Therefore, one can state that the chief purpose of using punctuation is to make the meaning of a written passage clear. The punctuation marks remove ambiguities, if any.

Punctuation can also serve other purposes such as:

- introducing delicate effects in style.
- altering the flow of a sentence.
- highlighting certain words.
- bringing about modulations in sentence.

Some aspects of punctuations are rule-governed, i.e., those that you have to follow, but usage of some becomes a matter of choice and judgment.

The various punctuations used in the English language are:

- | | | | |
|-------------------|--------------------|-------------------|--------------|
| - capital letters | - colon | - underline | - space |
| - full stop | - dash | - quotation marks | - italics |
| - hyphens | - stroke | - bold emphasis | - apostrophe |
| - asterisk | - ellipsis | - question mark | - semicolon |
| - paragraph | - comma | - abbreviations | - numbers |
| - brackets | - exclamation mark | | |

Uses of Punctuation Marks

Let us see how some of these punctuation marks are used.

Space is the most basic form of punctuation which separates words, sentences, paragraphs and chapters.

Usually one alphabet space is used between words and punctuation, and also after sentences, unless it is the last sentence of a paragraph, when the rest of the space on that line is left blank.

Space of one line or more is left between paragraphs to distinguish them and at times a slight indentation is also used on the first line to distinguish the beginning of a new paragraph.

The amount of spacing used would depend on individual style and taste or a pattern followed in an organisation or the type of writing, e.g., a letter, a presentation, a book, etc.

The Full Stop (.) also known as a stop, point or period (in American English) is used to end a declarative sentence, a sentence which is not a question or an exclamation.

Full stops are also used to end a request politely framed as a question such as: Would you kindly fix an appointment with Mr. Sharma.

A full stop may also be used after initials or after a shortened form of a word to indicate an abbreviation.

For example

Mr.	Prof.	Etc.
B.A.	Fig.	
a.m.	A.P.J. Abdul Kalam	

However, increasingly the full stop after initials of names is being done away with, though both usages are correct.

A full stop is also used at times to denote abbreviated numerals, such as a date or a number, though at times full stop, slash or hyphen is also used to denote date, such as:

10.11.19, 10-11-19, 10/11/19

However this can be interpreted in two ways as 10th November 2019 by the Britishers and 11th October 2019 by the Americans. Therefore, it is advisable to always write the month and the date in words, e.g. 10th November 2019 or 10 November 2019

Full stop is also used before decimal and between units of money:

10.50 per cent; Rs. 33.50

Omission of Full Stop

In the following cases the full stop is omitted:

- after addresses that head letters and on the envelopes
 - after dates
 - after name that ends letters
 - after title of books, newspaper headlines, chapter headings, sub-headings, page numbers
 - after acronyms which are pronounced as one word. For example: AIDS (Acquired Immune Deficiency Syndrome) GST (Goods and Services Tax)
 - in between alphabets of the abbreviations that are a series of letters. For example: WTO (World Trade Organisation) GMT (Greenwich Mean Time) BBC (British Broadcasting Corporation)
 - in shortening of words where the first and last alphabets of the word are present.

Mr Mrs Dr Rd Ltd

though it is correct to use a period after these words, the general practice today is to omit the full stop.

- space is used for the initials of personal names instead of a full stop.
A K Singh, D S RAJAN
- abbreviations for measures, chemicals elements, etc. are used without a full stop.
Kg (Kilogram), s (Second), Hz (Hertz) Sq (Square), km (Kilometer), m (minute)
amp (ampere), O (oxygen), H (Hydrogen)
- If a sentence ends with an exclamation mark, question mark, or an abbreviation that is followed by a period for the abbreviation the full stop is not used.

Comma (,) is easily the most important punctuation mark within a sentence. Commas separate or enclose subordinate clauses and phrases in sentences. Its most typical use is to separate two main clauses that are linked by a conjunction. Here the comma mark appears just before the conjunction.

The house was almost in ruins, but the tree-studded avenue was lovely. He is not rich yet he is very generous.

Uses of Comma

Some other uses of comma are as follows:

- To separate main clauses even when they are not linked by a conjunction: The higher the price, the better the quality of goods.
- Before tags/questions and comments:

You were late for the meeting, weren't you? (tag) I was just joking, you see. (comment)

- To denote words left out:

Romeo loved Juliet; Majnu, Laila.(Here the comma denotes the word loved.)

- Enclose additional thoughts, qualification or information. Here the commas are used in pairs and they separate parenthetical elements in a sentence.

My son, Ajith, is the head boy of the school.

The movie was, I believe, well picturised.

- To set off direct speech:

To quote Confucius, "He who learns but does not think, is lost. He who thinks but does not learn is in great danger".

- "I'm tired", he replied, "However, I will complete the work before leaving".
- To set off comparative or contrasting statements.

The more he kept repeating that he did not steal the chain, the less the police believed him.

- To separate adjectives, numbers into units, names, and title or honour, or degree, day, month and year in a date, etc:
 - He is a smart, reliable, sincere and hard-working student.

- 1,25,000.
- Angelina Thomas, B.A., M.A., Ph.D.
- Shri Ram Nath Kovind, The President of India.

Hyphen (-) is used between words to clarify meaning. It also links words to form a compound word.

The use of hyphen varies in different places; therefore there are no complete set of rules that can be applied to the use of hyphen.

Therefore, only some general guidance on the use of hyphens is given here. It is advisable to consult a good dictionary when one is in doubt to find out whether the word to be used should be hyphenated or not. A hyphen is usually used in these cases:

- After a few prefixes or other word elements.
ex-partner, half-truth, quasi-judicial, semi-government, self-appointed. (We have already read about prefixes).
- Before a few suffixes where the last alphabet of the first word and the first alphabet of the second word are the same, in order to avoid an unattractive sequence.
Bull-like, get-together, profit-taking, self-financing, water-resistant.
- When the main part of a word begins with a capital letter. un-American, neo-Darwinism, neo-Nazism, anti-Indian.
- When the prefix is repeated.
Sub-subcommittee.
- When a noun and a verb are combined to form a word. hand-operated, hand-pick, hand-held.
- When an adjective and a noun are combined to form a word.
blue-pencil, loose-leaf, long-grained open-air, simple-minded, middle-aged, community-oriented, high-fibre.
- When two adjectives are combined to form a word. old-fashioned, short-sighted, red-blooded.
- When compound words express an 'and' relation.
bitter-sweet, deaf-mute, socio-economic, secretary-treasurer.
- When compound numbers between 21-99 are spelt out. This practice is gradually fading. fifty-five(55), six hundred and thirty-one(631).
- It is also used to link the starting and ending point of a series.
The Delhi-Jaipur Highway.
- When a word has to be broken at the end of a line of print or writing.
- To avoid confusion or ambiguity.
an Indian-history teacher/an Indian history-teacher.
- To prevent confusion between a new formation and a conventional word with the same prefix. re-creation (recreation), re-formed (reformed).

Semi colon (;) is used to separate two or more independent clauses that are placed together and which are of equal importance in the sentence. The use of semicolon emphasises or adds weight to the second clause.

To err is human; to forgive divine. Semi colons are also used to:

- join words, group of words, sentences.
- separate word groups that already contain commas:

Those present at the function included Mr. and Mrs. Jain, their children Usha, Amit and Raghu; Paul and Joe Thomas; Raj and Ravi Malhotra; Colonel and Mrs. James, and their children Jyotsna, Julie and James Junior; etc.

- To provide pauses before certain adverbs such as none the less, however, etc.

He worked very hard; however, he did not succeed in his endeavour.

- To emphasise contrasts:

It is a superb car; however, it is very expensive to maintain.

Colon (:) is a punctuation mark that has three major functions:

- To introduce some kind of explanation. They did not sleep last night: they must be tired.
- To introduce examples.

Today they face another threat to their survival: starvation.

- To introduce quotations or direct speech.

Functions of Colon

Some of the other functions of the colon are:

- To point the reader's attention forward.

This function can be best explained through the words of the grammarian Henry Fowler. He says that the function of a colon is "that of delivering the goods that have been invoiced in the preceding words". What he meant by goods here might be a conclusion, summary, a list or a contracting statement.

- To introduce a number of items listed separately.

The conference hall facility has everything: furniture, mikes, amplifier, projector, screen, generator backup, catering, dining hall and even a huge parking lot.

- To present a conclusion.

After sixty years in the business, Mr. Rajan realised that there was only one certainty in life: the inevitability of change.

- To introduce a question.

They all agreed that the essential issue was simply this: Will making an investment in Sweatland Limited be a mistake or not?

- To link contrasting statements. Man proposes: God disposes.

- To substitute a conjunction.

Another Monday morning: and it is pouring.

- After headings in correspondence.

Subject:

Reference:

- To introduce subtitles.

Credit cards: Power of Plastic; Past Promises: Failure to deliver.

- In bibliographical references, colon can be used after the place of publication. (Delhi: 2010).

An Apostrophe (') is used

(i) to denote possession and other kinds of relationship. This is Walter's book.

(ii) contractions of words. It was the court's order.

Isn't (is not) it a great day?

Can't (cannot) you come today? O'er (over) the hills.

Possession and other kinds of relationship

When apostrophe is used to denote possession and other relationships, the basic rules to remember are:

- The apostrophe comes before the 's' if the noun is singular.

The girl's dresses (dresses belonging to one girl).

- The apostrophe comes after the 's' if the noun is plural.

Girls' dresses (dresses belonging to many girls).

However, possessive personal pronouns ending in 's', e.g. its, ones, theirs, etc. do not take on an apostrophe.

- Indefinite pronouns, except for 'each' take on an apostrophe, anyone's, either's, one's, someone's nobody's, etc., when denoting possession or some relationship.
- In contractions of words, the use of an apostrophe is required. Though words are generally contracted in informal writing and speech, it should be avoided in formal writing.
- The apostrophe takes the place of the missing letter or letters. is not-isn't (o is the missing letter)

The apostrophe is also found in the contraction of some single words.

- 'of' is sometimes contracted especially in certain phrases: will-o'-the-wisp, seven o'clock
- certain words that are in common use: ma'am (madam)
- The apostrophe is at times used to denote the omission of part of some number: the swinging '60s (1960s).

Generally, nowadays the use of an apostrophe in these cases is omitted.

- To denote certain names especially of Celtic origin:

O' Connor, O' Sullivan.

It comes from the Irish O'-which means a grandson or descendant. Mc' Donald.

Here again, Mc is the contraction of Mac which means 'son of.'

- It is important to remember that 'its' and 'it's' are differently used.

'Its' is a personal pronoun and does not need an apostrophe. Whereas 'it's' is a contraction of either 'it is' or 'it has' and therefore it takes an apostrophe.

The child wants its (personal pronouns) toy. It's (it has) been a wonderful day.

Quotation Marks (" " / ' ') also known as quotes or inverted commas are used to enclose material that is introduced into a text from outside it, such as quotations or words used by other people.

For example

The motto of the market was "Let the buyer beware"; now it is "Customer is king." There are two types of quotation marks single and double.

One can use either single or double quotation marks in enclosing introduced material. However, if you begin the quotation using double quotation marks, you have to close it also with the same and vice versa.

Both quotation marks are used in a single sentence when another quotation is inserted in the main quotation.

For example

She asked, "Did he say 'diseased' or 'deceased'?" Some of the other functions of quotation marks are:

- to enclose cited words or expressions:

What is the difference between an "order" and a "decree"?

- to enclose expressions that the author does not take responsibility for:

In 'good old days' the women in this village walked several kilometers to fetch drinking water. Brackets also known as parentheses are of two kinds:-

- Crescent shaped ()
- Square shaped [].

Brackets are used to enclose certain contents, which the writer sets out apart so that the flow of the sentence is not interrupted.

The contents set apart may be in the form of added information, like an explanation, an after thought, a clarification, a comment, an illustration, or an expression of doubt, etc. For all these only round or crescent shaped brackets are used.

A number of (unsuitable) candidates had sent in their applications.

On the basis of their usage, brackets have been divided into three types. They are:

Crescent brackets

Crescent brackets are used in the following:

- to enclose an abbreviation that is subsequently used in the text, e.g. The Department of Company Affairs (DCA) issued a circular on the matter.
- to enclose a translation or equivalent expression, e.g. The agreement was void ab initio (from the beginning).
- to enclose references from other topics in a text, e.g.

For example

As depicted in (Fig. 1.1) it is obvious that the process of communication is quite complex.

- To enclose bibliographical references (square brackets can also be sometimes used in such cases).

Square Brackets are used to enclose words that are not usually intended to be the part of a sentence, but only as an editorial or authorial interjection. They are also used at times to enclose parentheses within another parentheses.

For example

I appreciate it [the honour], but I must refuse.

We have not received [Sic] your letter (editorial interjection).

Sarah and Tanisha [Sarah's sister (as mentioned earlier)], went for a movie.

Other Brackets : The other types of brackets are:

*Brace brackets { } Example: Select your animal {goat, sheep, cow, horse} and come to the market.

*Angle brackets <> Example: I found it on Games.com <<http://www.games.com/>>. These brackets are used only in specialised texts, mathematics and technical works.

Summary of Punctuations	
Full Stop	(.)
Comma	(,)
Hyphen	(-)
Semi colon	(;)
Colon	(:)
Apostrophe	(')
Quotation Marks	(" " / ' ')
Crescent brackets	()
Square Brackets	[]
Brace brackets	{ }
Angle brackets	<>

ENRICHING VOCABULARY

Introduction

Vocabulary is a person's own knowledge of words. It may be anyone, not necessary to be a just language user and it is really very useful to have a good vocabulary because today we can't keep up without any good treasury of words in our minds.

There are really many benefits that an enriched vocabulary can give to someone. The biggest benefit is the impact on others. When you use a language with good words, it makes a positive impact on others. There are many reasons why it is important to enrich your list of vocabulary words. Some of them are as follows:

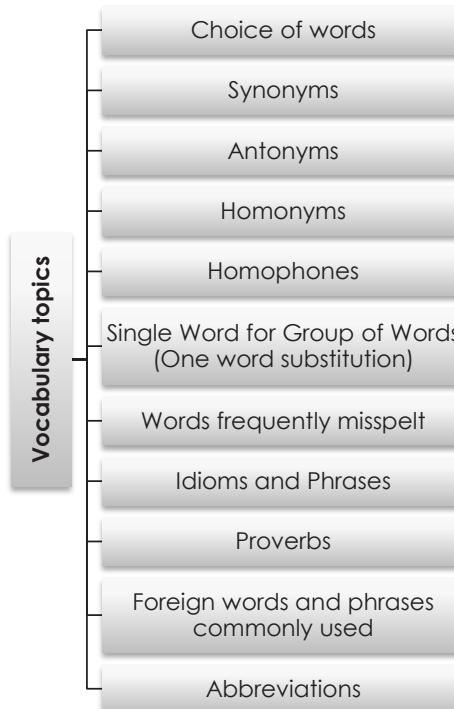
- Building your vocabulary is important in reading comprehension.
- Building your vocabulary will improve your communication skills- verbal and written communication skills will improve and you may be able to better understand another individual.
- Building your vocabulary may help improve your personal life, social life and professional life.

Good to know!!!

We should know the exact meaning of the words we propose to use. Many words, which are listed as synonyms or words with the same meaning have subtle differences. Consulting a good dictionary regularly helps in building a good repertoire of vocabulary. It is equally important to learn in what context a particular word can be used and what is its exact meaning, e.g., "erudite" means "having or showing knowledge or learning".

You can say Mr. X was an erudite speaker, but you cannot say that Mr. X's speeches were erudite.

To enrich one's vocabulary following topics are discussed in details below:



1. Choice of Words

The words you would choose to communicate with someone depend on the following factors:

- The range or repertoire of your vocabulary - Unless you know a word, you would not be able to use it.
- Your audience or person you are communicating with - Firstly, you must assess the literacy level of the audience or person. Then try to find out what kind of situation you are in – whether the audience or person is senior or junior to you; whether you are formal or informal with them, etc., these considerations will help you greatly in the choice of words.

You could hardly use slang or a code word in describing a colleague in an official memo, Can you?

- Type of communication - Whether it is formal or informal, oral or written, these factors will also influence your choice of words.
- The message you intend to convey - The urgency, disappointment, the level of accuracy required, etc. can also be conveyed through the apt words. Therefore, these too will influence your choice of words.
- Context and usage - Certain words can only be used in a particular context, and if they are used otherwise, they would convey the wrong sense; hence influencing the choice of words.
- Regional or national differences in language or connotation also influence your choice of words - 'Liberal' in Britain has a positive meaning. It means generous and open minded, whereas in America it is used as a term of political abuse.
- Improving Vocabulary – Try and understand the root/etymology of the words. Good dictionaries give all the changes that a root word can undergo.

To choose words that communicate clearly and with the appropriate tone, you should learn everything possible about those with whom you wish to communicate and take into account any prior correspondence with them. Then you should word your message so that it is easy for them to understand it and respond favorably. Tailoring your message to your readers is not only strategically necessary, it is also a sign of consideration for their time and energy. Everyone benefits when the message is clear and appropriate to the correspondent's situation.

Adaptation - The Best Strategy for Effective Wording

As with every other element of your messages, your choice of words needs to be guided by the audience and its purpose. For example, knowing that your writing should be "clear and concise" is not enough; What this means will depend a great deal on the situation. As we have suggested above, what is clear for one person may not be clear for at all for another. People occupy different language domains, and anything outside their domains will not be clear unless it is explained in their language. As for conciseness, you must be careful not to sacrifice effectiveness for brevity. If you cut your communications too short for your readers- for example, by omitting important details in a persuasive message or critical information in a report- you have written an incomplete, not a concise message.

Tips for choosing the right words

However, some general points to remember in communication are:

- **Simplicity** : Simple language produces the best and the quickest response from everyone.

But one must try not to sacrifice precision or dignity. However, there are occasions when easy comprehension must take a back seat. At times, long and unusual words have to be used because they are more precise. For example, legal language is far from simple. Hence the legal draftsman has to keep the complexity of the situation in mind. He may end up using complex language.

Using familiar words does not mean using colloquial English. Colloquial English is perfectly polite and acceptable in informal conversation, but is avoided in formal writing. For example, haven't, won't and can't have no place in prose, unless you have reproduced the text of a conversation.

Apart from colloquialism, there is no set rule for using familiar words. The important thing is to avoid a show of pedantry (an ostentatious and inappropriate display of learning) and undesirable complexity.

- **Use familiar words :** Use familiar words i.e., the words with sharp and clear meanings in the mind. As words which are familiar to some people may be unfamiliar to others, so you will need to select familiar words with care.

Specifically, using familiar words means using the language that is used by most of us in everyday conversation. We should avoid stiff, more difficult words that do not communicate so precisely or quickly. For example, instead of using the more unfamiliar word endeavor, use try. Instead of using terminate use end.

The suggestion to use familiar words does not rule out the use of some more difficult words. You should use them whenever their meanings fit your purpose best and your readers understand them clearly. The mistake that many of us make is to overwork the more difficult words. We use them so much that they interfere with our communication. A good suggestion is to use the simplest words that carry the meaning without offending the readers' intelligence.

- **Jargon :** Jargon is a language that is unique to a particular field of knowledge, e.g., science, technology, art, trade or a profession. There is for instance legal jargon, military jargon, and political jargon. For e.g. the word 'Operation' takes on different meanings depending on the context in which it is used.

Should we avoid all jargon in our writing? The question is not easy to answer. Jargon has two parts: One is the private language that only the persons in that particular field can understand. The other is wider acceptance of certain words and phrases in the general language used by the public. There cannot be any objection if this kind of jargon is used in writing.

- **Avoid using superfluous words/Verbosity :** Verbosity (an expressive style that uses excessive or superfluous words) or using more words than necessary is a common weakness. The speaker/writer uses more words than needed in the hope of diverting/retaining audiences. This tendency is seen in writing too. It has been well defined as an extension of Parkinson's Law-words increase in number to fill the quantity of paper available. More words do not necessarily lead to greater clarity. Nor do difficult and high sounding words lend weight to the argument. They obscure meaning and tire the reader out.
- **Choose short words :** According to studies of readability, short words generally communicate better than long words. Of course, part of the explanation is that short words tend to be familiar words. But there is another explanation i.e. heavy use of long words, even long words that are understood, leaves an impression of difficulty and hinders communication.

The suggestion that short words be chosen does not mean that all short words are easy and all long words are hard. Many exceptions exist. Thus, you should concentrate on short words and use long words with caution. Use long words only when you think your readers know it.

- **Select words for precise meaning :** Writing requires considerable knowledge of the language being used. But beyond basic familiarity with vocabulary, good writers possess a sensitivity to words' shades of meaning.

Knowledge of language enables you to use words that carry the meaning you want to communicate. For example, fewer and less means the same to some people. But careful users select fewer to mean "smaller numbers of items" and less to mean "reduced value, degree or quantity". Similarly, careful writers use continual to mean "repeated but broken succession" and continuous to mean "unbroken succession".

- **Use Gender-neutral words :** All too prevalent in today's business communication are words that discriminate by gender. Although this form of discrimination can be directed against men, most instances involve discrimination against women because many of our words suggest male superiority. This problem has evolved because our language developed in a society in which it was customary for women to work in the home and for men to be breadwinners and decision makers. As a result, our language displays this male dominance. For the reason of fair play and to be in step with today's society in which gender equality is the goal, you would do well to use gender-neutral words. For example, the word Chairman refers to both sexes, yet it does not sound that way. More appropriate and less offensive substitutes are chair, presiding officer, moderator and chairperson.

In business today, men and women, the young and the old and people of all races work side by side in roles of mutual respect. It would be unfair to use words that discriminate against any of them.

2. Synonyms

Synonyms are words that have very nearly the same meaning, for example:

- easy, simple, light, effortless, facile, smooth.
- effort, exertion, pains, trouble,
- elastic, flexible, supple, springy, resilient.

It is extremely difficult, if not impossible, to find two words in English which have exactly the same meaning and usage. Words that seem to be identical on a closer examination can be distinguished by some shade of meaning or some manner of usage. Therefore, most of the time they cannot be interchanged. Finding and knowing synonyms is helpful in the sense that it enhances your vocabulary by increasing your stock of words. Moreover, it helps you to pick and choose the appropriate word which alone can convey the proper meaning.

Begin, commence, start and initiate, are all synonyms which mean 'to set something going or in progress'. Begin is the most common word, commence is used on formal occasions, for court proceedings, religious and other ceremonies and military operations; start suggests a setting out from a particular point on a journey, course, etc., often but not necessarily after an action or waiting; initiate implies taking of the first step or steps as in a process.

You can say:

They started from their home. The ship has set out on its voyage.

If you use any other synonym in the place of 'set out' it would take on a different meaning. Two words may look alike and yet there may be a slight shade of difference in their meaning.

Some examples –

Word	Synonym	Word	Synonym
Adept	proficient, skilled	Abstain	refrain, withhold
Abridge	shorten, curtail	Abundant	plentiful, ample, copious
Accessory	additional, auxiliary	Achieve	accomplish, execute, gain
Adept	proficient, skilled	Adequate	sufficient, satisfactory
Adherent	follower, disciple	Admiration	praise, approbation
Brisk	lively, agile	Callous	hard, unsympathetic
Cordial	gracious, congenial	Captious	censorious, hypercritical
Cogent	valid, convincing	Deteriorate	degenerate, decline
Dexterity	skill, deftness	Didactic	moralising, preach
Effete	exhausted, worn-out	Ephemeral	transient, short-lived
Extravagant	excessive, wasteful	Fabricate	concoct, contrive
Fatal	deadly, disastrous	Fastidious	messy, fussy
Gaiety	festivity, merriment	Gigantic	colossal, huge
Hazardous	dangerous, risky	Inadvertent	careless, unplanned, unintentional
Insidious	astute, cunning	Judicious	sensible, prudent, wise
Malice	ill will, spite	Morbid	morose, sickly
Negligent	careless, lax	Obtuse	dull, stupid, blunt
Onerous	burdensome, oppressive	Panegyric	eulogy, encomium
Penury	want, poverty	Reticent	silent, reserved
Ruinous	destructive, wreckful	Sterile	barren, infertile
Thrive	prosper, flourish	Urbane	cosmopolitan, suave, cultured
Wholesome	healthy, sound, healing	Yearn	crave, pine
Zenith	summit, culmination		

3. Antonyms

Antonym is a word opposite or contrary in meaning to another word.

As has already been noted that there are no true synonyms, that is, no two words mean exactly the same thing. There is often some shade of difference in the meaning. In most cases exact meaning or appropriateness of a word depends upon the context in which it is used. It being so, a word may have more than one antonym.

Example : The antonym of soft that comes at once to mind is hard. But there are many other possibilities.

Soft drinks against hot drinks Soft colour against bright colour Soft tones against weird tones

Soft texture against rough texture Soft light against glaring lights Similarly the opposite of

A slender cane would be a thick cane,

A slender man would be a fat man,

A slender chance would be a bright chance. Some examples of Antonyms:

Word	Antonym	Word	Antonym
Ability	Inability	Able	Unable
Abnormal	Normal	Accurate	Inaccurate
Bankrupt	Solvent	Economical	Extravagant
Diligent	Dilatory/lazy	Economical	Extravagant
Emigrant	Immigrant	Explicit	Implicit
Exit	Entrance/Enter	Fact	Fiction
Flattery	Criticism	Flexible	Rigid
Fresh	Stale	Genuine	Spurious
Growth	Decline/Stagnation	Haste	Slowness
Hope	Despair	Humble	Proud
Idle	Busy	Import	Export
Inferior	Superior	Loud	Quiet/Soft
Meager	Plentiful	Narrow	Broad
Native	Foreign	Omission	Addition/Inclusion
Oral	Written	Original	Duplicate
Outward	Inward	Peace	War
Quick	Slow		

4. Homophone

The word, homo, means “same,” and phone means “sound.” Homophones are two words that sound the same, but have different meanings. For example, the words two – too, ate – eight, there-their, in-inn, ring-wring or more difficult, like principal-principle, stationary stationery, except-accept. These are called homonyms. These words have to be cautiously used while writing.

Some more examples:

(1) Access, Excess

Access : The workers could access the manager freely. (approach)

Excess : The production is far in excess to the target. (more than)

(2) Advice, Advise

Advice is a noun the end-sound is-s. Anyone can offer advice.

Advise is a verb and the end sound is-z. My father advised me to work hard.

(3) Ate, Eight

Ate is the simple past tense of the verb “to eat.”

I ate an entire pizza and now I’m really full and tired. **Eight** is noun, the number after seven and before nine. Charles will wake up at eight o’clock tomorrow morning.

(4) Bare, Bear

Bare (adjective): If something is bare, it means that it’s not covered or not decorated.

Tom likes to walk around his house in bare feet. He says it’s more comfortable than wearing shoes.

Bear (noun): A large mammal.

When you go camping, you should be careful to not leave any food or anything with a scent in your tent because they can attract bears.

(5) Cell, sell

Cell (noun): A cell is a small area or room, usually in a prison. A cell can also be one of the smallest divisions of a living organism.

The prisoner spent 10 years in his *cell*.

To **sell** (verb): To exchange a product or service for money. Like “buy,” it was probably one of the first verbs you learned.

We would like to *sell* our car, but we don’t think we’d get very much money for it.

5. Homonym

There’s another word that begins with homo-, which speakers often confuse with homophone is known as homonym. Again, the word homo- means “same,” but – nym means “name.” A homonym is a single word (with one spelling) that has more than one meaning.

An example of a homonym is the word “bear.” You probably know about the animal called a

"bear," but the word "bear" can also be a verb that means to tolerate. For example, "I'm so nervous about watching this game, I can't bear to watch the last minute!"

Some more examples:

Address – Address

I can give you the address of a good attorney. That letter was addressed to me.

Band – Band

The band was playing old Beatles songs. She always ties her hair back in a band.

Bat – Bat

I am afraid of bats.

It's his first time at bat in the major leagues.

Match – Match

If you suspect a gas leak do not strike a match or use electricity. Her fingerprints match those found at the scene of the crime.

Mean – Mean

What does this sentence mean?

He needed to find a meaning between frankness and rudeness.

Right – Right

I'm sure I'm right.

Take a right turn at the intersection.

6. Single Word for Group of Words – One word substitution

The skill to substitute a single word for many helps the speaker/writer express himself/ herself better. Some examples are:

Greed - Inordinate desire to gain and hoard wealth	Avarice
That which cannot be taken by force	Impregnable
One who learns a subject as a hobby	Amateur
That which can be easily broken.	Fragile
To show indecision/to sway to and fro in a decision	Vacillate
Pleasant sound	Euphony
Deliberate killing of whole community or race	Genocide
The place where an aeroplane is housed	Hangar
A person who is dissatisfied and is inclined to rebel	Malcontent
To pretend to be sick in order to avoid work	Malingering
One of a race or tribe who has no fixed location and wanders from place to place	Nomad
The study or collection of coins, bank notes and medals	Numismatics

A blood feud started by murder-seeking vengeance	Vendetta
A person who deliberately damages private or public property	Vandal

7. Words Frequently Misspelled

According to the Oxford Dictionary, spelling is hard and misspellings are not only common, but also awkward in professional contexts.

When you receive an email or document with spelling errors, it is difficult to trust the person sending it. Correct spelling used in written communication shows the attention as well as level of education of the person sending it.

There are a lot of tricky spelling rules in the English language. Following is a list of some of the most commonly misspelled words.

Some examples:

Correct word	Commonly misspelt as
absence	abcense, absance
accommodate	acommodate
achieve	acheive
calendar	calender
liaison	liason
receipt	reciept
tomorrow	tommorow, tomorrow

Spellings and Pronunciation

English is an infamously difficult language to spell and pronounce. Students are often bewildered by the seemingly anarchic sound/spelling system of English. There often seem to be more exceptions than the rules, and the mastery of accurate spelling and pronunciation appears a daunting and demotivating task.

Though there is a relationship between a sound and the way it is expressed in writing, the same sound is often conveyed through different spellings.

For example

The sound in the middle of words 'steep' and 'breach' is the same and phonetically shown as [i] in the dictionary.

The letter 'a' may be pronounced in several different ways. In words like brag, flap, grab, have, etc, the sound is phonetically shown as [ae], in barge, false, half, ask, etc. as [a:], in words may, tray, stay, way, etc. as [ei], and in call, flaw, raw, talk, etc. as [o:].

Good dictionaries also have a phonetic chart, which helps to learn the correct pronunciation of different words.

Specialized dictionaries of pronunciation are also available for consultation.

Spelling Errors

Adequate care should be taken to spell words correctly in all communications so that you are able to communicate effectively and impressively.

Spelling errors are common when :

- (i) certain alphabets/letters are repeated in a word. For example, tomorrow, occasion, beginning, profession, etc.
- (ii) one has to sometimes choose between 'ei' and 'ie'. For example, receive and believe. It is interesting to note that we always use 'ei' after 'c' (conceive, deceive, perceive, etc.) and 'ie' in the rest (achieve, chief, convenience, etc.)
- (iii) 'e' can be either dropped or retained when changing the root word. For example, true changes into truly but sincere changes into sincerely.
- (iv) an extra letter at times alters the meaning of the word. For example, lose and loose.
- (v) when noun and verb forms of the same word have different spellings. For example, advice/ advise or practice/practise.
- (vi) words have the same pronunciation but different spellings. For example, whether/weather, brake/ break, there/their.
- (vii) when a choice has to be made between ise(merchandise, enterprise, franchise, etc.) and 'ize' (size, prize, etc.). Some words are spelt differently by the Britishers and Americans, the latter prefer 'z' over 's',
e.g. criticise/criticize, realise/realize, recognise/recognize, etc. Though both the spellings are acceptable, one should stick to either 's' or 'z' for the sake of consistency.
- (viii) when a word similarly spelt has two variants with different meanings in past and past participle forms. For example:
Lie-lied-lied Lie-lay-laid.

Stress and Rhythm

A syllable is the minimum rhythmic sound of a spoken language. A word may have one or more syllables. For example, there is only one syllable in fame, name, claim, train, etc., two in address, confess, redress, transgress, and three in credentials, sacrifice, tarpaulin, etc., four in retribution, satisfaction, transatlantic and even five in words like conglomeration.

Good to know!!!

Dictionaries generally show the main stress marks by putting the symbol '/' above and before the stressed syllable e.g. re'port. It is also important to know that the same word when used as a noun, is stressed differently e.g. 're port. Only one syllable in a word carries the main stress; other syllables are unstressed.

In order to achieve good and clear speech, we must learn to recognize the stressed syllable in a word.

Abbreviations

Abbreviations are the shortened form of a word, phrase or text.

Usually one uses abbreviations of words or names in private letters, while taking notes in between lectures or noting down some important points, thoughts, etc., as a means of saving time and also to be able to understand text at a later time.

However, in formal writing it is best to use only well-known abbreviations that are understood by all and are infrequent practice.

For example:

Etc. is the widely used abbreviation for 'etcetera', whereas someone may be in the habit of using 'eta' as an abbreviation for the same word, which only that person would understand to mean 'etcetera'. Hence, such practice in formal writing should be avoided.

Types of Abbreviation

- the first letters of two/three words or names are used to form an abbreviation. For example:

M.A. (Master of Arts)

P.M. (Post Meridiem)

BBC (British Broadcasting Corporation)

In the examples given above abbreviations can be used without the full stop also, according to the emerging trend.

Ms (Manuscript)

However, a shortening of a word can be used with a full stop at the end Prof., Capt., Maj., Gen.

- Acronyms are words formed from the initial letters of other words. UNICEF (United Nations International Children Emergency Fund)

FICCI (Federation of Indian Chambers of Commerce and Industry)

Note that these acronyms do not take on full stops in between and are frequently pronounced as a word.

Some abbreviations can be used with or without a full stop at the end, e.g.

- the first and last letters of a single word.

Mr./Mr (Mister) Dr./Dr (Doctor)

- Scientific terms

Weights and measures are used both in full form as well as in abbreviated form. Kg, lb, m, amp, ft, yd, mph.

- Chemical symbols

Abbreviated words are also used as chemical symbols, such as:

Ca (Calcium), H (Hydrogen), NaCl (Sodium Chloride), H₂O (Water).

Plural in Abbreviations

- The general rule to make an abbreviation plural is to repeat the same alphabet, such as: P-page, pp- pages
- It can be made plural by adding an 's' if the abbreviation is of more than one alphabet, such as: MAs, MPs, Capts

However, there are some exceptions to these rules, e.g.:

- 'Mr.' which is 'Messrs' in plural and cannot obviously become Mrs.
- Abbreviations of scientific terms denote both singular and plural in the same form, for example: 1Kg. 4Kg., etc.
- To introduce a possessive relationship in an abbreviation apostrophe 's' is added to the abbreviation.

For example:

M.P.'s or MP's - These should not be mistaken as the plural of MP.

Idioms and Phrases

A simple word like go is a part of a child's vocabulary, so much so that the primitive bushman had an equivalent for it in his language. But look at the following sentences:

- (i) Ever got a Mumbai number at first go?
- (ii) He is always on the go.

'Go' is no longer a simple word from a child's vocabulary.

Take 'fall'-the sparrow's fall, and the Roman Empire's fall, and so on. Now combine 'go' with another simple word 'down'. Look at 'the boxer going down on the first count. In the company of 'down', 'go' has changed beyond recognition. There is more to it. Think of Churchill who would go down in history as the man who saved England from total collapse. This time the meaning has changed without 'go' forming a new alliance.

A literal translation of this two-word combination 'go down' will not help. And this happens very often with many words in English. 'Go down' has to be understood in its own right and in its particular context. This is an 'idiom' which the dictionary defines 'as the form of expression peculiar to a language.'

As such idioms are not peculiar to English language alone, they are found in other languages as well. But, as already said, they cannot be transliterated [to change (letter, words, etc.)] into corresponding characters of another alphabet or language] from one language to another. All such combinations of words used in a peculiar fashion are called idiomatic expressions.

A **Phrase** is a group of words, a part of the sentence which does not make a complete sentence, but has an independent meaning and makes some sense: on the hill, about town, under the tree, etc.

A phrase is quite often equivalent to an adjective, adverb or noun. We would here, however, confine ourselves to phrases which are used *idiomatically*.

In the language itself, therefore, idioms are the source of sparkle and polish. Very often an idiomatic expression has no exact equivalent in the language itself. Take for example, 'bring up'. We know by long usage what it means. And yet the dictionary meaning 'rear' is at best a poor substitute for it.

The list below is by no means exhaustive. Even so it is fairly long. A glance at them will brush up your memory. You would come across these expressions, and need them yourself, quite often in your career. Use of idiomatic expressions in writing enriches your language.

Some Verbal Idioms

We shall begin with idioms, each consisting of a verb and a preposition. A single verb can give us a number of idiomatic expressions by attaching different prepositions to itself. For example, turn out (to expel), turn up (to appear at some place), turn down (to reject some request or appeal), etc. You may have become familiar with the usage of most of the verbal idioms. To refresh your memory here are just a few:

1. Beat back (compelled to retreat) The firemen were beaten back by the flames and the building was reduced to ashes.
2. Boil down to (to amount to) His entire argument boiled down to the fact that he would not join the movement unless he saw some monetary gain in it.
3. Cast aside (to reject, to throw aside) People normally cast aside truth and honesty for immediate gains.
4. Cut off with a shilling (to give someone a mere trifle in the will) The father was so angry with the son over his marriage that he cut him off with a shilling.
5. Gloss over (to ignore) Even if you are an important person your faults cannot be glossed over.
6. Labour under (to suffer from some disadvantage or distress) Let us not labour under the delusion that our friends will come to our aid in times of difficulty.
7. Play off against (to set one party against another for one's own advantage). It best serves the interests of the super powers to play off one poor nation against another.
8. Pull one through (to recover, to help one recover) Armed with the latest medicines, the doctor will pull him through.

Idiomatic expressions in which the principal word is the verb

1. Cast a slur upon (by word or act cast a slight reproach on someone) Many a men cast a slur on their own good name by some mean act.
2. To catch a Tartar (to encounter a strong adversary) When Hitler marched on to Russia he hardly knew that he would catch a Tartar in the tough people of that country.
3. To cut the Gordian knot (to remove a difficulty by bold or unusual measures) The Indian Parliament threw out the Bill for Abolition of Privy Purses. The Government cut the Gordian knot by abolishing the purses through a Presidential Ordinance.
4. To fall to someone's lot (to become someone's responsibility) It has fallen to the lot of the eldest brother to pay off the debts of the father.
5. To get the upper hand or to get the better of (to prevail over) Hari got the better of Suresh in the Degree Examination.
6. To give someone the slip (to dodge someone who is looking for you) The police had nearly arrested the dacoits when the latter gave them the slip and hid himself in the Chambal ravines.

7. A give and take policy (a policy of mutual concessions) A give and take policy alone can restore peace between India and Pakistan.
8. To go to rack and ruin (reach a state of despair through neglect) If a big war comes, our economy will go to rack and ruin.
9. To have a bone to pick with (to have a difference with a person that has not yet been fully expressed) The extreme leftists have a bone to pick with the police and if ever they come to power.
10. To have the whip hand (to have a position of power or control) Even after the split in the party he has the whip hand in the party.
11. To have too many irons in the fire (to have so much work in hand that some part of it is either left undone or done very badly) His performance is poor because he has too many irons in the fire.
12. To have the right ring (to be genuine) The Americans' pronouncements of world peace do not usually have the right ring.
13. To have an axe to grind (have personal interests to serve) Bigger nations supply arms to the smaller ones primarily because the former has their own axe to grind.
14. To keep a thing to oneself, to keep one's own counsel (to be silent about one's intentions) A great leader must ultimately keep his own counsel.
15. To keep the wolf from the door (to keep away extreme poverty and hunger) Lakhs of people in India still have to fight daily to keep the wolf from the door.
16. To make short work of (to bring to a sudden end) The locusts made short work of the standing ripe corn.
17. To make amends (to compensate or make up for a wrong doing) By being polite today, he has made amends for his past insolence.
18. To make common cause (to unite in order to achieve a shared aim) During the elections the princes made a common cause with the rightist parties. Both went down.
19. To make a virtue of necessity (Pretend or believe that something which one is obliged to do or accept is good for one's character, moral development, etc.) When a Minister knows that he is going to be booted out of the cabinet he makes a virtue of necessity and resigns 'on health grounds'.
20. To make much ado about nothing (to make a great fuss about a trifle) Crying over the loss of ten rupees is really making much ado about nothing.
21. To make a cat's paw or a tool of someone (to use someone as a means of achieving one's goal) The super powers have made a cat's paw of the smaller nations of Asia in their game of power politics.
22. To put the cart before the horse (reverse the proper order or procedure) Preparing the blue print of a project without analysing market potential is like putting the cart before the horse.
23. To rise to the occasion (show the daring, imagination etc., which fits a particular occasion) A flood threatened to burst the reservoir but the villagers rose to the occasion and did not relax till they had made all secure.

24. To set store on (to consider to be of a particular degree of importance) India did set much store on the Indo Soviet Treaty of friendship.
25. To set one's own house in order (to arrange one's affairs harmoniously) Let Pakistan set his own house in order before talking about the welfare of the Kashmiris.
26. To take the bull by the horns (deal decisively with a difficult or unpleasant situation) The doctor had to take the bull by the horns by deciding to amputate the patient's leg in order to save his life.
27. To take a leap in the dark (take a risky action/step in the hope that it is right) You took a leap in the dark in going into partnership with that man.
28. To throw cold water upon (to discourage someone from doing something) The doctor threw cold water upon my plans for a world tour by declaring that I would not be able to stand the strain of it.
29. To throw in the sponge/towel (to give up a contest/acknowledge defeat) Faced with stiff competition from big companies, many small companies throw in the sponge.
30. To turn the tables (gain an advantage after having been at a disadvantage) Pakistan started with a blitzkrieg but the superior tactics of our armed forces soon turned the tables on them.

Miscellaneous Idiomatic expressions formed with the help of verbs

1. To cook or doctor an account/a book (to tamper with or falsify the facts of figures/ accounts) From the balance sheet presented to the shareholders, the company seemed to be flourishing, but later on it turned out that the management had cooked the accounts.
2. To bear the brunt of (to bear the main force or shock of) The infantry forces have to bear the brunt of a battle.
3. To beard the lion in his den (to oppose or challenge someone in his stronghold place) The Indian Army broke through strong Pakistan fortifications, and in the Shakargarh area bearded the lion in his own den.
4. To blunt the edge of (to make something less effective) Time blunts the edge of grief.
5. To burn the candle at both ends (to make too great a demand on one's physical or mental resources by overwork or overindulgence in some activity) In any kind of job, especially academic, you cannot afford to burn the candle at both ends, if you want to be productive every day.
6. To cross the Rubicon (to take an important action or step that cannot be reversed) The Government will have to think of many things before nationalising the textile industry for once they cross the Rubicon there will be no going back.
7. To curry favour (to win favour by gifts or flattery/try to flatter) He was trying to curry favour with the boss by offering him an expensive gift.
8. To flog a dead horse (waste one's energies on a lost cause) We will be flogging a dead horse if we try to make Sanskrit the national language of India.
9. To feather one's nest (to provide for oneself through dishonest means) Many bureaucrats feather their own nest while they have the opportunity.

10. To eat humble pie (to have to humiliate oneself) Since no one came to his support he had to eat humble pie and give in to their demands.
11. To eat one's words (to retract one's assertions under compulsion) It is hard for a haughty man to have to eat his words.
12. To throw down the gauntlet, to take up the gauntlet (to issue a challenge, to accept a challenge). In order to defend his title the young Brazilian wrestler threw down the gauntlet.
13. To run the gauntlet (to undergo severe criticism or ill treatment) Most books have to run the gauntlet of the literary critics.
14. To burn one's fingers (to get oneself into trouble through miscalculation/ foolishness) If you've never played the stock market in the past this is not the time to start, as you are likely to burn your fingers.
15. To force one's hand (to compel one to do something unwillingly or earlier than when one wished to do it) The Government wanted to do all that it could to meet the workers' demands. But the violence by the strikers forced their hands to declare a lockout.
16. To haul over the coals (reproach/reprimand someone severely) If your bad habits become known, you will get hauled over the coals and you richly deserve it too.
17. To let the grass grow under your feet (to unnecessarily cause a delay in taking action) The authorities should listen to students' grievances. If they let the grass grow under their feet the situation would turn from bad to worse.
18. To lord it over someone (to behave in a superior or domineering manner with someone) The intoxication of power is so strong that when a man gains it he begins to lord it over his fellows.
19. To mind one's P's and Q's (to be punctiliously careful about one's speech or behaviour) The manager suspects his chief clerk of dishonesty, and if the clerk does not mind his P's and Q's, he will soon find himself out of job.
20. To pass muster (to be accepted as satisfactory) Though my work in college was not as good as it could have been, it passed muster and I got good results.
21. To pay one back in one's own coin (to give tit for tat; to retaliate) Howsoever revengeful you may be, unless you are strong enough you cannot pay him back in his own coin.
22. To plough a lonely furrow (to work without help or support) In the organised society of today no individual or nation can plough a lonely furrow.
23. To rest on one's laurels (to rest satisfied with one's achievement and make no further efforts) Even if he wins the biggest award, a film star will never rest on his laurels. He will try to reach greater heights of stardom.
24. To harp on the same string (to keep repeating the same things over and over again) This gentleman keeps harping on the same string that he is from Oxford and deserves the best.
25. To rise like a phoenix from its ashes (the phoenix is a mythical Arabian bird. It had no mate but when it was about to die, it made a funeral pile of wood and aromatic gums and burned itself to ashes on it. From the ashes a young phoenix is believed to have risen; to rise up to former

glory after being totally destroyed) Germany was completely decimated in the Second World War. But it has risen like a phoenix from its ashes.

26. To rule the roost (be the one who directs others in a business, community, household, etc.) In rural areas, it is normally the Sarpanch who rules the roost.
27. To scatter to the winds (to waste (i) to scatter) Whatever we had gained by independence we scattered to the wind.
28. To see which way the wind blows (to observe what influence, whether it is favourable or adverse, is likely to affect the existing state of things) In party-politics people sitting on the fence keep on watching which way the wind is blowing before deciding whom to support.
29. To see a thing through coloured spectacles (to regard something unfavourably because of one's prejudices)
30. Pakistan has for long looked at India through coloured spectacles and never trusted even the most genuine of her peace moves.
31. To see through something (to understand the true nature of something beneath deceptive appearances) They saw through the game of the enemy.
32. To speak volumes about (to have abundant evidence about something) The success of democracy in India speaks volumes about the maturity of her people.
33. To split hair (quibble or argue on minor points) As the drought played havoc in Bihar, the authorities were busy splitting hair trying to decide whether there was 'scarcity conditions' or 'famine'.
34. To steal a march on (to do something so as to gain an advantage over another) While we were still debating the desirability of joint ventures with foreign concerns, Singapore and Malaysia stole a march over us and opened their gates to foreign investment in a big way.
35. To stick at nothing (behave in an unscrupulous way to get what one wants) An ambitious politician will stick at nothing if that serves high ends.
36. To strain every nerve (to use one's utmost efforts) We have to strain every nerve to get over the poverty line.
37. To stretch a point (to extend a regulation/definition to cover something not included in it) Targetting small bakeries as part of the drive to move polluting industries from residential areas to industrial ones is stretching the point a little too far.
38. To strike while the iron is hot (to take immediate advantage of an opportunity) By going in for general elections immediately after the war, the Congress struck while the iron was hot.
39. To talk shop (to discuss matters connected with one's trade or profession) During tea breaks at any seminar you will always find the participants talking shop.
40. To tie somebody's hands (to restrict somebody's activities) Although the management was aware about the severe financial crisis one of their employees was going through, it could not pass the loan for its hands were tied by the Company's policy.
41. To throw mud at (to talk ill of) Some people specialise in throwing mud at others.

Idiomatic phrases formed by the combination of a noun and an adjective each, noun phrases and adverbial phrases

1. Bad blood (ill will towards each other, enmity) There has been bad blood between India and Pakistan since 1947.
2. A bone of contention (subject of dispute) Kashmir continues to be a bone of contention between India and Pakistan.
3. A bosom friend/pal (A very intimate and trusted friend) Bosom friends never betray one another.
4. Like a bull in a China shop (someone who is too clumsy, rough, coarse, etc. to suit his/her surroundings and company or to handle a delicate situation) Don't let him handle the labour problem, with his short tempered nature he will only be like a bull in a China shop and worsen the situation.
5. A cold comfort (inadequate consolation) The mere promise of a better future is only cold comfort to the frustrated youth of today.
6. Creature comforts (material comforts that contribute to physical ease and well-being) A poor labourer is more concerned about creature comforts than spiritual development.
7. A dog in the manger (a person who prevents others from having things that he does not need himself) The affluent nations follow a dog in the manger policy. They would rather destroy what they can't use themselves than give it to the poor nations of Asia and Africa.
8. Elbow room (adequate space to move or work in) Too many rules and red-tapism hardly gives one elbow room to try out new methods that might prove more profitable for an organisation.
9. A fair-weather friend (a friend who deserts you in difficulties) A fair-weather friend disappears the moment your money disappears.
10. French leave (absence from work or duty without permission) Don't take too many French leaves now, it will mar your chances for a promotion.
11. Good offices (influence) One can get a good job only through the good offices of someone in power.
12. A herculean task (a job requiring greater effort) Eradication of poverty is a herculean task requiring the collective efforts of the entire country.
13. Lynch law (Mob law, law administered by private individuals and followed by summary execution) In African countries they often resort to lynch law to punish criminals.
14. A maiden speech (the first speech of a new member in a public body as in Town Hall or in Parliament) Every MP looks forward to his maiden speech because it is an opportunity for him to make a good impression.
15. A nine-day wonder (a person or event that attracts a lot of notice for a short time but is soon forgotten) The controversy of the match-fixing charges in the cricket match was but a nine-day wonder.
16. The rising generation (the young people). The rising generation is quite techno-savvy.
17. Scot free (without suffering any punishment or injury) Because he had influential connections, the culprit went scot free.

18. A sheet anchor (a dependable person, or thing relied upon in the last resort) In times of immense strain and problems, one's family and friends are one's sheet anchor who keeps one from giving in.
19. Tall talk (boastful language) If we have no real accomplishments, we indulge in tall talk to delude ourselves and others too.
20. A white elephant (something expensive to maintain) I had to dispose off the car as it turned out to be a white elephant.
21. A white lie (a harmless lie told to avoid hurting someone's feelings) His white lie that everything was alright with him, helped soothe his agitated mother, who had heard that he had met with an accident.
22. A wild-goose chase (a useless search, investigation or enterprise) The hoaxter had sent the police on a wild-goose chase.
23. An apple of discord (a subject of dispute/rivalry) Kashmir continues to be the apple of discord between India and Pakistan.
24. The gift of the gab (eloquence, fluency in speech) The gift of the gab invariably makes for a successful politician.
25. The ins and outs (the full details, intricacies, complications of a thing) We are yet to learn the ins and outs of the Mao-Nixon agreement.
26. The lion's share (an unfairly large share) The big nations continue to have the lion's share of world trade.
27. The three R's (mastery in reading, writing and arithmetic) The three R's have been the main focus of primary education for many decades now.
28. Penelope's web (a work which seems to be going on and yet never comes to an end) A housewife's chores are a Penelope's web.
29. The powers that be (any governmental, legislative, managerial body) Unless you agitate against powers that be, they will never do anything for your welfare.
30. The pros and cons (various points or arguments for and against someone or something) Before taking a major decision it is always best to weigh its pros and cons.
31. By the skin of one's teeth (narrowly escape or avoid by a small margin) The storm broke up the ship but the sailors escaped by the skin of their teeth.
32. A storm in a tea cup (a great fuss over a trifle) The commotion over the bomb explosion turned out to be a storm in a tea cup; it was a Diwali cracker burst by an urchin.
33. Null and void (invalid, valueless, no longer in force) The court declared the appointment of the managing director by 'X' limited null and void.

Prepositional and other Phrases in English used with the verb "to be"

1. To be worth its weight in gold (extremely valuable) In the desert a bottle of water is often worth its weight in gold.
2. To be Greek or double Dutch to one (unintelligible, incomprehensible language) He spoke so fast that all he said was double Dutch to the audience.

3. To be at sea (confused, uncertain) I am quite at sea as far as economics is concerned.
4. To be at sixes and sevens (in a state of confusion or disarray) I haven't had time to arrange everything, so I'm all at sixes and sevens.
5. To be at one's wits end (be completely at a loss as to what to do) With the master shouting from the bathroom and the mistress from the kitchen the servant was at his wits end as to who to attend first.
6. To be in the doldrums (feeling depressed; in low spirits or depression) He has been in the doldrums ever since his wife left him.
7. To be on the wane (becoming weaker or less vigorous) After the Second World War, the British rule was on the wane.
8. To be on the carpet (being severely reprimanded by someone in authority) The unpunctual clerk was repeatedly on the carpet.
9. To be on one's last leg (near the end of life, usefulness or existence) With the increasing use of computers in offices, it seems the typewriter is at its last leg.

Idiomatic expression belonging to particular subject

(i) Money, debt, business, etc.

1. Ready money or cash (money immediately available for use) Earlier it was time consuming to withdraw cash. Today ATMs provide ready money in no time.
2. Bad debts (debts regarded as irrecoverable) Every year the company compiles a list of bad debts and writes them off.
3. In short supply (not easily available) Sugar is in short supply because of the strike in sugar mills.
4. To bring a thing under the hammer (to sell something by auction) If a person goes insolvent, his creditors bring everything that he owns under the hammer to recover their money.
5. To drive a hard bargain (insist on the best possible price when negotiating with somebody) The Sheikh drove a hard bargain while selling oil to western countries.
6. To pay one's way (earn enough to cover one's expenses) While at college, he paid his way by working as a newspaper vendor.

(ii) Warfare

7. To take something by storm (to capture a place by sudden and violent attack) The men mounted an all out attack from air and land and soon took the enemy country by storm.
8. To strike one's flag or colours or to show the white (to surrender) After the army surrounded their hiding place, the terrorists showed the white and were thereafter captured.

(iii) Sea and ships

Many of the expressions belonging to this group are used metaphorically, i.e., in areas other than that to which they belong.

9. To weather the storm (to come out of a crisis successfully) In a crisis it is unity which helps a nation to weather the storm.

10. To sail before the wind (sail in the direction in which the wind is blowing or act in a safe way) An opportunist is one who sails before the wind (Its opposite is to sail close to the wind, i.e., behave or operate in a risky way).
11. To cast anchor (to settle in a place for the time being) After travelling around the world, he finally cast anchor in Paris because he liked the city.
12. To give a broadside (a naval phrase meaning to charge at once at an enemy by arranging all the guns along one side of a ship. Metaphorically it means to make a vigorous attack upon an opponent) The Prime Minister bore all criticism with patience and then gave a broadside that silenced all criticism.
13. To be in the same boat (be in the same difficult circumstances as others) In a nuclear war, the rich and the poor nations will be in the same boat. None will be able to protect itself.
14. To take the wind out of one's sails (upset or disturb an overconfident or pompous person) Before he goes any further, confronts him with the evidence of his wrongdoings and take the wind out of his sails.

(iv) Fire, light, candles

15. The game is not worth the candle (the advantage or enjoyment to be gained is not worth the time spent in gaining it) Journey to the moon is an elaborate and costly affair and some people with a pragmatic approach feel the game is not worth the candle.
16. Not hold a candle to something or someone (be inferior to someone) She writes quite amusing stories but she can't hold a candle to the more serious novelists.

(v) Death

All the phrases given below mean, 'to die a natural death' as opposed to a violent or sudden death (from murder, in accident or in battle-field, etc.). These phrases also apply to death after a long illness.

To pass away, to go the way of all flesh, to breathe one's last, to be gathered to one's fathers, to join the great majority, to kick the bucket.

Proverbs

Proverbs contain home truths as well as universal truths. Naturally, therefore, they are translatable-so far as their meaning goes from one developed language to another. Their appeal is direct. Many of them had their origin in folk literature; hence they are simple and unadorned. They point out the incongruities (inappropriateness) of situations in life, throw light on the diversity in human life and character, and contain a grain of advice to the wayward, the forlorn and the common folk. They are everyman's philosophy. Every one of them tells a story in a single sentence. In fact, most of them have some history- legendary or real-behind them. Some of them are gems from the works of great masters, like Shakespeare, Dryden and Aesop, the Greek fable writer. Others go back to antiquity. Many of them come out of the Bible. Their meaning, often enough, is quite clear. Here are some proverbs with their meanings:

1. Hope springs eternal in the human breast (one never loses hope).

2. Better late than never.
3. Fools rush in where angels fear to tread. (Said of reckless persons).
4. There is no fool like an old fool. (An aged lover).
5. A fool and his money are soon parted.
6. Example is better than precept. (Precept means moral instruction).
7. He who pays the piper calls the tune. (One has to act according to the wishes of one's master).
8. You cannot make a silk purse out of a sow's ear. (Said of something impossible).
9. A bird in hand is worth two in the bush.
10. Birds of a feather flock together. (People of like character come together).
11. A little knowledge is a dangerous thing.
12. One man's meat is another man's poison. (What is good for one may be harmful for another person).
13. Out of the frying pan into the fire. (From one trouble to another bigger trouble).
14. It never rains but pours.
15. The last straw breaks the camel's back. (The smallest addition to an already heavy task or burden makes it intolerable).
16. Fore-warned is fore-armed. (A prior warning should prepare one for the contingency).
17. To err is human; to forgive, divine.
18. Out of sight, out of mind. (Once you lose sight of a thing, you forget it altogether).
19. Distance lends enchantment to the view. (Things look nice and beautiful when they are not within reach).
20. Render unto Caesar what is Caesar's. (Be revengeful).
21. Haste makes waste.
22. Look before you leap. (Do not be reckless and impulsive).
23. Make hay while the sun shines. (To make full use of the given opportunity).
24. Never look a gift horse in the mouth. (There can be no choice about things given in charity or gift).
25. Beggars can't be choosers.
26. Nearer the Church, the farther from God. (The more opportunities you have the less you benefit from them).
27. Two heads are better than one.
28. None but the brave deserve the fair.

29. All is well that ends well.
30. To rob Peter to pay Paul. (To harm one person [or side] in order to benefit the other).
31. Rome was not built in a day. (Things take time to complete and to mature).
32. One swallow does not make a summer.
33. You can't have the cake and eat it too.
34. Every man for himself and God for us all.
35. To hit the nail on the head.

Foreign Words and Phrases

English has borrowed generously from other languages, more so from Latin, Greek, French and German. Many of the borrowed words have been anglicised and today are an integral part of English vocabulary in their original or modified form, e.g., restaurant, rapport, viva voce. There are many other expressions which are liberally used in English and yet continue to retain their foreign flavour. They are still outsiders and, in print, are italicised.

Some examples given below are of a technical nature pertaining to law, philosophy, politics and 'officialdom'. The language of origin is indicated after the word or phrase within brackets. Here 'L' stands for 'Latin'; 'F' for 'French' and 'G' for 'Greek'.

ab initio (L) : from the beginning

ab origin (L) : from the origin

addenda(L) : list of additions (addenda to a book)

ad libitum (L) : speak or perform in public without advance preparation. (Extempore)

ad valorem (L) : according to value

ad hoc (L) : a body elected or appointed for a particular work (ad hoc committee)

ad infinitum (L) : to infinity, endlessly, forever

alma mater (L) : a school or a college which one has attended

a la carte (F) : according to the card/list (A la carte dishes are available here)

a la mode (F) : according to the fashion

alter ego (L) : the other self; alternative personality; intimate friend (He is my alter ego - we go everywhere together)

amende honorable (F) : a public or open apology, reparation

amour propre (F) : self-love; self-esteem

ancient regime (F) : the former order of things, a political or social system that has been displaced by a more modern one.

a posteriori (L) : empirical, from effect to cause

a priori (L) : from cause to effect (presumptive) Every science cannot be taught *a priori*.

apropos (L) : with reference to (*apropos* our talk)

au courant (L) : fully acquainted with matters, well-informed, up-to- date

au fait (F) : expert, having detailed knowledge

au revoir (F) : until we meet again (to say *au revoir* at parting)

avant-propos (F) : preliminary matter, preface *avant-garde* (F) : new, unusual or experimental beau ideal (F) : the ideal of perfection

beau monde (F) : the world of fashion

beaux sprits (F) : men of wit

bete noire (F) : a special aversion (India has always been *bete noire* for Pakistan)

bona fide (L) : genuine sincere (He is a *bona fide* citizen of India).

bizarre (F) : strange, unknown

bon voyage (F) : have a good journey

casus belli (L) : that which causes or justifies war

causecelebre (F) : a famous case in law, controversial well-publicised issue

charged'affaires (F) : a deputy to the Ambassador/a diplomatic representative to a minor country

chef d' oeuvre (F) : masterpiece (Mona Lisa is Vinci's *chef d' oeuvre*.)

circa (L) : approximately ('*circa* 1930')

confere (F) : colleague

contresmps (F) : a minor dispute or disagreement

corrigenda (L) : a thing to be corrected (in a book)

coupd'estat (F) : violent change in government (There was a *coup d'estat* in Cambodia and the King was overthrown.)

coup de grace (F) : a finishing stroke (The *coup de grace* of the Russian Revolution brought about the total annihilation of the Czar family.)

cul-de-sac(F) : a blind alley (The failure of the policy of non- alignment in 1962 saw our foreign policy reach a *cul- de-sac*.)

debacle (F) : an utter failure or disaster (debacle of opposition in the election)

de facto (L) : actual or in fact (de *facto* recognition to a state)

de jure (L) : from the law, by right

de novo (L) : anew, again (trial of a case)

de' nouement (L) : the end of a plot or narrative (in a play) *de profundis* (L) : a heartfelt appeal or feeling *dernierressort* (F) : last resort

détente (F) : easing of strained relations especially between countries

dramatis personae (L) : characters of a novel, play or narrative

elite (L) : select group or class (The elite of town)

enfant terrible (F) : child who asks awkward questions; person or thing causing embarrassment by unruliness

entrepreneur (F) : a person who sets up business taking greater financial risk

en masse (F) : all together (They took leave en masse.)

en rapport (F) : in harmony

entourage (F) : group of people accompanying a dignitary (P.M.'s entourage)

errata (L) : list of errors

esprit de corps (F) : the animating spirit of a particular group like a regiment

et cetera (L) : and the rest

eureka (G) : I (have) found it !

ex-officio (L) : by virtue of his office/status/position

expose (F) : a report in the media that reveals something discreditable

ex post facto (L) : with retrospective action or force

fait accompli (F) : a thing already done/accomplished fact

faux pas (F) : a social blunder

gauche (F) : unsophisticated/socially awkward

hoi polloi (G) : the common people

impasse (F) : a deadlock (Talks reached an impasse.)

in extenso (L) : in full

in memoriam (L) : in memory of

in toto (L) : entirely/as a whole (The Committee's recommendations were accepted in toto.)

ipso facto (L) : by that very fact or act

laissez-faire (F) : a policy of non-interference *mala fide* (L) : in bad faith (opposite of bona fide)

malapropos (F) : ill-timed/inappropriately

modus operandi (L) : a way of doing something (of a gang, group, etc.)

mutatis mutandis (L) : with the necessary changes (Rules will come into force mutatis mutandis.)

noblesse oblige (F) : privilege entails responsibility

nota bene (L) : note well (Abbreviation-N.B.)

par excellence (F) : better than the others of the same kind

paripassu (L) : side by side, equally or equivalently *per se* (L) : by itself

piece de resistance (F) : the important feature of a creative work or meal, etc.

poste restante (F) : a department in the post office that keeps letters for a period till called for

post mortem (L) : examination/analysis made after death/or an event has occurred *prima facie* (L) : at first view of consideration (It is *prima facie* a good case.) *probonopublico* (L) : for the good of the public

pro forma (L) : denoting a standard document or form

pro rata (L) : according to rate or proportion

protégé (F) : one under the protection/guidance of another older or experienced person (South Vietnam was U.S.'s protege.)

quid pro quo (L) : a favour or advantage given in return for something *raison d' etre* (F) : the most important reason for a thing's existence *resume* (F) : a summary or curriculum vitae

sanctum sanctorum (L) : holy of holies (temple, church, etc.)

seriatim (L) : point by point

sine die (L) : without a day being appointed (The meeting was adjourned *sine die*.)

status quo (L) : the existing condition (status quo on the border should be maintained)

stet (L) : let it stand, do not deter

subjudice (L) : under judicial consideration and therefore prohibited from public discussion (The case is *sub judice*.)

subrosa (L) : confidentially/done in secret *sui generis* (L) : in a class by itself *summum bonum* (L) : the chief good

terra incognita (L) : an unknown territory

tour de force (F) : a notable feat of strength or skill

ultra vires (L) : beyond one's authority

verbatim (L) : word for word

vice versa (L) : conversely

videlicet (L) : namely, more formal term for viz.

vis-à-vis (F) : in relation to, as compared with, in a position facing one another

viva voce (L) : an oral examination

voxpopuli, vox Dei (L) : the voice of the people is the voice of God

Zeigeist (G) : the defining spirit of a particular period or age.

Abbreviated Form of Words

An abbreviation is a short way of writing a word or a phrase that could also be written out in full. The word "abbreviation" comes from the Latin word abbreviate (to shorten) which is related to brevi (short). While some people disagree, all methods of shortening words or phrases are subsets of abbreviation. Abbreviations when used properly can enhance communication because they act as 'short-hand' and therefore increase the efficiency of communication. In other words, more meaning is conveyed in less time and fewer words.

Abbreviation is defined as:

A shortened form of a word or phrase used for brevity in its place consisting of the first letter, or the first few letters of the word, followed by a period (full stop).

Abbreviations are very rarely used in formal writing. Frequent use of unnecessary abbreviations makes the text irritating and complex to read. It is far more important to make the writing easy to read than to save a few seconds in writing out the complete word or phrase.

The rule about using these abbreviations is very simple: don't use them. Their use is only appropriate in special circumstances in which brevity is at a premium, such as in footnotes. It is a very poor style to spatter your pages with abbreviations. Moreover, it could be disastrous to use them without being quite sure of what they mean. If you do use one, make sure you punctuate it correctly. Here is an example.

The recommended form is this:

Several British universities were founded in the Victorian era; for example, the University of Manchester was established in 1851.

The following version is not wrong, but it is a bad style:

Several British universities were founded in the Victorian era; e.g., the University of Manchester was established in 1851.

But this next version is disastrously wrong, because the punctuation has been omitted:

Several British universities were founded in the Victorian era e.g. the University of Manchester was established in 1851.

Using an abbreviation does not relieve one of the obligations of punctuating the sentence. Again, if one avoids abbreviations, one will not get into this sort of trouble.

Observe it is usual to write abbreviations in italics, but this is not strictly essential, and generally people don't do that.

Things to remember while using abbreviations:

Do not use an abbreviation if it can easily be avoided.

In an abbreviation, use full stops and capital letters in the conventional way.

Things to remember while using abbreviations:		
Do not use an abbreviation if it can easily be avoided.	In an abbreviation, use full stops and capital letters in the conventional way.	Do not forget to punctuate the rest of the sentence normally.

Latin Abbreviations

A.D. Anno Domini : Used to date years by reckoning the date of Christ's birth, as opposed to *B.C.*, the years "Before Christ." *Anno Domini* means "In the year of the Lord."

c. circa. : Used by historians to show that a date is approximate. The word means "around," and it is sometimes abbreviated as "ca."

etc. et cetera. : "And so on." This is one abbreviation most students already know, and the one they tend to overuse. Note that, since *etc.* already means and, it is redundant to write, "and etc."

Eg : e.g. *exempli gratia* : "For example." Literally, "free as an example."

Eg : "We have numerous problems to deal with before implementing welfare policies, e.g., the trade deficit, medicare, and social security."

i.e. id est. : "That is more precisely." It is commonly used to refine a general statement or provide additional information.

Eg : "Karan's wife always managed to turn the conversation toward a job, i.e., the possibility of working after marriage."

sic : Indicates a misspelling or error in a quoted source, in order to verify to the reader that the researcher did not create a typographical error, but instead exactly reproduces the way the word or statement appeared in the original material.

Eg : There are, according to the writings of seven-year old Mohit, "Manee wayes of riting words" [sic].

Ph. D. Philosophiae Doctor. : "Doctor (or Doctorate) of Philosophy." It can refer to the individual as a title, or to the degree itself. Note that it is redundant to write, "Dr. Aggarwal is a Ph. D."

Eg : "Vijay Aggarwal earned his Ph. D. in art history."

vs. versus. : "Turned against." Often used in abbreviations for legal trials—though "v." is more common.

Eg : "In the case of *Roe v. Wade*, the Supreme Court eventually decided that abortion was a medical right."

a.v. ad valorem. : "In proportion to the value of [something else].", "To the value."

Eg : "The monetary worth of the rupee is figured a.v. the price of gold."

i.a. in absentia. : "In absence."

Eg : "With further evidence i.a., it is impossible to provide a definitive answer."

MS. manuscriptum. : A document, particularly an ancient or historical manuscript, that was not printed, but rather drawn or written.

P.S. post scriptum . The abbreviation indicates a last-minute addition to a letter or document.

Eg : "That's all for now. Take care. Love, Tarun. P.S. Don't forget to write me back!"

Don't Abbreviate the following :

In formal academic prose, it is undesirable to abbreviate words simply to save space, time, or energy. In the following cases, abbreviations should be avoided:

- Words such as through (thru), night (nite).

- Days of the week or months of the year (in the normal flow of text).
- Words at the beginning of a sentence.
- People's names, unless those abbreviations have come to be accepted as nicknames for those particular individuals.
- Courses such as eco (for economics) or pol sc (for political science).

Para Jumbles, Sentence Correction, Sentence Arrangement and Sentence Completion

Para Jumbles

Para Jumbles are basically jumbled paragraphs. You are provided with a paragraph but the sentences are not in the right sequence. You have to rearrange the sentences so that they turn out into a meaningful paragraph.

Key skills required

- *Understanding the topic of the paragraph* : You should be able to understand what is being talked about in because it will help in establishing link with other sentences of the paragraph.
- *Understanding the information flow* : The next thing which is very important is the to identify that the information should be in a flow and to understand what exactly the paragraph is trying to convey.

A pre-requisite to both the above skills is to possess the qualities of good reader.

EXAMPLES

Direction (1-5) : The sentences given in each question, when properly sequenced, from labelled with a letter. Choose the most logical order of sentences from among the given choice to construct a coherent paragraph.

1. a. People who start up their own business typically come from two extreme backgrounds : One is the business family background and the other is a steady professional family background.
b. Typically, people from different background face different kinds of basic problems.
c. The people from both the backgrounds find it very difficult to establish and manage an enterprise.
d. Starting up and managing a small business is no joke.
(a) d b c a
(b) b a c d
(c) d a c b
(d) c d a b.
2. a. Venture capital is recommended as the ideal source of financing for a successfully small business.

- b. Several companies including start-ups have been funded by dedicated venture funds during this decade.
- c. Despite this, an average Indian entrepreneur understands and appreciation of venture capital concept has been woefully inadequate.
- d. In the Indian context, though venture capital has been a relatively late entrant, it has already made a reasonable impact.
- (a) a b c d
- (b) a d b c**
- (c) a c b d
- (d) a d c b
3. a. Progress in diagnosis, in preventive medicine and in treatment, both medicinal and surgical, has been rapid and breath taking.
- b. Much in medicine which is not taken for granted was undreamt of even as recently as 20 years ago.
- c. Presently small pox has been eradicated, poliomyelitis practically banished, tuberculosis has become curable and coronary artery disease surgically relievable.
- d. The dramatic surge in the field of molecular biology and research by immunologists and geneticists has succeeded in controlling parasitic disease like malaria and river blindness that affect millions of people round the world.
- (a) b d c a
- (b) b a c d
- (c) b c a d
- (d) b d a c**
4. a. Instead, many deaths and injuries result from failing objects and the collapse of buildings, bridges and other structures.
- b. Earthquakes almost never kill people directly.
- c. Fire resulting from broken gas or power lines is another major danger during a quake.
- d. Spills hazardous chemicals are also a concern during an earthquake.
- (a) c a b d
- (b) d a c b
- (c) d c a b
- (d) b a c d**
5. a. The Winchester or hard disk drives can store much more data than what can be stored on a floppy diskette.
- b. Hard disks come sealed and they cannot be removed or changed like floppy diskettes.

- c. Often floppy disk system is used in conjunction with the Winchester disk system.
- d. This makes for an ideal system for secondary storage.
 - (a) c a b d
 - (b) c b d a
 - (c) b a c d
 - (d) a b e d**

Sentence Correction

Sentence Correction or Error Spotting is the one of the most scoring area of verbal section. A sentence is the basic unit of language. A sentence is a group of words that have a syntax and convey a certain meaning. A complete knowledge of a sentence and its structure is necessary to spot any error in the sentence and vice versa. In this exercise, one or more sentences are given. You are required to check if there is any error in the sentence or in the marked parts of it. Accordingly, you will choose the option, which is grammatically correct or incorrect.

- 6. Arrange the following sentences in the correct order.
 - a. Till date it has no cure.
 - b. Ebola outbreak is the most deadly virus in human history.
 - c. Research is still at large to find the cure.
 - d. It has taken numerous lives in Africa.**

What is the correct order of the sentences?

- (a) b d e d
- (b) a b c d
- (c) a c b d
- (d) b d c a

- 7. Arrange the following sentences in the correct order.
 - a. I Got an expensive watch
 - b. Who is very loving
 - c. By my grandfather**
 - d. On my 22nd birthday

What is the correct order of the sentences?

- (a) a b c d
- (b) d c b a
- (c) a d c b**
- (d) b c d a

8. Arrange the following sentences in the correct order.

- a. The president is the head of the legislature.
- b. Two houses Rajya Sabha and Lok Sabha
- c. India has the largest democracy in the world.
- d. It has a parliament which comprises of,

What is the correct order of the sentences?

- (a) a b c d
(b) d c b a
(c) c d b a
(d) b c a d

9. Arrange the following sentences in the correct order.

- a. While China and the US would see slower growth in coming years,
- b. Earnings on Wall Street have risen to peak and the US economy might slip into recession.
- c. India is expected to grow at a higher rate according to the IMF.
- d. Further, concerns over global economic growth are rising.

What is the correct order of the sentences?

- (a) a b c d
(b) c b a d
(c) d b a c
(d) b d a c

10. Arrange the following sentences in the correct order.

- a. Put into a cylindrical mould and fired in a kiln.
- b. The core of a pencil is made of graphite, clay, and water.
- c. Today, pencils are mass-produced by machines that cut down the wood, insert the lead, and stamp or print a design.
- d. During the 17th century, the graphite and clay were ground down by hand,

What is the correct order of the sentences?

- (a) b d a c**
(b) c b a d
(c) b a d c
(d) b c d a

EXAMPLES

In the following questions, a group of sentences about a single topic are given. One or more of the sentence(s) is/are grammatically incorrect. You have to identify the incorrect sentence(s).

1. I. It began with acquisitions in information technology and related services sector.
II. In pharmaceuticals, Wockhardt has bought C.P. Pharma of the United Kingdom for \$ 10.85 million.
III. Tata Tea has taken over Tetley of the UK, the world's biggest tea bag maker, for \$ 430 million.
IV. With the processes, it has become the world's second largest tea company.

(a) II and IV
(b) IV only
(c) II and III
(d) I, II and IV

2. (I) There are two main reasons for that predatory mood.
(II) Having established a domestic presence, the component makers are now looking for an international presence.
(III) Second, having improved their productivity, quality and reliability, Indian companies feel more confident about spreading their wings abroad.
(IV) Various other factors are being attributed to this Indian penchant for the takeover game in all sectors.

(a) I only
(b) I and II
(c) II only
(d) III and IV

3. (I) Moving one by one step away from the expected with the graphics and photography can also create reader's interest.
(II) Try using a conceptual image or photo to highlight your main message versus very first thing to come to mind when thinking about your product of services.
(III) Another form of contrast is in the actual design.
(IV) An unusual fold in a brochure or direct mail piece can add excitement.

(a) I and II
(b) II and III
(c) I and IV
(d) No error

4. (I) The typeface that you choose for your print project is an important piece of the foremost overall design process.
- (II) First, narrow down your choice by selecting the tone you want to present.
- (III) Typefaces can convey personality.
- (IV) For instance, if you are in the banking industry you might choose a classic serif font, such as Garamond, to convey dependability.
- (a) I only**
- (b) II only
- (c) III only
- (d) IV only
5. (I) Readability is crucial.
- (II) Be sure of the font we choose is legible and logical.
- (III) With all of the newest and interesting typefaces available today, it is tempting to pick one that you think looks "cool".
- (IV) This can work if you are going for an edgy look that will appeal to a young audience, but your copy still needs to be easily understood.
- (a) I and IV
- (b) II only
- (c) III only
- (d) II and III**
6. I. Harish told Raj to plead guilty
- II. Raj pleaded guilty of stealing money from the shop.
- III. The court found Raj guilty of all crimes he was charged with.
- IV. He was sentenced to three years in jail.
- (a) I only
- (b) II and IV
- (c) III and IV
- (d) I and II
7. I. It was a tough situation and Manasi was taking pains to make it better.
- II. Slowly her efforts gave fruit and things started improving.
- III. Everyone complemented her for her good work.
- IV. She was very happy and thanked everyone.
- (a) I and IV only
- (b) II only

- (c) II and III
(d) III and IV only
8. I. The college has organised a science fare.
II. This is to notify that a leather wallet has been lost.
III. Shortly blood donation will begin a camp.
IV. The agenda of the meeting is available on the website.
(a) Only I
(b) Only II
(c) I and III
(d) II and IV
9. I. He restricted from all temptation.
II. Mr. Dev died on the morning of 15th
III. The teacher beat him black and blue.
IV. I was taken ill yesterday.
(a) Only I
(b) Only II
(c) II and III
(d) III and IV
10. I. We got into the train at last.
II. They fought to the last man.
III. I don't remember to have met you before.
IV. On entering the room I found the light quite dim.
(a) Only II
(b) I and II
(c) Only III
(d) III and IV

Sentence Arrangement

Jumbled Sentences are a must for good English. This is usually known by many names like rearranging of words, rearranging sentences, jumbled words, word order exercises, make a sentence with the word, put the words in the correct order to make sentences, sentence order, sentence formation etc. Rearranging the words in a meaningful sentence is an art. So below is an exercise on the same to help understand the topic.

COMPREHENSION OF PASSAGE AND ART OF SUMMARISING

INTRODUCTION

The word comprehension means the ability to understand what you listen or what you read. It is an exercise which aims at improving or testing one's ability to understand a language. In a comprehension test, you are given an unseen passage or a paragraph or two. These paragraphs show the idea or mood, concerning issues and their solutions that the author provides. Your main task is to answer the questions asked from the passage.

Important Strategy to Solve Comprehension Passages

- Read the passage as fast as possible.
- Get thoroughly involved with the paragraph to understand it.
- Underline important lines or parts of the passage to answer the questions. It will also help to understand the main idea of the passage or the tone or mood of the author.
- Try to translate a complex line in an easy one in your own words and your own language. This will help you in analyzing the main idea of the paragraph and in seeking the cause and effects of the passage.
- Underline or mark the keywords. These will help you to discover the logical connections in the passage and help in understanding it better.
- Try to understand certain unfamiliar words by reading the line thoroughly. The theme of the line will make you understand the meaning of the words.
- Determine the main idea, tone or mood, inferential reasoning, and other details from the paragraph.
- Do not assume anything based on your personal belief.
- Look back at the paragraph when in doubt.
- Read the questions and all the alternatives provided and choose the most appropriate one.

Things to remember

1. Find the central idea in the passage Focus on Details
2. Logical structure
3. The Tone of the passage

1. Find the central idea in the passage

This is important to get an overall understanding of the passage and to mentally make a note about the category it belongs to. The topic should be obvious to you in the first five lines of the

passage. This helps since when you solve the questions, it becomes easier to eliminate options that are, in a way, not consistent with the central theme of the passage.

2. Focus on Details

Sometimes, questions in reading comprehension might be related to extremely specific details in the passage. In such a situation, questions are often direct and can be easily attempted. However, to do this, one must be able to sort such details of the passage without wasting too much time on skimming or reading the passage again. So, it is advisable to note down some points that may feel important to you. You can do this while reading the passage. You will get a better hold of what is important and what is not as you practice more.

3. Logical structure

Sometimes, questions are asked about the passage. Having a proper understanding of the passage is essential for such questions. Always pay attention to the way certain words shape the passage. Moreover, questions such as "What should be the most apt title for the passage?" are much easier to answer if you have an overall idea about the structure of the passage.

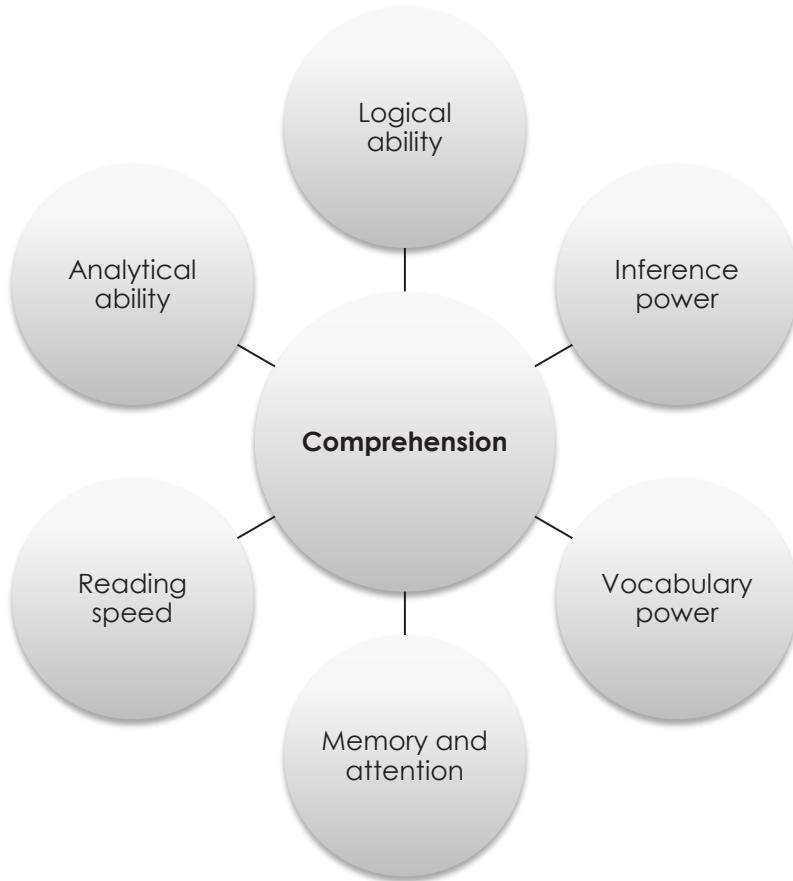
4. The Tone of the passage

This is perhaps the most difficult aspect of the passage. But there are certain ways to solve questions like these. Firstly, recognize words that have a positive or negative connotation, used by the author. Look for descriptive phrases. Secondly, study and understand the various tones there are. Some of the most common tones are acerbic, biased, dogmatic, optimistic, humorous, grandiose, and introspective (these are only a few, tones are many) sometimes, authors may have a neutral tone and sometimes mixed.

Requisite Skills

To develop a better level of comprehension one requires certain skills like:

- Logical ability
- Fluency
- Inference Power
- Analytical ability
- Reasoning ability
- Sentence construction and cohesion
- Reading speed
- Vocabulary power
- Working memory and attention

**Key Takeaways**

- Analytical ability, fluency, and vocabulary skills are key to reading comprehension.
- Being able to connect ideas within and between sentences helps in understanding the whole text.
- Reading aloud and talking about experiences can help build reading skills.
- Reading speed should be fast in order to scan and skim to summarise the major points of the passage.
- Paying attention while reading allows taking in more information from the text and working memory allows them to hold on to that information and use it to gain meaning.

EXAMPLES**1. Directions (1-10): Read the given passage carefully and attempt the questions that follow.**

It is an old saying that knowledge is power. Education is an instrument which imparts knowledge and therefore, indirectly controls power. Therefore, ever since the dawn of our civilisation, persons in power have always tried to supervise or control education. It has been handmaid of the ruling class. During the Christian Era, the ecclesiastics controlled the institution of education and diffused among the people the gospel of the Bible and religious teachings. These gospels and teachings were no other than a philosophy for the maintenance of the existing society. It taught the poor man to be meek and to earn his bread with the sweat of his brow, while the priests and the landlords lived in luxury and fought duels for the slightest offence. During the Renaissance, education passed more from the clutches of the priest into the hand of the prince. In other words, it became more secular. Under the control of the monarch, education began to devise and preach the infallibility of its masters, the monarch or king. It also invented and supported fantastic theories like "The Divine Right Theory" and that the king can do no wrong, etc. With the advent of the industrial revolution, education took a different turn and had to please the new masters. It now no longer remained the privilege of the baron class, but was thrown open to the new rich merchant class of the society. The philosophy which was in vogue during this period was that of "Laissez Faire" restricting the function of the state to a mere keeping of laws and order while on the other hand, in practice the law of the jungle prevailed in the form of free competition and the survival of the fittest.

1. What does the theory "Divine Right of King" stipulate?
 - (a) The king are God
 - (b) That the right of governing is conferred upon the king by God.**
 - (c) They have the right to be worshipped like Gods by their subjects.
 - (d) That the right of king are divine and therefore sacred.
2. Who controlled education during the Renaissance?
 - (a) The common people.
 - (b) The prince**
 - (c) The church and the priests.
 - (d) None of the above.
3. What did the ruling class in the Christian Era think of the poor man?
 - (a) That he is the beloved of God.
 - (b) That he deserves all sympathy of the rich
 - (c) That he should be strong and lord over others.
 - (d) That he is meant for serving the rich.**

4. Who controlled the institution of education during the Christian Era?
 - (a) The secular leaders of society
 - (b) The church and the priests**
 - (c) The monarchs
 - (d) The common people.
5. What does the word "infallibility" mean?
 - (a) That every man is open to error
 - (b) Sensitivity
 - (c) The virtue of not making mistake**
 - (d) That some divine power is responsible for determining the fate of the man.
6. What do you mean by the "sweat of his brow"?
 - (a) Very hard work
 - (b) The tiny droplets of sweat on the forehead
 - (c) The wrinkles visible on the forehead
 - (d) The sign of innocence.
7. What does the policy of "Laissez Faire" stand for?
 - (a) Individual freedom in the economics field**
 - (b) State control over law and order in society
 - (c) Joint control of the means of production by the state and private enterprise
 - (d) Decontrol over law and order by the ruling class.
8. Which of the following describes the writer?
 - (a) Concerned**
 - (b) Unconcerned
 - (c) Aggressive
 - (d) Frustrated
9. Choose the correct synonym out of the four choice given:
Gospels
 - (a) Chitchat
 - (b) A teaching or doctrine of a religious teacher**

- (c) Rumour
(d) Guidance.
10. Choose the correct synonym out of the four choices given:

Vogue

- (a) Uncertain
(b) Out-dated
(c) The prevailing fashion or style
(d) Journey.

2. Read the following passage and answer Q. no. 1 to 5 based on the passage.

India loses grain crops worth crores of rupees every year because of pests. In fact, the increased food production made possible by modern technology and agricultural research would become more evident if farmer is able to effectively combat the various pests and insects that destroy crops. While some of the crops are destroyed after harvesting, a large quantity of grains is destroyed in the fields. True that Indian farmer today is better able to combat these destroyers of grains, for he made available to him better storing facilities for the harvested crops, and modern chemical aid like insecticides with which he may spray the growing crops in his fields. But, one has to remember that not all insects are harmful. The common earthworms, for instance, is a friend of man, because it works like a dustman by breaking up the dead leaves and wood from plants and mixes them with the soil, thus making the soil richer. Therefore, when a farmer sprays his field with chemicals that kills insects, he destroys his friends with his enemies.

1. A large part of the increased food production is lost because of:
- (a) The lack of irrigation facilities
(b) The inadequate rainfall in the country
(c) The destruction caused by the harmful insects
(d) Bad eating habits of the people
2. The function of the insecticide is:
- (a) To protect the growing crop**
(b) To nourish the growing crop
(c) To harvest the growing crop
(d) To store the harvested crop
3. When the farmer sprays his field with chemical that kills insects:
- (a) He spoils his growing crop
(b) He kills good as well as bad insects

- (c) He fertilizers the soil
 - (d) He decreases his food productions
4. The common earthworm:
- (a) Is the greatest destroyer of crops
 - (b) Reduces the grain to dust
 - (c) Breaks up the leaves on the crop
 - (d) Makes the soil more rich**
5. After harvesting what the farmer needs is:
- (a) A good supply of seeds
 - (b) Ability to combat the weather
 - (c) A safe place for storage**
 - (d) A lot of chemical fertilizers

3. Read the following passage and answer Q. no. 1 to 9 based on the passage.

In the second century of the Christian era, the empire of Rome was the most fair part of the earth, and the most civilized portion of mankind. The frontiers of that extensive monarchy were guarded by ancient renown and disciplined valour. The gentle but powerful influence of laws and manners had gradually cemented the union of the provinces. Their peaceful inhabitants enjoyed and abused the advantages of wealth and luxury. The image of a free constitution was preserved with decent reverence: the Roman senate appeared to possess the sovereign authority, and devolved on the emperors all the executive powers of government. During a happy period of more than fourscore years, the public administration was conducted by and depended on the virtue and abilities of Nerva, Trajan, Hadrian, and the two Antonines.

The principal conquests of the Romans were achieved under the republic; and the emperors, for the most part, were satisfied with preserving those dominions which had been acquired by the policy of the senate, the active emulations of the consuls, and the martial enthusiasm of the people. The seven first centuries were filled with a rapid succession of triumphs; but it was reserved for Augustus to relinquish the ambitious design of subduing the whole earth, and to introduce a spirit of moderation into the public councils. Inclined to peace by his temper and situation, it was easy for him to discover that Rome, in her present exalted situation, had much less to hope than to fear from the chance of arms; and that, in the prosecution of remote wars, the undertaking became every day more difficult, the event more doubtful, and the possession more precarious, and less beneficial. The experience of Augustus added weight to these salutary reflections, and effectually convinced him that, by the prudent vigour of his counsels, it would be easy to secure every concession which the safety or the dignity of Rome might require from the most formidable barbarians. Instead of exposing his person and his legions to the arrows of the Parthians, he obtained, by an honourable treaty, the restitution of the standards and prisoners which had been taken in the defeat of Crassus. On the death of that

emperor, his testament was publicly read in the senate. He bequeathed, as a valuable legacy to his successors, the advice of confining the empire within those limits which nature seemed to have placed as its permanent bulwarks and boundaries: on the west, the Atlantic Ocean; the Rhine and Danube on the north; the Euphrates on the east; and towards the south, the sandy deserts of Arabia and Africa.

1. Arrange the following sentences from bottom to top.
 - A. He bequeathed as a valuable legacy to his successors.
 - B. The experience of Augustus added weight do these salutary reflection.
 - C. The seven first centuries were filled with rapid succession of triumphs.
 - D. Their peaceful inhabitants enjoyed and abuse the advantages of wealth and luxury.

(a) A,B,C,D
(b) C,A,B,D
(c) B,D,A,C
(d) C,A,D,B
2. What is the antonym for 'legion'?
 - (a) unlimited
 - (b) lavish

(c) limited

 - (d) none
3. What is the synonym for 'relinquish'?
 - (a) renounce**
 - (b) announce
 - (c) currencies
 - (d) B and C
4. Find word from the passage which means the same as senate

(a) assembly

 - (b) argument
 - (c) fight
 - (d) none
5. What is the homophone of decent?
 - (a) descent

(b) dissent

(c) disent

(d) A and B

6. Which of the following statement given below is not correct?

(a) On the death of his emperor his testament was privately read in the senate.

(b) The principle conquest of the Romans were achieved under the Republic India.

(c) Instead of exposing his person and his legions to the arrows of the Parthians he obtained by honourable Treaty the restitution of standards and prisoners which had been taken in the defeat of Crassus.

(d) A and B

7. How is the passage?

(a) Narrative

(b) Descriptive

(c) Interrogative

(d) None

8. Highlight the adverb form of the word luxury.

(a) legions

(b) luxurious

(c) possessing

(d) none

9. The above passage is related to.

(a) history

(b) geography

(c) law

(d) physics

4. Directions (Q. 1 – 6) : The questions in this section is based on the passage. The questions are to be answered on the basis of what is stated or implied in the passage. For some of the questions, more than one of the choices conceivably answer the question. However, you are to choose the best answer; that is, the response that most accurately and completely answers the question.

Although the legal systems of England and the United States are superficially similar, they differ profoundly in their approaches to and uses of legal reasons: substantive reasons are more

common than formal reasons in the United States, whereas in England the reverse is true. This distinction reflects a difference in the visions of law that prevails in the two countries. In England, the law has traditionally been viewed as a system of rules; the United States favours a vision of law as an outward expression of community's sense of right and justice.

Substantive reasons, as applied to law, are based on moral, economic, political and other considerations. These reasons are found both "in the law" and "outside the law" so to speak. Substantive reasons inform the content of a large part of the law: constitutions, statutes, contracts, verdicts, and the like. Consider, for example, a statute providing or purposes were explicitly written into the statute was to ensure quiet and safety in the park. Now suppose that a veterans' group mounts a World War II jeep (in running order but without a battery) as a war memorial on a concrete slab in the park, and charges are brought against its members. Most judges in the United States would find the defendants not guilty because what they did had no adverse effect on park's quiet and safety.

Formal reasons are different in that they frequently prevent substantive reasons from coming into play, even when substantive reasons are explicitly incorporated into the law at hand. For example, when a document fails to comply with stipulated requirements, the court may render the document legally ineffective. A Will requiring written witness may be declared null and void and, therefore, unenforceable for the formal reason that the requirement was not observed. Once the legal rule— that a Will is invalid for lack of proper witnessing – has been clearly established, and the legality of the rule is not in question, application of that rule precludes from consideration substantive arguments in favour of the Will's validity or enforcement.

Legal scholars in England and the United States have long bemused themselves with extreme examples of formal and substantive reasoning. On the one hand, formal reasoning in England has led to wooden interpretations of statutes and an unwillingness to develop the common law through judicial activism. On the other hand, freewheeling substantive reasoning in the United States has resulted in statutory interpretations so liberal that the texts of some statutes have been ignored.

1. Which one of the following best describes the content of the passage as a whole?
 - (a) An analysis of similarities and differences between the legal systems of England and the United States
 - (b) A re-evaluation of two legal systems with the use of examples
 - (c) A contrast between the types of reasons embodied in the United States and English legal systems**
 - (d) An explanation of how two distinct visions of the law shaped the development of legal reasoning
2. It can be inferred from the passage that English judges would like to find the veterans' group discussed in the second paragraph guilty of violating the statute because
 - (a) not to do so would encourage others to act as the group did
 - (b) not to do so would be to violate the substantive reasons underlying the law

- (c) the veterans failed to comply with the substantive purpose of the statute
- (d) the veterans failed to comply with the stipulated requirements of the statute**
3. From the discussion on Wills in the third paragraph it can be inferred that substantive arguments as to the validity of a Will might be considered under which one of the following circumstances?
- (a) The legal rule that a Will be witnessed in writing does not stipulate the formal of the
- (b) The legal rule requiring that a Will be witnessed stipulates that the Will must be witnessed in writing by two people
- (c) The legal rule requiring that a Will be witnessed in writing stipulates that the witnessing must be done in the presence of a judge
- (d) A judge rules that the law can be interpreted to allow for a verbal witness to a Will in a case involving a medical emergency**
4. Which one of the following best describes the function of the last paragraph of the passage?
- (a) It presents the consequences of extreme interpretations of the two types of legal reasons discussed by the author**
- (b) It shows how legal scholars can incorrectly use extreme examples to support their views
- (c) It corrects inaccuracies in legal scholars' view of the nature of two types of legal systems
- (d) It suggests how characterisations of the two types of legal reasons can become convoluted and inaccurate
5. The author of the passage suggests that in English law a substantive interpretation of a legal rule might be warranted under which one of the following circumstances
- (a) Social conditions have changed to the extent that to continue to enforce the rule would be to decide contrary to present-day social norms
- (b) The composition of the legislature has changed to the extent that to enforce the rule would be contrary to the views of the majority in the present legislative assembly
- (c) The legality of the rule is in question and its enforcement is open to judicial interpretation**
- (d) Individuals who have violated the legal rule argue that application of the rule would lead to unfair judicial interpretations
6. The author of the passage makes use of all of the following in presenting the discussion of the English and the United States legal systems except
- (a) Comparison and contrast

- (b) Generalisation
- (c) Explication of terms
- (d) A chronology of historical developments**

Para Jumbles, Sentence Correction, Sentence Arrangement and Sentence Completion

Para Jumbles

Para Jumbles are basically jumbled paragraphs. You are provided with a paragraph but the sentences are not in the right sequence. You have to rearrange the sentences so that they turn out into a meaningful paragraph.

Key skills required

- *Understanding the topic of the paragraph* : You should be able to understand what is being talked about in because it will help in establishing link with other sentences of the paragraph.
- *Understanding the information flow* : The next thing which is very important is the to identify that the information should be in a flow and to understand what exactly the paragraph is trying to convey.

A pre-requisite to both the above skills is to possess the qualities of good reader.

LESSON 2

COMMUNICATION

CONCEPT AND SIGNIFICANCE

Communication is **a process that involves sending and receiving messages through the verbal and non-verbal methods**. Communication is a two-way means of communicating information in the form of thoughts, opinions, and ideas between two or more individuals with the purpose of building an understanding.

Different scholars have defined communication in different terms. The following are some of the important definitions of communication.

According to Newman and Summer, "communication is an exchange of facts, ideas, opinions or emotions by two or more persons" Communication is also defined as intercourse through words, letters, symbols or messages and as a way through which the member of an organization shares meaning and understanding with another.

According to Leland Brown, "communication is the transmission and interchange of facts, ideas, feelings or course of action".

According to Allen Louis "Communication is the sum of all the things one person does; when he wants to create understanding in the mind of another. It involves a systematic and continuous process of telling, listening and understanding".

Ordway Tead thinks "communication is a composite information given and received out of a learning experience. In this, certain attitudes, knowledge, and skills change, carrying with them alterations of behaviour, of listening effort by all involved, of a sympathetic fresh examination of issues by the communicator himself, of sensitive interacting points of view, leading to a higher level of shared understanding and common intention.

According to M. T. Myers and G.E. Myers, "communication refers to a special kind of patterning: a patterning which is expressed in symbolic form." For communication to take place between or among people, two requirements must be met: (1) a symbolic system must be shared by the people involved (we need to speak the same language or jargon or dialects) and (2) the associations between the symbols and their referents must be shared.

According to Katz and Kahn, "communication is the exchange of information and the transmission of meaning. It is the very essence of a social system of an organization"

As per Davis, "communication is a process of passing information and understanding from one another." Davis also believed that the only way that management can be achieved in an organization is through the process of communication.

Chester Barnard believes that "in the exhaustive theory of organization, communication would occupy a central place because the structure, extensiveness and scope of organizations are almost entirely determined by communication techniques".

Significance of Communication

Effective communication is vital for efficient management and to improve industrial relations. In modern world the growth of telecommunication, information technology and the growing competition and complexity in production have increased importance of communication in organisations large and small irrespective of their type and kind. A corporate executive must be in a position to communicate

effectively with his superiors, colleagues in other departments and subordinates. This will make him perform well and enable him to give his hundred percent to the organisation.

The following points can illustrate the importance of communication in human resource management:

1. Base for Action:

Communication acts as a base for any action. Starting of any activity begins with communication which brings information necessary to begin with.

2. Planning Becomes Easy:

Communication facilitates planning. Planning is made easy by communication. Any type of information regarding the human resource requirement of each department of the organisation with their qualifications, the type and kinds of job etc. can be collected through communication which helps in human resource planning. Policies and programmes for their acquisition can be prepared and implemented. In the entire process communication plays a vital role, it also facilitates managerial planning of the organisation.

3. Means of Coordination:

Communication is an important tool for coordinating the efforts of various people at work in the organisation.

4. Aids in Decision-Making:

The information collected through communication aids in decision-making. Communication facilitates access to the vital information required to take decisions.

5. Provides Effective Leadership:

A communication skill bring manager near to his subordinates and exchange ideas and submits appropriate proposals, knows their opinions, seeks advices and make decisions. This enables a manager to win confidence of his subordinates through constantly communicating with them and removing probable misunderstandings. In this way he leads his people to accomplish the organisational goal.

6. Boosts Morale and Motivation:

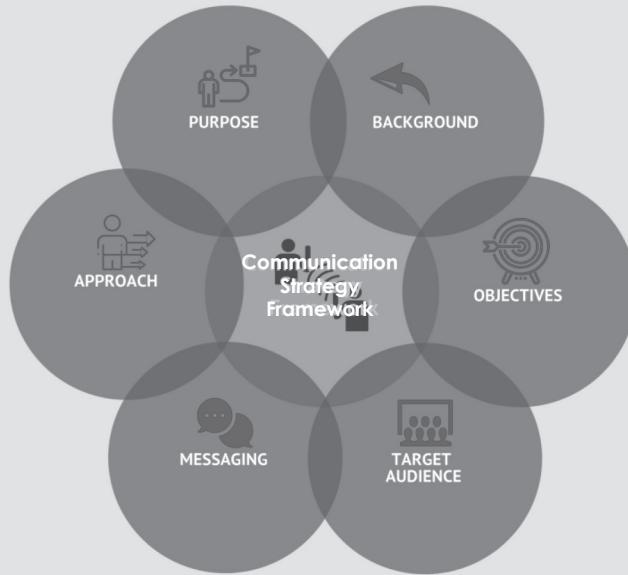
An effective communication system in stills confidence among subordinates and workers ensuring change in their attitude and behaviour. The main cause of conflict and dissatisfaction is misunderstanding which can be removed through communication skills. The removal of misunderstanding makes manager and his subordinates understand each other and create good industrial relations. This boosts up the morale of the people and motivates them to work harder.

The Framework

A communication strategy framework **clarifies how businesses should communicate with their employees, investors, customers, and suppliers**. Some of the key elements of an effective communication strategy move around purpose, background, objectives, target audience, messaging, and approach.

Communication Strategy Framework

A communication strategy framework clarifies how businesses should communicate with their employees, investors, customers, and suppliers. Some of the key elements of an effective communication strategy move around purpose, background, objectives, target audience, messaging, and approach.



Introduction to Business Communication

Business communication involves the **constant flow of information** within and outside a company.

Corporations with a large number of people and various levels of hierarchy often **struggle to manage business communications** effectively. Therefore, there should be effective and continuous communication between superiors and subordinates in an organization, between organizations and society at large.

Let's Understand ...What Is Business Communication?

Business communication is the process of exchanging ideas, opinions, and information within and outside the business environment to achieve business goals.

Definition of Business Communication by Different Authors:

In the opinion of W. H. Newman and C. F. Summer: "Communication is an exchange of facts, ideas, opinions or emotions by two or more persons."

According to Rosenblatt: "Business communication is a process of exchanging ideas or opinions, information, orders and the like, expressed either personally or not through certain signs or symbols to achieve certain company goals."

Brennan defines business as: "Business communication is the expression, channelling, receiving and interchanging of ideas in commerce and industry."

According to the Oxford Living Dictionary: "The imparting or exchanging of information by speaking, writing or using some other medium."

Elihu Katz defines: "Business communication is an exchange of ideas, messages, and concepts related to achieving a series of commercial goals."

According to the Business Dictionary:

The definition of Business Communication is...

"The sharing of information between people within an enterprise that is performed for the commercial benefit of the organization. In addition, business communication can also refer to how a company shares information to promote its product or services to potential consumers."

Ricks and Gow define: "Business Communication as a system that is responsible to affect change throughout the whole organization."

According to C. L. Bovee, J. V. Thill, and B. E. Schatzman: "Communication is the process of sending and receiving messages. However, communication is effective only when the message is understood and when it stimulates action or encourages the receiver to think in new ways."

Prof. J. Haste defines: "Communication occurred between two or more businessmen for organizing and administering business efficiently is called business communication."

In the opinion of Curtis: "Business communication is a communication made within a business organization in order to solve problems and make decisions."

Robert Hughes and Jack Kapoor define: "Business communication is an organized activity or individual effort to produce and sell goods for services to benefit and meet the needs of the community."

According to William Albig: "Business communication is an exchange of ideas, opinions, information, certain commands that have specific goals either personally or impersonal through symbols or signals."

Thus, Business communication is communication that is intended to help a business achieve a fundamental goal, through information sharing between employees as well as people outside the company.

6. Reasons Why Business Communication is Important

1. **Helps in increasing productivity:** Effective business communication increases the productivity of staff by boosting up teamwork. It creates a trustworthy and understanding environment among employers and employees. Effective communication is related to cooperating with employees and understanding their needs and desires. By doing so, employees are able to accomplish their tasks more effectively and efficiently. Also, the scope of doing mistakes or errors during their work minimizes due to effective communication.
2. **Helps in increasing customers:** Customers are an important part of any business and effective business communication can facilitate in attracting new customers and retain the current customers. A well-defined marketing strategy and public relations campaign run by an organization generates the interest of customers in its goods or services and helps in building the corporate image in customers.
3. **Enhances business partnerships:** Business Communication also improves partnerships in business. It plays a significant role in dealing with external business clients or vendors. Vendors may be required to communicate on products regularly for improvements. Also, an effective and harmonious relationship with other businesses determines the further success of an organization. A business unit that has developed its image as an entity for easy partnership through its effective communication can attract other business units for forming business relationships with them.

4. **Facilitates innovations in business:** Effective business communication helps in business innovations as well as it facilitates employees to convey their ideas and suggestions openly. Similarly, at the time of launching any new product in the market, effective communication ensures the performance of the sales team, market acceptance of the product, fast delivery of products in the market, etc.
5. **Information exchange:** Business communication is required by an organization for exchanging information with internal and external stakeholders. This helps in achieving its goals effectively.
6. **Preparation of plans and policies:** Through effective business communication, organizations can make their plans and policies properly. Relevant information is required for preparing these plans and policies. Through communication, different managers source information through reliable channels.

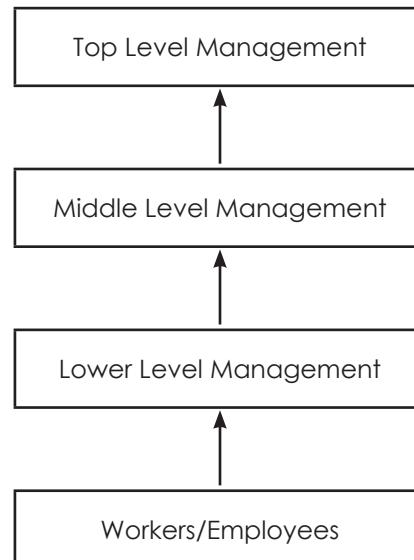
Types of Business Communication

There are 4 main types of business communication in any organization or business i.e.

1. Internal Business Communication

Internal Business Communication means communication that occurs within the members of the organization. This communication includes both **formal** and **informal** communication. Also, different departments that transmit communication by different means to employees come under internal communication. Internal communication should be effective as it is a vital source of viewing and representing organizational issues. Effective internal business communication may increase job satisfaction level, productivity, the efficiency of employees by decreasing their turnover and grievances and helps in increasing profits.

- a. **Internal (Upward) Communication:** This type of internal communication involves the bottom to the top management approach. Here, the information flows from subordinates to managers or any person that is on the upper in the hierarchy level.



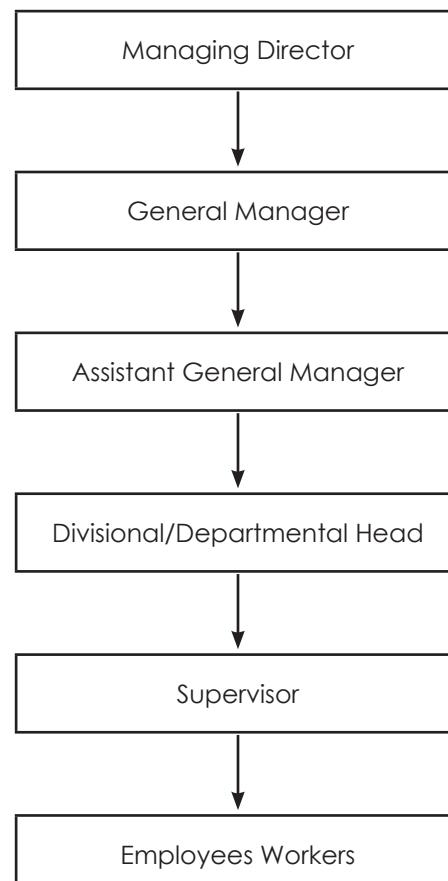
For example, employees of the HR department of an organization prepare an attrition report and communicate the same to the HR Manager. The attrition report consists of information on the monthly or annual employee turnover of an organization and reasons

for the same. This helps the HR Manager to understand the cause of attrition and to take corrective measures on time to reduce employee turnover.

The characteristics of upward internal business communication include:

- It includes bottom to top approach i.e. subordinates to superiors.
 - Its nature is participative.
 - The main purpose is to provide timely feedback, suggestions, making requests, escalating any issues or concerns, etc. to superiors.
 - The flow of the information is from the lower level to the upper level.
- b. **Internal (Downward) Communication:** In downward communication, the information flows from the top-level management to the employees in an organization. This information is related to passing on instructions to subordinates or employees to do their respective tasks. Downward communication is being used by managers to communicate different goals, procedures and policies, guidelines, decisions, instructions, etc. to their subordinates.

The process of downward communication in business includes passing on messages from the top level to the lower level through the chain of hierarchy. This type of communication can be in oral or written form. **The written form includes different notices, manuals, news display in electronic form, etc.** whereas, **the oral form of downward communication includes different face-to-face conversations, telephonic communication, meetings, etc.**



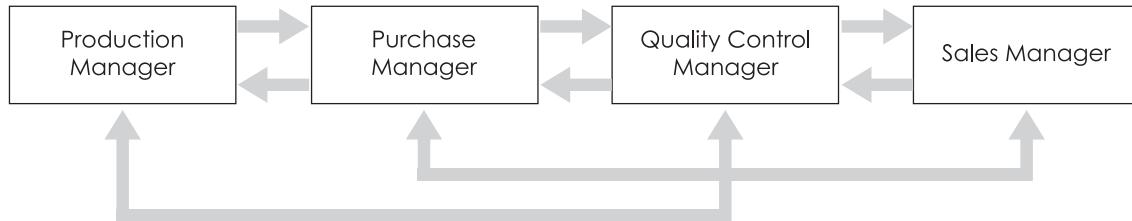
For example, the top-level management may instruct managers of different departments on certain new rules and regulations in the work area that need to be carried out in routine activities of different departments. For example , there may be a change in the office working hours or office timings by the management and the same is communicated to employees by circular or notice or through the e-mail system.

The characteristics of downward internal business communication include:

- It includes top to bottom approach i.e. superiors to subordinates.
- Its nature is directive.
- Main purpose is to communicate organizational objective, plans and procedures, instructions, etc. to subordinates.
- The flow of the information is from the upper level to the lower level.

2. Horizontal/Lateral Business Communication

Lateral or horizontal communication is related to communication among co-workers i.e. either **verbal communication** or **written communication**. This may include inter-departmental communication or communication between cross-departments and can be between people of the same or similar rank in a company. This is a crucial communication to achieve the desired results. So, this communication happens among employees having an equal hierarchy level. To achieve the functional effectiveness of different organizational units, horizontal or lateral communication is required for seeking mutual cooperation and mutual help.



For example, the Marketing head of an organization is supposed to communicate about market trends, customer needs and expectations, product demand scenario, etc. to a production head for production of products accordingly.

3. External Business Communication

Communication with people who are external to the organization is known as external business communication. These people can be customers or shareholders or suppliers or partners or regulatory bodies, etc.

External communication facilitates increasing sales volume, effective operations, an increase in profits of organization, etc. This ultimately results in increasing corporate image, goodwill and overall performance of the organization by achieving its goals and customer satisfaction.

Methods of Communication for Business

Although many companies and organisations still depend on face-to-face communication to conduct business, it is likely that a company may also rely on a variety of communication methods. There are four standard methods of communication a business may use:

- **Verbal communication:** Verbal communication is the use of language to transfer information through speaking or sign language, including active listening. Examples of verbal communication in the workplace include virtual meetings, phone calls and in-person conversations.
- **Nonverbal communication:** Nonverbal communication is the use of gestures, facial expressions and other nonverbal cues to convey information to others. Nonverbal communication includes smiling or frowning, crossing your arms and nodding.
- **Written communication:** Organisations may deliver written communication through print or digital media. Examples include emails, Business letters, memos, reports and other documentation that clients read to learn about a brand or materials that employees share with each other to relay important information.
- **Visual communication:** is the use of images and graphics to convey information. Companies typically use visuals alongside verbal or written communication to provide helpful context and clarification. Visual communication can include charts, maps, infographics and videos.

Process of Communication

Communication is a dynamic process that involves transmitting information from the sender to the receiver through a channel which in turn gives the feedback in the form of some message within a given time frame.

There is a total of seven major elements involved in the process of communication; they are:

1. Sender

The person who initiates the communication in the form of sending the encoded message to the receiver of the information is known as the sender. The sender is the first person involved in the process of communication. The sender is the one who is responsible for the transmission of the correct information and convey it to others.

2. Encoding

Encoding is the second element in the process of communication. The encoding is done by the end of the sender so that it can be decoded by the receiver in the correct form. The sender encodes the message in the form of certain words or some certain symbols, body language, some signs or gestures to translate the information into a message. The way the sender encodes the message denotes the perception, background, competencies, skills, or knowledge of the sender.

3. Message

As the message is encoded now, it is ready to be formed into a message by the sender to be further conveyed to the receiver. The message can be oral, written, verbal, graphs, gestures, signs, mood, sound, etc.

4. Communication Channel

The sender then chooses the channel/ medium through which the information will be conveyed to the receiver or recipient. This is a very important channel as the right, and most appropriate channel needs to be chosen to be able to convey the message in the most right and effective manner.

The channel may be oral, written, verbal, internet, web, gestures, signs, symbols, newspapers, etc.

5. Receiver

The receiver or recipient is the one for whom the message is intended. How the receiver decodes the message purely depends upon the knowledge which he or she has.

6. Decoding

Decoding is done by the receiver of the message. Decoding is done to interpret the message in the correct means in which it is intended.

7. Feedback

The final step of the communication process is the feedback step. The feedback intends that the sender has sent the right message and the receiver has received and decoded the right message and understood that in the best possible way. Feedback is necessary as it increases the efficiency and permits the encoder to know the efficacy of the message.

Means of Communication

Communication is a wide term that involves various categories like verbal, non-verbal, written, visualization like pictorial representations including graphs, diagrams, etc.

Let's discuss all of them in detail:

1. Verbal Communication

Verbal communication is also known as spoken communication. Verbal communication can be done by means of direct face-to-face contact, telephonic conversation, television, FM radio, and any other means of verbal or spoken communication.

2. Non-Verbal Communication

The second type of communication category is the opposite of verbal communication, which is non-verbal communication. Non-verbal communication includes the body gestures which a person makes, how a person is dressed up for a particular thing like dance, drama, thriller, etc. The tonal expressions or the mood of a person are also an example of non-verbal communication.

3. Written Communication

The other kind of category of communication is the written communication which includes writing letters to someone for conveying the message, sending proposals or postcards to communicate. Internet or web writings is also another kind of written communication.

4. Visualizations

Communication can also be established between the sender and the receiver via visuals like pictorial representations and graphs etc. To communicate something related to stats or data and to make some kind of analysis, communication through visuals helps.

CHOICE OF MODES OF COMMUNICATION

Modes of Communication

Verbal Communication

Let us look at the various characteristics of verbal communication. Let's consider verbal and live communication and not recorded videos/audio here. The % of recorded verbal communication is very small. Youtube has changed this quite a bit. Still, the usage of it in professional communication is minimal.

According to research by Dr. Albert Mehrabian "Words convey only seven percent of our message, while the rest of communication occurs through our tone, volume, facial expressions, gestures, posture and the like 93 percent of communication is nonverbal."

- Ability to **Motivate** - Works well to motivate and convince people
- Personal and/or confidential discussions - Works well for personal discussions like bouncing off an idea. Or can be used well with **1 to few** people
- Suited well for **confidential** communication
- **Natural & Easy** - After non-verbal communication, verbal communication is the next one that is picked up before one learns to write. Hence, it comes more naturally and easily than written communication
- **Transient and not reusable** - The whole communication cannot be reused or transferred to another person without additional repetition. Hence, it is not scalable if there is a need that others need to be included into the conversation or even at the least to be informed
- **Unstructured or semi-structured** - Provides scope to keep the conversation open ended and evolve as the conversation proceeds
- **Synchronous** - It goes without saying that the people involved have to be there at the same time. Multi geography teams are becoming the norm rather than the exception. This can be a challenge if relied upon a lot.
- **Visual augmentation** - When the communication needs to augmented with visual cues, whether it is empathy or urgency etc., it is possible to do that

Written Communication

The characteristics of written communication differs quite a bit from Verbal communication.

Andy Grove in his book "High output management" says that the act of writing is itself the goal, and not just the final artifact.

Another great quote about the benefit of written communication. "I write because I don't know what I think until I read what I say. - Flannery O'Connor"

Let us look at the characteristics.

- **1 to Many** - Write once and read multiple times. The cost of incremental communication to new audience is close to nil. This has powered the exponential reach of information whether it be palm leaves, to books, to the internet.

- **Structured** - Written communication infuses some amount of structure into the communication.
- **Asynchronous** - The communicator and communicated do not have to be online at the same time. This can be a huge differentiator with geographically distributed teams.
- It enables people to work in **parallel**.
- It makes **people independent**
- **Random Access pattern** - It can account for varying levels of interest in the topic. E.g. one person may be interested only in the high level objectives and overall flow, while others are interested in the complete details. Both types of people can efficiently process the document
- **Referenceable** - Both verbal and written communication can refer to other written documents. While it is possible to refer to verbal communications to some extent, it is not as efficient and simple
- **Referable** - When there is some loss of information from the original state, the written document can be referred again to set the information back to its original state
- **Durable** - Similar to the ACID properties of a database, written information is durable. Whatever it is, it will remain the same over time or as it is transferred
- Lots of **details** - When there are lots of details, written mode serves the purpose well
- **Combinations** of some of these characteristics - As an example, Random Access Pattern and Referenceable can be a combined requirement. As I am reading one document, I can reference another one. This is not possible with verbal communication.

Hybrid - Written and Verbal Communication both

An example of this is where someone has written up a proposal and then walks the audience through it.

This form of hybrid communication will have the combined pros and cons of the individual forms although each at a more subdued level. Hence, it can be used to choose the best of breed approach i.e. written form for its advantages and the verbal form for its advantages.

In addition the following characteristics are unique to the Hybrid mode

- **Complex** information - With complex information, just verbal or written usually does not suffice. A hybrid mode suits this well
- **Discussion** - Discussions are possible in a verbal mode also. The Structured attribute of written communication provides a nice foundation to have an efficient discussion on

Once the written form is discussed, there can be changes that need to be made to the document.

Silent Communication

In keeping with our analytical reasoning, silent communication can be considered as communication where there is 0 information transferred.

This is not just a theoretical possibility. We will see in what places it can manifest, later in this blog.

Challenge & Solution

Even when we know the preferred communication mode for a particular task, sometimes we choose a sub-optimal mode.

Primary reason is the lack of time in the short term to pick the preferred communication method e.g. choose verbal communication when the preferred mode is written. The communicator will have plans to later write it down. Firstly, all the advantages of the preferred method such as consistency, efficiency and durability is lost till the preferred method is done. Secondly, time can continue to be a factor, and the preferred method may never be done, or when done is not as rich as it would have been done when the communicator was fully engaged in the task of preparing the material. This is a separate topic to be discussed.

The suggestion is that you find the right balance, and attempt to choose the preferred method more often than not.

Tasks, Audiences & Suggested mode

I will consider a few tasks that is part of a product development process and discuss the preferred modes of communication

Product Vision

- Audience - Entire team associated with the product
- Characteristics needed - Motivate, 1 to Many, Semi-Structured, Synchronous, Asynchronous, Referenceable, Referable, Durable
- Suggested mode - Hybrid mode of written down vision + verbal delivery
- Powered by the persuasive & synchronous verbal communication
- Written communication will be referenceable, referable and durable in an asynchronous manner

Product Backlog

- Audience - UX, Dev, Qa, Documentation teams. Other Product managers and stakeholders, Future members of the above groups
- Characteristics - 1 to Many, Structured, Asynchronous, Random Access, Referenceable, Referable, Durable, Lots of details
- Suggested mode - Written
- Discussions will be based on the written artifacts. It is different from the hybrid mode above in which the outline is written down, and the messaging is spoken.

This task requires all the characteristics of written communication and hence is a natural fit.

Technology Architecture/Design

- Audience - Current and Future Developers, QA, Devops, Product, Support functions
- Characteristics needed - 1 to Many, Structured, Asynchronous, Random Access, Referenceable, Referable, Durable, Lots of details, Complex information, Discussion
- Suggested mode - Written
- Similar to the roadmap, there will be discussions that follow the written documents.

Software code documentation

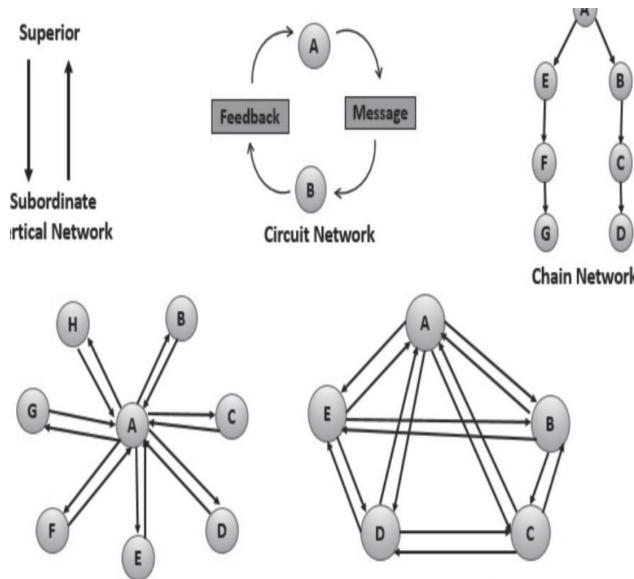
- Audience - Current & Future Developers, QA, Support teams
- Characteristics needed - 1 to Many, Asynchronous, Referable, Durable
- Suggested mode - Written
- The challenge is that sometimes Silent Communication is present. However the audience and the characteristics necessitates that the silent communication should not be chosen in this case.

Communication Networks-vertical, circuit, chain, wheel, star

Introduction

In an organization, members contact each other and the pattern of contacts or flow of information is the communication network. Contacts are created with different pattern and this helps the management to contact the employees. Through the network, the resources can share their data and applications. The network is divided based on the number of people involved in the communication, organizational size and nature of the communication network. The common network patterns are Vertical Network, Circuit network, Chain network, Wheel network, and Star network. Transmission and reception of information is the basis of communication.

Below are the types of Communication Network:



1. Vertical Network

The communication which passes from one person or process to another person or process in a vertical pattern is called Vertical Network. It can happen either in the top to bottom or bottom to top format. This communication provides an immediate response as the receiver receives the information faster than any other network. We can call this network as a formal network. The best example is the communication between top level and bottom level employees. Miscommunication does not happen in this network as this is a type of direct communication.

2. Chain Network

This network is in a hierarchical level and follows a series of commands. Here bottom to top communication does not happen. Superiors ordering the subordinates is the best example of this type of network. Also, the leader leading the group of people is an example of Chain Network. The message has to reach from top-level to bottom level without any alteration of meaning or words. Care should be taken to avoid the same. This network is not fast and few people who don't understand the message will remain in the loop.

3. Circuit Network

When the communication between two people happens simultaneously in a circuit is called Circuit Network. Though it works like Vertical Network, there are no superiors or subordinates or at least not considered like them. Here the communication is a two-way communication. The messaging or information reception is continuous and the people involved can be at the same hierarchical level.

4. Wheel or Spoke Network

The commands or information is from a single superior and subordinates form a wheel in the network. The entire network is highly centralized format and expects immediate feedback once the message is given to the receiver. And due to this, we can call this communication as a type of micromanagement. This network is an improved form of Chain Network. Since the information is received directly from the central authority, there is no chance of miscommunication and the communication is very powerful. Start-ups mostly use this type of network.

5. Star Network

Several people are involved in this network and the process forms a star shape. This network enables people to communicate with each other or with people who are involved in the same process. This network can be considered as a development of a wheel network with no central person to control the way of communication. All are free to communicate with each other. No restrictions are present to block the communication between people in the process. Teamwork is built using this communication. A WhatsApp group which is related to work is a good example of Star Network.

Characteristics of Communication Network

Below are some of the characteristics explained.

- The information to be passed or the message to be shared among the people in the same network should be clear and should be free from any jargon. Active voice should be preferred and the message should be in simple words and short. If the message is long, it is better to transfer the message with bulleted points.
- The message has to be concise which only then the listener be careful to read with full attention and with no loss of concentration. Long or lengthy messages should be avoided at any cost. People will not have enough patience to read the entire message if it is elaborated with very less meaningful words.
- The message passed should be explained well with concrete information. False messages should not be passed in any case which leads to communication mishaps.
- The messages should be passed in relevant order. It is not good if the message is passed saying the end in the beginning or finishing the message without full information. The receiver will

understand the message in a wrong manner which will lead to conflicts and the ideas will differ. The information should be passed between persons in a logical, sequential and well-planned manner. Hence this part has to be concentrated well.

- The transmitter person should be honest, respecting others and open with the listener at the bottom level or end of the conversation. The transmitter should be considerate with the listener and should use polite words. The messenger should not be rude at all as the rude messenger will not find any receptors for his information even if the information is important. The messenger should not be a racist and should never use such terms while passing the information. All the persons in the other end receiving the information should be considered equal and should never use inconsiderate words while transmitting the information.
- The listener also plays an important role in the communication network. They should understand the information very well and should clarify the same if possible. The message should be detected from the mixed words, non-verbal actions should be analyzed well, practical to understand the problems and mature enough to act according to the information.
- Care should be there from the listener's side to focus the message when it is sent from the other end. Miscommunication should not happen.
- Emotions should be controlled while passing information. The listener should not use his knowledge to pass information to other people in the loop. The focus should only be on the information passed from the top level.

The type of network to be used depends on the message to be passed from one level to another. Also, security has to be considered for the network communication. Each network has its advantage.

Commonly used Mediums of Digital Communication

What is digital communication?

Digital communication is any type of communication that relies on the use of technology. There are many types of communication as channels. These include email, phone calls, video conferencing, many types of instant messaging like SMS and web chats. Even blogs, podcasts, and videos are considered forms of digital communication.

What are the communication channels for?

Communication channels help to build your brand with your audience. It also helps to intensify sales and help you understand their behavior. They function as a bridge between you and your audience. Thus, knowing how to work in each channel is as fundamental as choosing your buyer persona because your digital marketing strategy will be built on that.

There is no specific channel that brings you a bigger and better result. Everything depends on your business and the profile of your customers. But since there are several communication channels, it is recommended that you be in more than one. In this way, the public will have more than one customer service option. Thus, you will have more opportunities to strengthen your relationship with them. Opt for a form of communication that is related to the culture of the company.

How to choose the right communication channels?

It might be tempting to communicate through as many channels as available. But most businesses would enjoy a more calculated and mindful approach. Below are a few things to think about before you select a channel for your business messages.

Take a look at your budget

Your budget will also influence your choice of communication channels. Because you'll have to invest some money to get your message across, ask yourself: Is the channel affordable given your company's budget? What tools are available for each channel? If you're going to use many mediums for business communications, how much money are you willing to invest in each?

Consider your message

The type of message is another thing you should take into consideration.

Ask yourself whether the information is formal or informal? Does it include visuals or text? Is the message time-sensitive or trivial? Does it need to be easy to find later?

Then, zero in on the appropriate communication channels to use. If you're delivering a presentation, then you might want to take advantage of video conferencing software. Make sure it has a screen sharing feature so you can share different types of reference materials.

Get familiar with your team

It might seem obvious, but the choice of communication channels depends on the preferences of your team. Who are they, and what channels do they engage in? Do they prefer phone calls, text messages, or some other form of communication? You can find this out by conducting an employee engagement survey. Knowing where your team hangs out will help ensure you're using the proper communication channels to talk to them.

Advantages of Digital Communication

- In digital signals, the impact of noise interference, distortion is more minor.
- It facilitates video conferencing that saves time, money, and effort.
- It is less expensive.
- It is used in military applications.
- The correction and detection of errors are easy in digital communication.
- As compared to analog signals, it is easy to save and retrieve digital signals.
- In digital signals, the configuring process is easy as compared to analog signals.
- There is a standard encoding technique in most digital circuits. So for several processes, similar devices can be used.
- The probability of cross-talk is significantly less in digital communication.
- The implementation of hardware is more flexible in digital communication.
- In digital communication, to avoid signal jamming, the spread spectrum technique is used.
- It also facilitates audio conferencing by which we can talk to someone or a group of people. Thus, it saves time, effort, and money.
- To maintain the secrecy of information, the signal processing functions like compression and encryption are employed in digital circuits.
- Digital communication is cheaper and more straightforward compared to analog signals because of the advancement of IC technologies.

Disadvantages of digital communication in the workplace

- There is high power consumption in digital communication.
- There is a requirement for synchronization in the case of synchronous modulation.
- There is a sampling error.
- The most common limitation of digital communication is that it requires more transmission bandwidth. It is due to the higher data rate because of analog to digital conversion.
- Digital communication requires analog to digital conversion at a high rate.
- There can be a possibility of miscommunication if a user doesn't understand something.

What are they used for?

Communication channels help you build and establish your brand with your consumer. You can do this by increasing sales and contributing to helping you understand your audience's behavior. They create a bridge between you and your audience. So, knowing what they are and how to work with each channel is as essential as choosing your persona because this will be the foundation for your digital marketing strategy.

There is no specific channel that will bring you more outstanding and more significant results. It will all depend on your business and your customers' profile. But since there are several communication channels, it's recommended that you have more than one channel. This way, your audience will have more than one customer service option. And, you'll have more opportunities to strengthen your relationship with them.

Why should you use more than one communication channel?

Choosing the correct communication channels for each situation is crucial for the success of your business. You'll have to use more than one channel. After all, your audience might be on all of them, and you'll never know if you don't use them. But if you work alone or still don't have a team to help you on each channel, don't try to use them all.

It's essential to be able to answer your customers' questions and receive their suggestions. And when you have many communication channels, this can become an arduous task that's hard to control.

Outline strategies

Keep an eye on all communication channels used to always keep them updated. It's essential to add new content at least once a week and have an editorial calendar to help you with this.

Research

Create a daily reading routine to stay informed about the main events of your digital market. This will help you when it's time to produce content. Manage all of your communication channels. It's very easy to forget about a communication channel, which will make your customers' messages accumulate. To keep this from happening, create a management routine and check all comments that your business receives.

Identify your persona

A persona is a fictional character that represents your ideal customer. It's the sum of all characteristics

of the people to whom you intend to direct your product or service. Unlike a target audience, when we create a persona, we look for more detailed characteristics, such as habits, personality, desires, and needs. The creation of the persona will direct your product to the right people, in addition to showing which communication channels your audience uses the most. Thus, you'll understand where you need to be present to talk to your audience.

Essential Digital Communication Channels for Business

Social Media

72% of U.S. adults use social media, with Facebook, YouTube, Twitter, Instagram, and LinkedIn being the most popular platforms. Social media allows people worldwide to connect with friends, family, celebrities, and brands through bite-sized textual and visual content. Social media is the top-ranked channel for connecting with customers, and 57% of customers will increase their spending if they feel connected to a brand.

As Forbes reports, brands can use YouTube to build web series, partner with influencers, create how-to videos, give behind-the-scenes looks at their processes, and repurpose website content. Since Google owns YouTube, brands should also consider using search engine optimization tactics, so their videos show up in search results.

Facebook is also effective for building an engaged social community, either through an official brand page or relevant groups. Brands would be wise to invest in native video, which founder Mark Zuckerberg hopes will "encourage meaningful social interactions."

70% of consumers feel more connected to a brand when its CEO is active on social media. As a business-to-business (B2B) social network, LinkedIn is useful for connecting with other companies, sourcing new hires, and engaging in thought leadership. Executives, for example, can use LinkedIn to create blog posts pulling back the curtain on their brand and engage with other experts in their field.

Instagram provides a hub for fashion, beauty, and celebrity content. Most brands use Instagram Stories, ads, and IGTV for long-form videos to reach audiences. Parent company Facebook reported that 66% of Instagram users connect with brands on the visual platform.

Twitter is also a go-to platform for customer service, as many brands have created separate customer care accounts for inquiries. Brands and consumers use the platform to live-tweet their favorite events, follow and contribute to trending hashtags, and connect one-on-one through public interactions or direct messages.

Email Marketing

Many businesses with in-house digital marketers use email marketing, with up to 66% rating this tool as excellent for delivering ROI.

Email is the currency of the web, and anybody online has an active email address. And while Facebook and Twitter might seem pretty ubiquitous, the ongoing struggle over data breaches and privacy means plenty of people are exiting some social media channels. So when it comes to connecting with your prospects and customers, there's no channel with a wider reach than email.

And when it comes to conversions, there isn't a more powerful channel than email. The average click-through rate of an email campaign is around 3% of total recipients, whereas the average click-through rate from a tweet is around 0.5%.

This means you are 6x more likely to get someone to click through to your website via email than you are from Twitter. As discussed earlier, your email subscribers have told you they want to hear from you, which isn't typically the case with social media.

Blogs

It is possible to build a cycle of publications with blogs and create new ways of approaching your audience. The idea of the blog is to expose your knowledge showing not only the subject in which you have recognized authority but also covering general topics of interest to your audience.

It is crucial to keep the blog constantly updated. In this way, you create a dynamic since your audience knows that you will always publish texts. That increases your visibility, loyalty to your visitors and conquers the confidence of your client.

Websites

Whatever the size of your company, a website can give your business the online presence it needs to communicate and/or sell to prospects. And 69% of Americans have purchased an item from the website.

Your company website serves as a prerequisite for your business. It is where customers go to judge whether you're credible or not, and it's also one of the most impactful customer-facing communication channels at your disposal. As such, you want to make sure you have a user-friendly interface, branded designs, and plenty of customer reviews and testimonials.

Building a website for your business will mean you could potentially reach these otherwise unreachable customers. Your business might be local, but you might have the potential to sell your products or services to a broader market, whether it be people in the next town, the nation as a whole, or even the international market.

Videos

Nowadays, videos aren't only used to entertain or promote products and services. They are produced and also used for didactical and educational purposes.

Your audience needs to have an authentic experience that is interesting to guide them to the video's primary objective, which is either selling or informing something.

In addition to being fast and attractive, this type of content facilitates the understanding of the message. As with the communication channels we've mentioned, it's essential to create a content marketing strategy for your video.

Just as the communication channels presented are essential, so is creating a content marketing strategy for your video.

External complaint channels

Since not everything is a bed of roses, it's common to have unhappy customers that complain about your product or service on communication channels, which you don't necessarily control.

Websites such as Yelp and Google reviews are used to show this dissatisfaction, and you must know everything that is being posted on them and answer them.

This way, you can understand your customers and can also take action to change their perception of your business.

Phone calls

One of the most common communication channels in business is a phone call. A quick phone call can clear up confusion or convey new information across long distances, and conference calls can allow multiple people to take part and elaborate on their perspectives. Phone calls lack the non-verbal cues of in-person conversations or video-conferencing but may provide a simple, affordable communication channel for customers and employees.

In-person

In-person, verbal conversations are some of the most common and effective communication channels in a business.

Talking to someone in person allows you to use both verbal and non-verbal communication cues, which can help improve the quality and efficacy of your conversations. Since most of our communication is non-verbal, it's essential to include both verbal and non-verbal cues to reinforce the conversation.

It's also easier to convey the tone of the conversation when you speak to someone in person. Sometimes, written or digital communication can lack tone, leading to confusion.

Speaking in person, your tone of voice, body language, and vocabulary can bring clarity to the conversation and ensure everyone understands what you're talking about.

Customer service

This sector, which is often the gateway for the user, goes beyond customer service to clarify their doubts and solve their problems. Quality care transforms customer pain point solutions and can turn a defender of the brand.

In addition to anticipating possible difficulties, you can identify bottlenecks and discover your significant doubts and needs through customer service. You can offer this service via email, phone, or chat.

The important thing is to have a qualified team with a high level of knowledge about your business and provide good service to your customers.

Listening Skills

Listening skills are skills that contribute to your ability to accurately receive information when communicating with others. These skills are an important part of effective communication in the workplace. Developing good listening habits can help to ensure you understand the information correctly, interpret messages accurately and optimise your conversations and communications for efficiency.

Why are listening skills important?

Developing skills that can help you become a better listener is important for several reasons, including:

Building relationships

Good listening can help you build and maintain positive relationships in the workplace. Showing interest when communicating with others can help you build trust and develop long-term, mutually beneficial professional relationships. Good listening can help you prevent misunderstandings between co-workers, perform your duties accurately and anticipate the needs of your customers.

Learning new skills

Effective listening is an important way to help you learn new skills. In order to accurately follow directions, it may be beneficial to develop skills and habits that contribute to the quality of your listening. By listening closely to the advice, guidance and directions of your mentors or supervisors, you may be able to learn new skills and advance your range of capabilities.

Performing effectively

Listening intently can help you accurately follow directions. By following directions exactly, you may be able to improve your performance in the workplace. By listening closely to directions, guidelines and requirements, you may be able to avoid errors and improve your processes.

Types of listening skills

Below are four types of listening that can help you become a better listener:

Deep listening

Deep listening occurs when you're truly committed to understanding the speaker's perspective and message. Deep listening includes paying attention to verbal and non-verbal cues in order to gain a full understanding of the speaker's experiences, thoughts, feelings and objectives. This type of listening is especially useful when building relationships, establishing trust and fostering rapport with co-workers, customers, clients or vendors.

Full listening

Full listening includes trying to fully comprehend the practical content of a speaker's message. This type of listening often involves active listening skills, like paraphrasing and asking clarifying questions. Full listening can be particularly helpful when interpreting directions, learning new material or developing new skills.

Critical listening

Critical listening involves using logic and reasoning to separate opinion and fact when listening to a speaker's message. Critical listening usually involves using your previous knowledge or experiences to identify factual content in communication. Critical listening can be especially important in professions that use persuasive speaking, debating or investigatory skills.

Therapeutic listening

Therapeutic listening is a more intimate type of listening that often involves receiving information from a speaker about their challenges or emotional situations. In the workplace, this type of listening is often an important part of succeeding in a career that deals with sensitive topics or emotional discussions. Therapists, doctors and counsellors often benefit from developing their therapeutic listening abilities.

How to practise Effective listening skills

Effective listening is a combination of techniques that include careful listening, observation and non-verbal clues. Below are seven skills that can help you improve your active listening abilities:

1. Limit distraction

An important part of active listening is limiting distraction so you can gather all the necessary information and details of your speaker's message. Limiting distraction could mean putting your

phone away before entering into a conversation, having important conversations in a quiet, private space or allowing yourself a brief pause to ensure you fully understood the message of your speaker before responding.

2. Practice objectivity

Practising objectivity and ensuring you receive all information without bias can help you remain open to the messages and perspectives of your speaker. Even if you have a strong opinion about the topic of conversation, setting aside your opinions in order to receive your speaker's message without judgement can help you consider new possibilities and innovative perspectives.

3. Reflect

Reflecting refers to mirroring your speaker's message in order to convey that you understand their message. Reflecting can help assure speakers of your comprehension and can indicate your engagement in the conversation. This type of active listening skill can be especially helpful when engaging in therapeutic communication. For example, if your speaker says, "I'm tired of working late to make up for others who don't complete their tasks," you could say, "It sounds like you're feeling frustrated and overlooked."

4. Clarify

An important part of active listening is asking questions when you need clarification. Clarifying aspects of the conversation can indicate you're intently listening and provide you with an opportunity to confirm your understanding. To clarify, you may use specific, simple questions that require a "yes" or "no" as a response or you may ask more general, open-ended questions that require more elaboration from your speaker.

5. Summarise

Restating key themes and summarising content is an effective skill that can contribute to your ability to practice active listening. In the workplace, summarising can help both parties confirm they understand next steps and responsibilities. To summarise, consider offering a brief statement that describes the primary message or key theme of your speaker's message.

6. Use body language

Using body language to demonstrate your level of engagement is another important part of active listening. You can use your body language to indicate your understanding by nodding, making eye contact and responding with appropriate facial expressions. Body language may be especially important for professionals who use therapeutic listening to complete their daily duties.

7. Share

Sharing involves expressing your own thoughts, feelings and experiences to relate to your speaker. This active listening technique can help you contribute to the conversation and align expectations for the next steps, deliverables and responsibilities. You can also use sharing to offer suggestions for improvement, build trust and maintain positive workplace relationships.

8. Give your full attention

Distractions can make it difficult to focus on the things a speaker is telling you. In order to become a good listener, limit as many distractions as possible and provide the speaker with your

undivided attention. This includes silencing your phone, turning off your computer and avoiding the urge to multitask by checking emails or giving your attention to other tasks. This can help you focus on the speaker and make sure that you are taking in everything that they are saying. Managing your time correctly can also help you make sure that you can limit distractions while you are listening.

9. Pace the conversation

Being a good listener often includes opening a dialogue and allowing for a conversation to start between you and the speaker. Pace the conversation by determining the goal of the speaker's message and evaluating their body language to decide when it is appropriate for you to respond with your own input. Instead of rushing to fill silences, provide time for the speaker to finish their thoughts and acknowledge their message accordingly. This will also give you the time to absorb their message and process what they are saying before it is time for you to respond.

10. Ask meaningful questions

Once it is time to open up a dialogue, the questions you ask should be meaningful and establish your investment in the speaker's message. Ask questions that can help both you and the speaker reflect on what they said as well as elaborate any points that may need extra clarification. The questions might help the speaker remember other things they wanted to say or open up a new line of dialogue that will be worth exploring.

11. Recall previous information

Recalling information that the speaker has already discussed as well as summarising the points they made in your responses can help you become a more effective listener. Doing this will not only show the speaker you understand what they said, but it will also ensure that they can clarify any misunderstandings and confirm the key points they discussed.

Barriers in Effective listening and Tips to Overcome them

Do you want to be a better listener to improve your personal and professional relationships? Listening is one of the most important skills in communication. And it's key to getting along with other people, whether you're at home or at work.

By learning about these 11 barriers to effective listening, you'll be able to recognize them as they happen, take steps toward improving your listening skills, and ultimately become more aware of the world around you through conversation with others!

Let's check list of common obstacles that prevent us from really hearing and understanding what someone else has to say.

1. Physical barriers in communication:

Physical barriers can be anything that blocks the ability to hear what is being said. This can include noise, obstructions, and distance. External noise can be anything from a construction site next door to people talking loudly in the office or the sound of traffic outside of your window. Physical obstructions can be people standing before you at a networking event or someone sitting between you and the person speaking at a meeting. In this case, your ability to listen effectively will also be hindered.

Distance can also be a barrier if you are not sitting close enough to the person speaking or if you have a poor connection when talking on the phone. The further away people are from one another when they talk, the more difficult it can be to hear them clearly.

2. Emotional barriers:

Emotional barriers are emotional factors that get in the way of effective listening. These include both positive and negative emotions, such as being excited, angry, upset, or distracted. It's difficult to focus on something else when emotions come in the way of concentration. For example, if you're upset about something that happened earlier in the day, it will be challenging to focus on what the person in front of you is saying. If you're angry with someone, you're less likely to be very receptive to things they have to say. And if you're distracted by something exciting going on in your life, you won't be able to focus on the speaker very well.

3. Psychological barriers to effective listening:

Psychological barriers are similar to emotional barriers, but they are based on our thoughts rather than feelings. Sometimes, we tend to assume we know what the other person is going to say, think about what we're going to say next, or judge the person we're listening to.

For example, if you are talking to someone and start thinking about replying, you will be less effective at listening to what that person is saying. Instead, you'll be focused on formulating your response. This lack of focus can lead to misunderstandings and poor communication.

4. Cultural barriers:

Cultural barriers can be seen in both social and business contexts. These could be caused by differences in ethnicity, religion, traditions, or social status. Business cultural barriers arise when there is a difference in how business is done in different parts of the world. This can be because of different laws, customs, or social norms.

For example, in many parts of Europe, it is common to shake hands when greeting someone for the first time or even kiss on the cheek, but in certain places, it is not appropriate to touch a person of another gender that you have just met. This can lead to discomfort and misunderstanding if you are not aware of the cultural differences between you and the person you are talking to.

5. Language Barriers:

In our global society, a language barrier is probably one of the most common obstacles to effective listening. It can exist when there is a language difference between the two individuals talking or when one person has a poor understanding of the spoken language. It is important to note that a language barrier does not have to be an issue of nationality or ethnicity. It could simply be a difference in dialect.

For example, someone from the south of England may not understand someone from the north of England because they speak with a different accent or even use other expressions.

6. Time Pressure:

This barrier is based on the idea that people feel they do not have enough time to listen. Time pressure can come from a number of different places, including from within oneself or from an external source. For example, if you are running late for a meeting, you will probably be less inclined to spend time listening to everyone's ideas than if you had more time available.

Alternatively, if you feel impatient because the person speaking is taking too long, you might feel unable to focus on what they are saying. Because of this, it could be hard to focus on what the other person is saying, and you may stop listening and start preparing your excuse for leaving.

7. Pace of speech:

The speed of speech can often be a barrier to effective listening. When someone speaks too quickly, it can be difficult to keep up and understand everything they are saying. In some cases, the person speaking fast might be doing so because they are nervous or do not think their listener is interested in what they have to say. Or, sometimes, they are just naturally a fast speaker.

If you feel overwhelmed by someone's fast speech, it can be hard to process what they're saying. This can lead to a lack of understanding and poor communication.

8. Tone of voice:

The tone of voice can also be a barrier to effective listening. When someone is speaking in a monotone voice, it's difficult to focus on their message. Or, if their tone is angry and loud, it can cause the listener to react emotionally instead of focusing on what the speaker has to say.

9. Interruptions:

Interruptions can come from either side of the conversation, and they can be physical or verbal. A physical interruption might be someone grabbing your arm to get your attention while you are talking or people trying to talk over each other.

Verbal interruptions come in the form of questions and statements. Overlaps happen when both people try to speak simultaneously, and neither will give up their turn to hear what the other has to say. As a result, the message gets lost, and the conversation becomes ineffective.

10. Information overload:

When there is too much information coming at someone, it can be challenging to focus on one thing. This often happens in business meetings when people are presenting either new or complex information. It can also occur during conversations when the person you are talking to gives you too much information at once. In either case, the listener will not focus on what is being said and will probably miss important details.

An example of information overload can be found in a business meeting. Imagine you are in a meeting where the speaker presents information that does not seem relevant to your job or tasks. This can cause you to become distracted and lose focus. As a result, you will miss important details that could affect your work performance.

11. Bias:

Bias includes prejudice or assumptions about others based only on their appearance, gender, race, religion, and other factors. When we are biased toward someone else, we expect them to act in a certain way based on our assumptions, resulting in poor listening.

For instance, in a multicultural workplace, you often have a group of people who come from different backgrounds and have different physical characteristics or life experiences. When you are in this situation, it may be easy for you to make assumptions about the people you are working with despite

never actually getting to know them. This can prevent you from listening to them effectively because you are not giving them a chance to show you who they are.

These 11 barriers to effective listening can help us improve our communication skills and relationships at home and at work. By being aware of these obstacles, we can overcome them and improve our ability to listen effectively.

Non-verbal signs of ineffective listening at work

There are many physical signs that someone might be an ineffective listener when communicating with colleagues or customers. Some of these signs include looking at their phone, playing with something on their desk, yawning, drumming their fingers, pacing around the room, or checking things off a list while someone's talking to them.

Other physical signs could also include crossing their arms over their chest, facing away from the speaker, and "zoning out" while the other person is speaking. They may also be slouching in their chair and looking distracted or bored.

Verbal signs of poor listening skills

Besides physical signs, you might spot some verbal clues that someone is not listening well.

For example, people may interrupt speakers to ask questions that were just answered in the conversation, or they might reply with a dismissive "Mhm" when you're trying to have a conversation with them about an important issue. In addition, people who are not listening well might nod along while you speak, but when you ask them a question, they seem confused and can't answer it.

Fortunately, there are things that people can do to improve their listening skills so that others around them can have a conversation without feeling ignored or frustrated. If you're trying to practice your active listening skills, try not to think of it as a chore but rather as an opportunity for you to learn something new or improve your interpersonal skills.

How to overcome listening barriers

Follow these steps to overcome listening barriers at work:

- Minimize distractions.
- Prioritize listening over speaking.
- Reduce outside noise.
- Practice reflecting instead of deflecting.
- Ask questions.
- Listen fully before giving advice.

1. Minimize distractions

To avoid getting distracted, make sure you are physically facing the speaker and attempt to make frequent eye contact with them while they are speaking. Make sure you are seated or standing comfortably but appropriately so you can remain engaged. Put away your cell phone or any other pieces of technology that could become a distraction. The speaker may also appreciate the gesture you've made to show them that they have your undivided attention.

2. Prioritize listening over speaking

If you think you might be an excessive talker, try to practice self-control in conversation. Give the other person room to speak. During any conversation with a co-worker, wait until they're finished speaking before you respond to show respect for what they're saying. Finally, observe your listeners' reactions as you talk. If you notice signs of distraction in someone you are speaking with, consider asking questions to encourage them to talk more and direct their focus back on the conversation.

3. Reduce outside noise

Before having a conversation, minimize sound in your environment that could be distracting or make it more challenging to hear. A noisy environment can create distractions for both listeners and speakers, resulting in possible disruptions to conversations.

To minimize noise, turn off mobile devices or place them on silent. Plan to hold important conversations in a place that you know will be quiet, like your office or a private meeting area. If someone is talking loudly outside your office or making other distracting noises, it is often better to politely ask them to move elsewhere or keep the noise down.

4. Practice reflecting instead of deflecting

To bond with your conversation partner or show them you're engaged, you may feel eager to share your personal experiences when listening. However, a better approach typically involves merely listening and providing responses that focus on the other person's situation. This shows that you're genuinely invested in their side of the conversation.

To listen effectively, keep deflecting to a minimum and try reflecting instead. Reflecting involves paraphrasing back to the speaker what they have said. To do so, you could use language like, "What I am hearing from you is..." or "It sounds frustrating that that happened to you." Reflecting could also involve asking a follow-up question based on what you have heard, such as "What did you do after he said that?" or "How did that make you feel?"

Reflecting assures your listener that you are paying close attention, but it can also help to correct any possible misunderstandings. Reflecting allows the other person to correct what you may have misheard.

5. Ask questions

In addition to reflecting, asking questions is an effective listening technique. Focus on asking questions based on what the speaker has already told you and are designed to elicit more information. The best questions are non-judgmental and flow directly from something the speaker has recently said.

6. Listen fully before giving advice

It can sometimes be tempting to offer advice after someone shares a problem or concern with you, especially if you want to help them solve that problem. However, it's a good idea to wait to advise someone unless they specifically ask for it. Sometimes people share their concerns in the workplace simply to build bonds with colleagues or to make a co-worker aware of a problem. Sharing issues can be a way to start introducing conversations deeper than small talk.

What are communication barriers?

Communication barriers are something that prevents us from correctly getting and accepting the messages others use to communicate their information, thoughts and ideas. Some of the examples of

communication barriers are information overload, choosy perceptions, workplace gossips, semantics, gender differences, etc.

Types of Communication Barriers

- **Psychological Barriers:**

The psychological condition of the receiver will power how the message is received. Stress management is a significant personal skill that affects our interpersonal relationships. For example, Anger is a psychological barrier to communication. When we are angry, it is simple to say things that we may afterwards regret and also to misunderstand what others are saying. Also, people with low self-esteem may be less self-assured and therefore may not feel comfortable communicating.

- **Physical Communication Barriers:**

Communication is usually easier over shorter distances as more communication channels are obtainable, and less technology is obligatory. Although modern technology often serves to decrease the crash of physical barriers, the advantages and disadvantages of each communication channel should be unspoken so that a suitable channel can be used to overcome the physical barriers.

- **Physiological Barriers:**

Physiological barriers may affect the receiver's physical condition. For example, a receiver with condensed hearing may not grab the sum of a spoken conversation, especially if there is significant surroundings noise.

- **Language Barriers:**

Language and linguistic aptitude may act as a barrier to communication. However, even when communicating in a similar language, the terms used in a message may act as a barrier if it is not easy to understand by the receiver.

- **Attitudinal Barriers:**

Attitudinal barriers are perceptions that stop people from communicating well. Attitudinal barriers to communication may affect from poor management, personality conflicts, and battle to change, or a lack of motivation. Active receivers of messages should challenge to overcome their attitudinal barriers to assist effective communication.

How to overcome communication barriers

- **Be aware of language, message and tone:**

The sender should ensure that the message should be structured in clear and simple language. The tone of the message should not harm the feelings of the receiver. As far as possible, the contents of the message should be a concise and unnecessary use of technical words should be avoided.

- **Consult others before communication:**

When you're planning the communication, suggestions should be invited from all the individuals concerned. Its main benefit will be that all those people who are consulted at the time of preparing the communication preparation will add to the success of the communication system.

- **Communicate according to the need of receiver:**

The sender of the communication should organize the formation of the message not according to his or her level, but he or she should keep in mind the point of understanding or the surroundings of the receiver.

- **Consistency of Message:**

The message sent to the receiver should not be self- opposing. It should be in unity with the objectives, programmes, policies and techniques of the organization. When new information has to be sent inlay of the old one, it should always make a declaration of the change; otherwise, it can raise some doubts and queries for the same.

- **Follow up Communication:**

In order to make communication successful, the management should frequently try to know the weaknesses of the communication structure. In this situation effort can be made to know whether to lay more hassle upon the formal or the informal communication would be suitable.

- **Make sure to receive proper feedback:**

The reason for feedback is to find out whether the receiver has appropriately understood the meaning of the information received. In face-to-face communication, the reply of the receiver can be understood. But in the case of written communication or other forms of communications, some correct process of feedback should be adopted by the sender.

Conclusion

Communication is an indispensable element in ensuring efficient proliferation of ideas, views, suggestions, thoughts, grievances, plans, policies, programmes, procedures, etc. In absence of effective communication in an organisation, there may be chaos and conflicts among the human capital thereby affecting the productivity of the organisation and also hampering its smooth functioning and growth.

For building a conducive work environment, communication plays a significant role. An organisation having a robust communication structure can attain astral heights. In view of this, the knowledge of communication and various crucial facets associated with it is essential.

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LESSON 3

BUSINESS CORRESPONDENCE

INTRODUCTION

When you speak, you can smile, and the listener can see your smile. Regardless of your choice of words, the listener recognises that you wish to be pleasant in conveying your message. You can also watch your listener and change your approach if you see any favourable reactions. A person reading a letter cannot see your smile, hear your voice, or observe your gestures. The message is complete when it leaves your hands; you can't change your approach if the reader reacts unfavourably. Thus there is a need to draft a business letter very carefully.

A business letter is usually a letter from one business entity to another, or between such organizations and their customers or clients and other related parties. The overall style of the letter depends on the purpose of the letters and relationship between the parties concerned. A business letter is sometimes useful because it produces a permanent written record, and may be taken more seriously by the recipient than other forms of communication.

It is a known fact that rules exist for business letter writing, as some typically posed questions are: How should I end this type of letter? ,What is the rule for addressing a person you don't know?, How should this offer be laid out?, and many alike. Over a period of time, the norms, or conventions, for drafting a business letter have been stabilized. But still, the writer of a letter has a lot of discretion at his end to word and style the letter. In the following chapter, we would discuss the standard form and contents of a business letter, style of writing it, and tips for writing good business letters.

Note that the today's business letters with their conversational tone and the application of psychology are a big improvement over the letter of bygone days.

The Essentials of a Good Business Letter

In spite of the latest technological advancements, the importance of a business letter has not been reduced. Rather we witness that most of the softwares are available for helping and guiding for producing an effective business letter. In any case, they are the only tools and may be used if necessary. However, we must understand the mechanical details of a business letter.

Letterhead

Letterhead, along with other printed materials like business cards and brochures, are a visual representation of any business. A letterhead is the printed stationery, which carries the essential information about the company or the organisation. Since the first contact with a company is usually made through its letterhead, companies spend considerable time, effort and

- Company logo
- Tag line
- Name and address of Registered Office, Corporate Office
- Contact numbers
- E-mail address of the company

money on getting it designed. A letterhead generally carries a company logo, tagline, the name and address of the registered office, corporate office of the company, Corporate Identity Number (CIN) and its contact numbers and website and e-mail addresses of the company. Sometimes the letterhead carries the addresses of the various offices of the company like in case of bank, the letterhead of branch office carries the branch office address and contact details.

A Letterhead generally carries:

Reference Number

A reference number helps us in retrieving the letter at a later stage. It may contain the initials of the letter writer, the department from which the letter originates, and the distinctive number allotted to it. It is for an organisation to decide what the contents of a reference number should be. Some business letters show the reference numbers of both the correspondents or display printed pre-numbered stickers for the purpose.

Date

The date must be written in full without abbreviating the name of the month. For example, 1.6.2019 may preferably be written as 1 June, 2019. This removes the possibility of any misunderstanding as Americans are likely to read the date given in numerals as 6th of January, 2019. The date may be written either below the reference number or to its extreme right.

Special Markings

A few spaces below the date, one may show special markings such as Confidential, Air Mail, through Registered Post/Courier/Speed Post etc. When the contents of a letter are confidential, then care should be taken to superscribe the envelope also with the same marking.

Inside Address

The complete name and address of the recipient is written below the special markings. It must be ensured that the inside name and address is exactly the same as that used on the envelope.

Attention Line

If the letter is addressed to a company or one of its departments but the sender wishes it to be dealt with by a particular individual, then an attention line may be inserted either above or below the inside address. This may read like:

For the Attention of Mr. Harish Arora, Manager (Industrial Credits)

Salutation

The choice of a salutation depends on the extent of formality one wishes to observe. The following list shows different salutations in descending order of formality:

Sir

Dear Sir/Madam

Dear Mr./Ms X

'Dear Sir/Madam' may be used as a standard salutation. When informality is aimed at, then the surname of the addressee is preferred for use by most correspondents. The use of first name was traditionally avoided in business letters but salutations in business now are becoming increasingly direct.

The use of "Respected Sir" should also be avoided, as the word respected, not being an adjective, is grammatically unacceptable.

Subject Heading

It is useful to provide a subject heading in longer letters. This helps the reader find out in the first instance what the contents of the letter are. Subject headings may be written in initial capitals with the rest in lower case and underscored or in capitals as shown:

Sub: Erection Work of Bikaner Project (or)

Sub: ERECTION WORK OF BIKANER PROJECT

The usual place for a subject heading is either above or below the salutation. In brief letters, a subject heading may be redundant, in some circumstances a subject heading may also be useful in short letters as it would ensure that the letter reaches the right person, at the earliest, who would be dealing with that subject matter. It would be of immense help especially if it is addressed to a large organisation which has a central department where all mails are received and sorted.

Main Body

The main body of the letter may be divided into three parts. Most business letters begin with a brief introduction, which states the purpose of the letter.

This is followed by a longer middle section, which presents relevant facts in a logical and coherent manner. This section may be divided into several paragraphs, each dealing with a separate point and written coherently.

The conclusion is a polite rounding off. It may mention the feedback required. Some of the expressions are given below:

We thank you in anticipation.

We look forward to a favourable response.

We will be glad to furnish additional information.

We expect you will continue to extend patronage to us.

We hope it is the beginning of a long business relationship.

We regret it may not be possible to deliver the goods immediately.

It is not advisable to round off every business letter with the phrase "Thanking You". If the intention is to really thank the recipient, then a complete sentence may be used since a phrase beginning with an "ing" word is neither a complete sentence nor grammatically acceptable. This again would depend largely on the practice being followed in an organisation.

Complimentary Close

The complimentary close should match the salutation in terms of formality or lack of it. The following table may be helpful

Salutation	Complimentary Close
Sir	Yours truly
Dear Sir	Yours Faithfully
Dear Mr. X	Yours Sincerely

A common error is to use an apostrophe in Yours (Your's). Care must be taken to avoid it. "Truly" and "sincerely" are often misspelt. It should be remembered that truly does not have an 'e' in it while "sincerely" retains both the 'e's.

Signatory

After leaving four to five spaces for the signature, the name of the sender may be written in capitals within brackets followed by the designation as shown below:

(AMBUJ CHANDNA)

Regional Sales Manager

Enclosures/Copies Circulated

List of enclosures or details of those to whom copies of the letter are being circulated may be given below the designation of the sender. In some cases, copies of the letter may require circulation while keeping the original recipient in the dark. The abbreviation in such cases is suitably changed to bcc in the letters being circulated alone.

Annexures

If we wish to annex some documents with the letter, then information about these may be listed at the end.

Type of Business Letters

Business Letters are basically of two types:

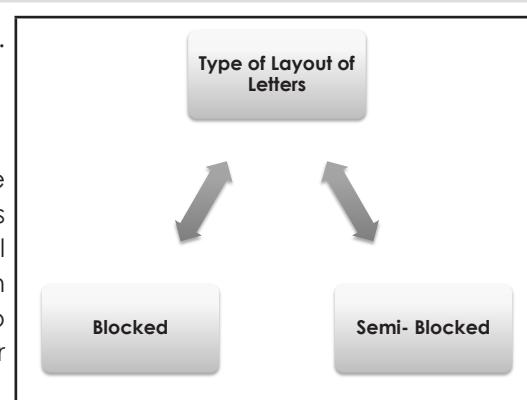
1. *Formal Business Letter* –Formal business letters are the typical or standard business letters meant for legal or official correspondence. These include letters regarding business deals, order, claim, dispute settlement, agreements, information request, sales report and other official matters.
2. *Informal Business Letter* –Informal Business Letter is used for casual correspondence but doesn't necessarily have to have a casual tone of language. These letters include memorandums, appraisals, interview, thanks, reference letters, cover letter, customer complaint letters, e-mails and others which are less important or regular.

Layout of Letters

Layouts of letters are of two types-Blocked and Semi Blocked. Given below are examples of the two types of layout:

Blocked Format

In the blocked format of letter layout, the date of the letter, all references, subject, salutation, the paragraphs in the body of the letter, conclusion and signature, all commence at the left margin as is shown in the specimen below. Another point to note is that in this format no commas are used after inside address, salutation or complimentary close.



Sundar Chemicals Limited**Regd. Office: 28 M G Road, Chennai-600 023.****Phone: 011-8387666 email: Secretary@sundarchemical.com**

Comp/Mar 01/26

March 15, 2019

The Manager
X Traders & Company
256, Anna Road
CHENNAI-600 070

Ref: Order No. 288/2019

Dear Sir,

We are thankful to you for promptly complying with our request to supply a Digital Printer Model ZX1 as per our Order No.285/2019 dated 10th March 2019.

However, after the machine was installed and a test run was conducted, it was found that clear photocopies were not being produced. We referred the matter to your engineer Mr. Srivasan who has informed us that this problem is due to some inherent manufacturing defect in this machine.

We are still within the guarantee period of one year within which the machine will be replaced if there are any manufacturing defects.

Therefore, we request you to kindly replace our Printer model ZX1 with a new machine that has no defects, at the earliest.

Yours faithfully

(Maninder Singh) Administrative Manager

Semi-Blocked Format

This style is often termed as modified block style letter. In the semi-blocked format of a layout of a letter the date of the letter, conclusion and signature are aligned to the right of the letter. The subject or reference is centrally aligned. The paragraphs of the body of the letter all commence with a slight indent and commas are used in the inside address (however a common practice now is to omit the use of comma in the inside address), salutation and complimentary close.

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We are still within the guarantee period of one year within which the machine will be replaced if there are any manufacturing defects.

Therefore, we request you to kindly replace our Printer model ZXI with a new machine that has no defects, at the earliest.

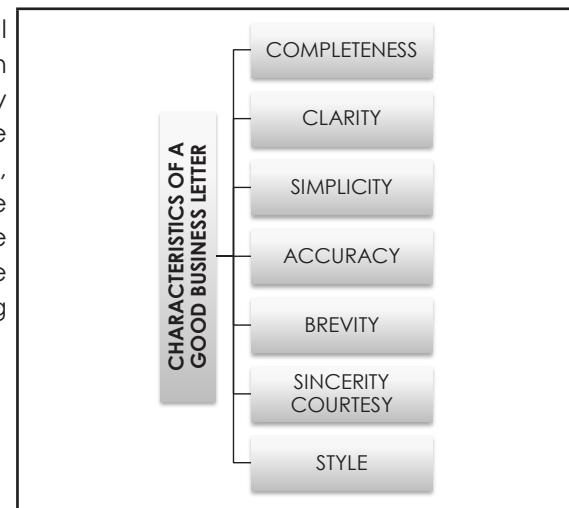
Yours faithfully,

(Maninder Singh)

Administrative Manager

Either of the two formats can be used while drafting letters. However, care must be taken to follow any one format completely throughout the letter. The overall style of letter depends on the purpose of the letters and relationship between the parties concerned. A business letter is sometimes useful because it produces a permanent written record, and may be taken more seriously by the recipient than other forms of communication.

Note : As a result of globalisation of commercial activities in recent years, there has been an increased use of American spellings in day-to-day correspondence in respect of international trade, the word 'favour' is spelled as 'favor', 'labour' as 'labor', 'centre' as 'center' etc. Even the rules of grammar are getting relaxed. Both the conventional as well as the simplified American spellings are in vogue, but care must be taken to be consistent with whichever spelling you are following/using.



Essentials of a Good Business Letter

The following points are considered as essentials of a good business letter and before writing any letter, these points should be observed by the draftsman.

- **Completeness**

The letter must be complete in itself. It should contain all the information required by the

addressee. The important and relevant matter should not be left out. Incomplete letters do not produce the desired effect on the mind of the reader. When a letter is incomplete, an unnecessary delay is caused in seeking clarifications. The writer should try to grasp all the relevant facts and arrange them logically and systematically to incorporate them into the body of the letter.

- **Clarity**

The writer must be clear about what he wants to convey and then he should try to express it in simple and straightforward language. Clear writing and clear thinking should go hand in hand, and the person who thinks straight is usually able to write straight. Before writing, the writer should plan the message to be conveyed in order to avoid vagueness. Planning helps to produce an orderly kind of letter that creates a good impression because its message is clear.

- **Simplicity**

A Business letter should be in a plain and simple style, clear and easily understood. Accordingly, the language of business letters should be very simple. The use of winding expressions and high sounding phrases should be avoided.

- **Accuracy**

A business letter should not have any false or misleading statements. There should be no mistakes which usually creep into a letter due to negligence. Mistakes, however small, should be avoided, as they cause much inconvenience and trouble. All facts and figures references should be as accurate as possible and documents like bills of exchange, invoices, statements of accounts should be carefully prepared and checked.

- **Brevity**

In a business letter, unnecessary words and superfluous matter should be avoided. As brevity in a letter is the soul of commercial correspondence, the writer must see that every sentence he has written is impregnated with appropriate meaning.

- **Sincerity**

Whether a person is writing a personal letter or a business letter, he needs to write it with sincerity. In other words, he must be himself and not an imitation of somebody else. The business letter may seem to be a common piece of writing, if all letters are modelled to a set style. It must have originality of the sort that expresses the thoughts of its writer in his own style.

- **Courtesy**

In a business letter, courtesy should be present everywhere, as it pacifies anger and pays in the long run. Courtesy means that the general tone of the letter should be mild and there should be a consideration for the feelings of others. Curt and rude letters have got no place in the business world. Courtesy should not be sacrificed for the sake of brevity. Discourteous and unpleasant language should be avoided even while writing letters of complaint or letters of refusal.

- **Style**

The words used in a business letter and the way in which they are used express the writer's personality and give the letter what is called its style. Style in writing as in other walks of life is a quality peculiar to the individual. It is determined by the background, training, experience of a

person and the way he thinks. If one writes with naturalness and ease, the letter so produced will reflect the personality of the writer. It is correctly said, therefore, that Style is the man.

Business Messages

Businesses messages include messages from the Chairman of the Company to the shareholder, employees or related to sales and purchases, products, and services, confirmation or cancellation of orders, invoices, company announcements and notifications, employee related news such as promotions, awards, increments, bonus, appraisals, resignation and termination. These messages are very crucial for the business be it in the form of an advertisement in print or in electronic mode or in the form of any other internal or external communication. Good business messages are essential to keep the business relationships in good health too. There are many types of business messages that a business can write to another business on day- to-day basis.

In business messages, the self-centered approach preparing communication to see each situation from own points of view may lead to a writer oriented approach, resulting the message is prepared on the view point approach wherein the writer places emphasis on himself and his interests rather than on the interest of the readers and stakeholders.

Generally, these types of approaches does not cater the positive responses in the readers, because they too are self-centered resulting the reader does not focus on what you want them to do. It is always advised that to achieve more positive effects of the Business message, the writer should write from the reader's point of view.

The 'You attitude' in Business Writing

The 'you attitude' is a writing style that emphasizes readers rather than the writer. To write a business letter, the writer should not focus or put ourselves in the place of receivers. However, the desires, problems, circumstances, emotions and probable reactions of the recipient are to be taken into consideration. Business letter must be written from 'you viewpoint' instead of 'I or we viewpoint'. You viewpoint emphasize the reader's interest and helps to win the reader's mind and attention. For example:

I or We attitude : We are sure that our new discount policy will attractive to you.

You attitude : You will surely appreciate new discount policy.

I or We attitude : I am happy to hear that you have selected our Company.

You attitude : Thank you for giving us the opportunity to serve you.

I or we Attitude : I will give you 10% discount on credit card purchase.

You attitude : You can get 10% discount on credit card purchase.

Thus it can be stated that by adopting you viewpoint following benefits can be enjoyed:

- Creation of friendly atmosphere
- Motivation the reader
- Establishment of mutual trust
- Can create favorable outcome even in a bad-news situation
- Accomplishment of the goal of the letter
- Enhance goodwill of the firm

To summarise, it can be said that the 'you attitude' is not only important but also essential for effective letter writing and business messages.

Positive Messages

Positive messages include messages where the audience is expected to react in a neutral to positive manner. Positive messages tend to consist of routine or good news. These messages might be items such as congratulations, confirmations, directions, simple credit requests, or credit approvals.

Following messages are considered as positive communication when:

The receiver likes or expects this news (product shipped on time)

The receiver needs little education or background to understand the news (travel arrangement for the conference)

The receiver considers the message routine, even if not completely positive (parking lot closed for three days for new striping)

Negative Messages

Negative messages include messages where the audience is expected to react in a negative manner. Negative messages consist of bad news. In these messages, the sender's goal is to convey the bad news in a manner that preserves the business relationship. While the sender must deliver bad news, the sender wants to avoid an employee quitting or a customer finding another vendor. These messages might be items such as refusal to provide a refund, cancellation of an event, inability to support an event and more.

Following messages are considered as negative communication when:

The receiver may be displeased (cost for repair is to be borne by receiver, not the company)

The receiver needs a little persuasion (new log-on procedure takes longer but is more secure)

The receiver may be somewhat uncomfortable (new performance appraisal system is underway but employees are used to the old ways of performance appraisal)

Persuasive Messages

The third, overlapping category is persuasive messages. In this type of message, the audience is expected to need encouragement in order to act as the sender desires. In some cases, the receiver is more like a positive audience; for example, when you're asking for a recommendation letter or when you're inviting someone to attend an after-hours work function. In other cases, the receiver is more like a negative audience; for example, when you're requesting additional payment as a result of a shared error or when you're providing an extension to an impending due date.

Following messages are considered as persuasive communication when:

The receiver may be reluctant (please speak to the new employee group)

The receiver is being asked a favor (please write recommendation letter)

The receiver may be invited to something somewhat outside regular duties (please supervise a new book club that will meet on campus after work)

Business Reports

The word 'Report' is derived from the Latin "reportare" which means to carry back (re=back+ portare = to carry). A report, therefore, is a description of an event carried back to some who was not present on the scene.

The report is a message to management. It travels from an employee to a supervisor, from a supervisor to an executive, or from the executive to the management. Simply stated, a business report conveys information to assist in decision-making. A report is the means to present this information. Some reports might present the actual solution to solve a business problem; other reports might record historical information that will be useful to assist in future decision-making. Either way, information is being "reported" that will be useful in making a decision.

Thus the term report can be defined as an orderly and objective presentation of information that helps in decision-making and problem solving. Note the different parts of this definition:

1. The report must be well-ordered so the reader can easily find information.
2. It must be objective because the reader will use the report to make a decision that affects the organization.
3. It must present information facts and data. Where subjective information is required, as in drawing conclusions and making recommendations they must be presented ethically and be based on the information contained in the report.
4. It must aid in decision making and problem solving. There is a practical, "need-to-know" dimension about business reports that differentiates them from academic or scientific reports.

A business report can be defined as an evaluation or assessment or review of a particular event, issue, period or set of circumstances which is related to a business. The business report can be on compliance status, financial position, report of the Board of Directors of the company, Sales or on any other matters for which the report is required by an expert or authority.

The business report is usually written in response to a request by an authority of the company. Business reports are one of the most effective ways to communicate. Although the scope of the business reports' are broad, however broadly, we can categorise the same into the following:

Business Report Categories

The various forms of reports are as under:

<ol style="list-style-type: none"> 1. Compliance Report 2. Corporate Governance Report 3. Sustainability Report 4. Recommendation Report 5. Investigation Report 6. Feasibility Report 7. Research Report 8. Periodic Report 9. Situational Report 	<pre> graph TD A[Executive Summary] --- B["BUSINESS REPORT'S FOUR ELEMENTS"] C[Conclusion] --- B D[Body] --- B E[Key Findings/Recommendations] --- B </pre>
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Writing Effective Business Report

A business report should not be written in essay format and it should be in an abridged style that allows the reader to navigate the report quickly and to identify key elements. It uses appropriate headings and subheadings and, if necessary, bullet points, diagrams and tables. The main function of a business report is to communicate relevant information quickly, clearly, and efficiently.

Business reports can range from brief one-or-two-page reports, to reports of a hundred pages or more with several chapters and, quite possibly, a number of appendices. A lengthy report would include a table of contents and possibly an index. However, usually include the following four elements:

EFFECTIVE BUSINESS REPORT

- Objective of the Report
- Format of the report
- Use of the Report
- Requisite information or Input data
- Collection of the data and facts
- Analysis and fact finding procedure
- Executive Summary

To write an effective business report, it is necessary to understand and identify the following:

The Executive Summary acts like the Abstract of a regular essay. It will briefly state the purpose of the report, it will briefly describe the methodology used to investigate the issue and it will list the key points and findings that are found in the report.

The Body gives details of the evaluation process. It will describe your methodology and identify particular issues that impacted on your evaluation. It might also allude to, or give a brief preview of your findings. Relevant tables and/or diagrams will appear in the Body.

In the Key Findings/Recommendations section you will identify and discuss/describe your key findings and make your recommendations. Your Conclusion will neatly sum up your findings, and in doing so will ensure that these relate back to the original question or issue that has given rise to the report.

Inter and Intra-Departmental Communication

Inter and intra-departmental communication has largely been a formal affair. The chief executives assumed that they were expected to be direct, brief and functional, wasting little time on niceties. Employees were usually taken for granted - bound by archaic service rules to listen and to comply unquestioningly. No wonder the documents produced were staid and standardised.

Over the years, there has been a greater appreciation of the important role the staff play in an organisation. Their stake in the organisation has also gone up with schemes like Employee Stock Option Plans becoming popular as one of the means of compensation. They now take a greater interest in framing of policies, get more respect and enjoy confidence.

Inter-departmental communication is largely a formal affair. Inter-departmental communication will be effective when it is supported by good infrastructural facilities. There are various documents used in inter departmental communication, they are:

1. Memorandum

The term Memorandum (Memos) has often been misunderstood as a part of disciplinary proceedings. Far from it, the word at best means a note or record for future use. It is a useful mode of internal communication. A memorandum (memorandums or memoranda in plural) plays a convenient and flexible role. While much of inter and intra-office communication is being done over the phone, memorandums are preferred when one needs to convey information in writing.

There are minor variations in format but most memos have the same headings. The difference with the letter format is obvious. Inside name and address are done away with. Nor are salutation and complimentary close used. Informal tone and use of personal pronouns are allowed. Numbering is optional. Titles such as Interoffice Communication, Office Memorandum or Interoffice Correspondence may be used in place of more commonly used Memorandum. When addressed to all employees, a memorandum is as good as an Office Circular:

A few specimens of Memos are given below:

Specimen 1

**BEEM ELECTRONICS LIMITED
BANGALORE**

Ref : 81/C/2019

11th April 2019

Office Memorandum

With reference to his request for a grant of Special Casual Leave, Shri P. Sachdeva is informed that Special Casual Leave has been granted to him for four days from 23rd April to 26th April 2019 for enabling him to participate in the District Level Athletic Meet.

Sd/-
Ramesh Kumar
Administration Manager

To

Shri P. Sachdeva
Secretarial Department

Through : Company Secretary

Specimen 2

**SUMAN ENGINEERING LIMITED
PUNE**

Ref:81/1/2019

13th May2019

Memorandum

Shri Mukesh is hereby informed that the office has no objection to his pursuing part time M.A. Degree

Course in the evenings after office hours. However, grant of leave for study/examination is subject to exigencies of office work.

Sd/-
Surendar Ghosh
Manager
(Personnel)

To

Shri Mukesh
Assistant, Sales Department

Through: Manager - Sales

Specimen 3

SEETHA ELECTRICALS LIMITED KANPUR

MEMO/17

21st March, 2019

With reference to his letter dated 4th March, 2009 requesting for change of seat on health grounds, Shri Badal Singh is informed that the matter is under consideration and the decision would be communicated to him soon.

Sd/-
Bipin Kumar
Manager (Administration)

To

Shri Badal Singh
Stores Department

Through: Stores Manager

Memos are also issued in the cases of disciplinary actions to be taken against employees and replies thereto. These include memos relating to show-cause notice, charge sheet etc..

2. Office Circulars

Office circulars are for disseminating information to a large number of employees within the organisation. Since it is an internal communication, therefore it has traditionally been brief and business-like formal and devoid of salutation.

A few specimens of office circulars are given below:

Specimen 1

Inviting Suggestions

SUMAN ELECTRICALS LIMITED PUNE - 411 004

Circular No. 345/2019

3rd April, 2019

The manual of instruction which was last revised in June 2017 is proposed to be updated. Constructive

suggestions are welcome from employees. Suggestions are to be sent to the undersigned latest by 30th April, 2019.

Sd/- Manager
O&M Cell

Specimen 2

Insisting Punctuality

MINI CONDUCTORS LIMITED
PATNA - 800 003

Circular No. 12/2019

25th May, 2019

Employees are requested to strictly adhere to the office timings. Tendencies to move around unnecessarily in corridors and canteens would be viewed seriously.

Co-operation of all the employees is solicited in maintaining decorum and discipline in the office premises.

Sd/-
Bhagat Singh
Manager, Personnel

Specimen 3

Information regarding annual day celebrations

SEEMA ELECTRICALS LIMITED
PUNE - 411 004

Circular No. 23/2019

3rd April, 2019

The Annual Day Function of the company is to be celebrated on the 30th May, 2019 with usual gaiety and fervour. There will be a special meeting at 9.00 a.m. Shri NanalalBhat, Managing Director would address all the employees. It is proposed to honour employees who have put in more than 15 years of service in the Company.

At 3 p.m. there would be sports events for men and women. Tea, lunch and light refreshments will be served in the course of the day's celebrations. At 6.30 p.m. there would be a prize distribution function. From 7 p.m. to 9 p.m. there would be a light music programme by the famous Europhoria and a dance party followed by dinner.

All employees are requested to attend the celebrations with their family members and make it a great success. Suggestions are welcome.

Sd/- Suresh Kumar
Assistant Manager, Personnel

Specimen 4**Announcing a new bonus scheme for employees****XCE LTD. HYDERABAD - 500 012****Circular No. 2/2019/HRD**

1st January, 2019

The undersigned is pleased to inform you that Board of Directors of the Company has decided to introduce a Productivity Linked Bonus Scheme for Employees of the Company with effect from 1st April, 2019. The much awaited scheme is really intended to give more financial benefits to the employees as well as to increase the output. Further details of the scheme will be announced soon.

Sd/-

Personnel Manager

To : All Employees

3. Office Orders

Office Orders have a format similar to that of memorandums. What makes them different is the purpose and tone employed. They generally deal with matters affecting the rights and privileges of employees. The language used is formal and legally common. Passive verbs are preferred. They carry a number since they remain in force till revoked and are filed for future reference. In addition, they carry a bold, underlined heading to help us identify them. Copies are sent to concerned people:

A specimen office order is given below:

Specimen 1

Order No. 34/4

7th March, 2019

OFFICE ORDER

Mr. J.K. Saxena, Manager (Credits), Friends Colony branch is transferred to the Regional Office on the same rank and pay. He shall hand over charge to the Chief Manager and report at the Regional Office by 10th March, 2019.

Sd/-

Personnel Officer

cc:

Chief Manager,
Friends Colony branch,

Mr. J.K. Saxena, Manager (Credits)

Specimen 2**Order posting a new recruit to a department****AMERICAN STEEL COMPANY LTD.
CHENNAI - 600 012**

Ref.: 23/Per/2019

25th July, 2019

Office Order

Shri Rajan Pillai has been posted to the Accounts Department as 'Assistant Accountant' w.e.f. today.

Sd/-
Mukesh Jain

cc: Accounts Officer

Specimen 3**Transfer order**

**BRITISH INDIA COMPANY LTD.
KANPUR - 208 002**

Ref.: 23/2009/Per

12th January, 2009

Office Order

Shri Kushal Jain is transferred to the Stores Department. He shall report to the Stores Officer latest by 14th January, 2009 after handing over charge of his duties to the Accounts Officer.

Sd/-
Mangal Singh
(Senior Admn. Officer)

To : Accounts Officer cc: Stores Officer

Specimen 4**Promotion order**

**MANGALAM PAINTS & CHEMICALS LTD.
COIMBATORE - 641 018**

Ref.: Per/45/2019

31st March, 2019

Office Order

Shri Ashok Shinde, Senior Accountant is promoted with immediate effect as 'Assistant Accounts Officer'. He will draw a basic pay of Rs. 5,500 in the scale 5500- 40-5700-50-6000.

He will be on probation for a period of one year.

Sd/-
Mangal Dass
Manager, Personnel

To : Shri Ashok Shinde, Accounts Department.

4. Office Notes

Office Notes are exchange between two different departments. Companies follow a particular format for 'notes' of this type. The actual layout of the 'Note' may differ from company to company. It is a matter of style and individual preference. A few formats are given below :

Specimen 1**LATEX BALLS LTD.
T.T. PURAM - 695 001**

Ref.: LD/ST/3

Date: 18th June, 2019

From : Legal Deptt.

To: Admn. Deptt.

Subject : Additional Stenographer

The Extraordinary General Meeting of the company is to be held on the 18th July, 2019 to transact some urgent business. Therefore two very urgent Board meetings are to be held in quick succession for discussing a detailed agenda.

The preparation of the relevant papers and other documents in connection with the above is to be given top priority. Considering the workload likely to arise on account of this, an additional stenographer may please be posted to this department for a period of one month.

Sd/-

T. Viswanath
Manager (Law)**Specimen 2****CLIMAX INSTRUMENTS LIMITED**

Ref: ST/1/92

Date: 24.3.2019

From: Stores Deptt.

To: Admn. Deptt.

Subject: Stock taking for the year ending 31.3.2019

The stock taking for the purpose of closing the accounts for the year ending 31.3.2019 would commence on 30.3.2019. All the Departments may be advised to draw their requirements latest by 29.3.2019. Also, there would be no supplies to customers from the stores on 30th and 31st March, 2019.

Sd/-

Ashok Lalla
Stores Suptd.**Points to Remember**

- A memo is different from a letter, both in format and in its effect on the addressee. It is important to note that a memo does not have a salutation and complimentary close. But the subject is clearly written and underlined.
- Memos are used commonly for issuing instructions to the staff, change in the policy inviting suggestions, giving information, making requests etc.
- Whatever be the subject matter, the language of the memo should be polite and courteous.

Management Information Systems (MIS)**The MIS Concepts**

Executives in an organization provide leadership and direction for planning, organizing, staffing,

supervising, and controlling business activities. Each of these business activities involves decision making process. For making decisions, executives need the information. The required information is to be provided by an information specialist or by the data processing department. With the increasing competition in the era of information economy, the demands for organized, need base information is increasing day by day. Depending on the hierarchy the information need differs, accordingly different types of information systems are required. To achieve this goal, different types of information systems are devised by the organizations. The MIS is derived from these information systems used in the organizations.

Major postulates of Management Information Systems are:

1. Information form of a MIS is periodic, exception and based on demands.
2. Information formats are pre-specified and fixed.
3. Information is provided by extraction and manipulation of operational data.
4. It provides information about the performance of the organization.
5. It supports the intelligence and implementation stages of decision making.
6. It supports structured decisions for operational and tactical planning and control.

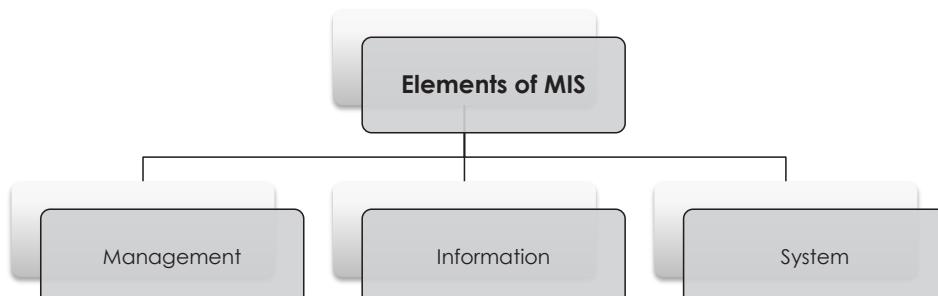
Purpose of MIS

A well-defined MIS provides information to all levels of management for the following purpose:

- To report the organization performance to tax authorities, shareholders, regulatory authorities and other stakeholders such as suppliers and customers etc.
- To prepare future plans for short and long term basis.
- To exercise day-to-day control on various operations in the different functional areas in the organization.
- To allocate different type of resources to different functional areas.
- To allow management by exception.
- To develop database of business partners and to devise procedures to deal with them.
- To develop the training tools for the new recruits in the organization at all levels.

Elements of MIS

MIS is a system that helps management in the process of decision making. The three elements of MIS are Management, Information and System. It is necessary to understand these three components:



Management

The term "Management" as defined by Mary Follett is "The art of getting things done through people". It also refers to a set of functions and processes designed to initiate and coordinate group efforts in an organized setting, directed towards promoting certain interests, preserving certain values and pursuing certain goals. It involves mobilization, combination, allocation and utilization of physical, human and other needed resources in a judicious manner by employing appropriate skills, approaches and techniques. It is a process of conceiving and converting certain worthwhile ideas into results by getting things done through people by offering them monetary and other inducement in return for their contributions.

In short "Management" may be thought of as the sum total of these activities which relate to the laying down of certain plans, policies and purposes, securing men, money, materials and machinery needed for their goal achievements; putting all of them into operation, checking their performance and providing material rewards and mental satisfaction to the men engaged in the operation.

Information

It is a source for increment in knowledge. In MIS, it is obtained by processing data into a form meaningful to the users. To illustrate, the concept, let us discuss the following situations; if somebody throws the word eleven during the discussion, it means nothing to the participant. It is a data item, but it is placed within a context familiar to the intended recipient. Let us analyze another situation, if a manager is asking a question, "What are the sales of the packaged goods by marketing department and projection for the next quarter?" The answer would be 11 only. Here, it is information not the data item since the number 11 is being used in a context.

System

A physical system is a set of components that operate together to achieve a common objective or multiple objectives. These objectives are realized in the outputs of the system. An efficient system uses its inputs economically in producing its outputs. An effective system produces the outputs that best meet the objectives of the system. MIS can be thought of as a system (set of hardware, software, manpower, procedures, etc) to provide timely and accurate information to the management users in an organisation. The objective of the management information system is to provide formal informational support to the members of the organization.

Structure of Management Information System

Management Levels and their information needs

The levels of management consist of top, middle, and first line management (supervisory). The activities in the organizations are of three types:

- Strategic planning,
- Tactical and
- Operational

Each of these levels to perform - strategic planning, tactical, and operational activities and requires different set of information. The activities and information needs of three levels of management are illustrated in the following.

1. Top level (Strategic level) Management and their information requirements

Top management is defined as a set of management positions, which are concerned with the overall tasks of designing directing and managing the organization in an integrated manner. They are responsible for interacting with representatives of the external environment, such as financial institutions, political figures, and important clients of the organization.

The structure of top level normally consists of Chairman and members of the Board of Directors, Chief Executive Officer and the heads of the major departments of the company. In fact, this level consists of those executives, whose responsibilities relate to the whole organization or in other words, they are accountable for effectiveness and efficiency of the operations of the organization as a whole.

Top management's main responsibility is in the direction of determining the overall goals and objectives of the business. It deals mainly with long-term strategic plans, policy matters and broad objectives of the company. Also, it establishes a budget framework under which the various departments will operate.

Top management needs information on the trends in the external environment (economic, technological, political and social) and on the functioning of the internal organizational sub- system. Apart from historical information, top management requires ongoing or current information also which is generated through forecasts of the future. Thus, mostly the information utilized by top management is futuristic and external in nature. Much of the information so generated for strategic planning purpose tends to be incomplete and not fully reliable. It may not be available on time. For control purposes, top management receives summary and "exception reports"

(For example on production, sales, cash, profits, and so on) from the middle management. The distinction between strategic planning information requirement and tactical information requirement is not always clear because both systems use some of the common information.

2. Middle level (Tactical level) Management and their Information Needs

Middle level management is defined as a group of management positions, which tend to overlap the top and supervisory management levels in the hierarchy. Middle management positions consist of heads of functional departments and chiefs of technical staff and service units. Middle management, therefore, includes such people as the Manager of Sales, the Manager of Purchasing, Finance Manager, and the Manager of Personnel etc. Middle management may be viewed as "administrative" management in the sense that it is responsible for the elaboration, classification and operationalization of organization goals, strategies and policies in terms of action programmes and norms of performance. Middle management is concerned with the task of formulating pragmatic operating policies and procedures for the guidance of supervisory management.

The nature of information required at the middle management level is less diverse and complex. Middle management is fed with information both from top management and supervisory management. Much of the information used by the middle management is internal in nature. Middle management does not require much "futuristic" information since its decisions are not strategic and long-range in nature. For example, the information needs of a sales manager are: corporate sales goals and targets, strategies and policies for operationalising them, he also needs information on sales potential and trends in different market segments, geographical territories,

competitive conditions and so on. Further, he needs information on weekly sales turnover from different zones and for different products, customer complaints, delay in dispatches, finished goods inventory position and the like for the purposes of control. Tactical Information Systems are designed to generate a variety of reports, including summary reports, exceptional reports, and ad hoc reports.

3. Supervisory level (Operational level) Management and their Information Needs

Supervisory management is defined as a team of management positions at the base of the hierarchy. It consists of section officers, office managers and superintendents, foreman and supervisors who are directly responsible for instructing and supervising the efforts of rank and file, clerical and "blue-collar" employees and workers. Supervisory management is also called "operation management" in the sense that it is concerned with implementing operational plans, policies and procedures for purposes of conversion of inputs into outputs. At the supervisory level, managers are responsible for routine, day-to-day decisions and activities of the organization, which do not require much judgement and discretion. The function and process of the supervisory management are standardized as far as possible. The perspective of supervisory management is generally short-range and insular. It functions in a relatively closed environment.

Supervisory management mostly needs internal information on operational aspects of the functioning of activity units. It in fact, generates internal information for example, on purchase and sales, production, use of inputs etc. at the operating level. It also receives information from the middle management levels on operational plans and programmes. The nature of information is routine and structured. It tends to be reliable and relatively complete.

There is a little element of complexity of uncertainty involved in the information.

Characteristics of MIS

Some of the main characteristics of MIS are listed as under.

1. **Comprehensiveness** : Management Information System is comprehensive in nature. It takes inputs from transactions processing systems and process information primarily for managers at all levels. It caters to the need of a large variety of people in different hierarchy as routine information requirement exist practically at all levels. Therefore reporting system in the form of MIS is the most sought after information system in any organization.
2. **Co-ordinated** : Management information system is centrally co-ordinated to ensure that information is passed back and forth among the sub-systems as needed and to ensure that the information system operates efficiently.
3. **Sub-systems** : A MIS is composed of sub-systems or quasi separate component system that is the part of the overall - unified system. Each of these systems shares the goals of the management information system and of the organization. Some of the systems serve just one activity or level in the organization, while others serve multi-levels or multiple activities. The overall structure of the multiple systems should be carefully established as a part of long-range system planning.
4. **Integration** : A MIS is rationally integrated, so as to become more meaningful. Sub-systems are integrated so that the activities of each are inter-related with those of the others. This integration is accomplished primarily by passing data between these systems. Computer programmes

and files can be designed to facilitate data flows among the systems, and manual procedures are also used to accomplish this integration. While integration makes information processing more efficient by reducing both intermediate processing and the incidence of independent generation of the same data by multiple departments, and even more important benefit is that it provides more timely, complete and relevant information. Senior managers particularly, benefit from integrated systems because they need cross-functional information. Although total information of sub-systems is neither achievable nor desirable, a substantial degree of integration is required for an effective management information system.

5. *Transformation of Data into Information* : A MIS transforms data into information in variety of ways. When data is processed and is useful to a particular manager for a particular purpose, it becomes information. There are many different ways in which data must be transformed within an information system. For example, cost data for a particular organization may be summarized on a full-cost, variable-cost, and standard-cost basis for each organization unit, as well as by each cost type, customer type, and product, line. The numerous ways in which MIS should transform data into information are determined by the characteristics of the organizational personnel, the characteristics of the task for which information is needed.
6. *Enhance Productivity* : A MIS enhances productivity in several ways. It enables routine tasks such as document preparation to be carried out more efficiently, it provides higher levels of service to external organizations and individuals, it supplies the organization with early warnings about internal problems and external threats, it gives early notice of opportunities, it facilitates the organization's normal management processes and it enhances managers' ability to deal with unanticipated problems.
7. *Conforms to Managers' Styles and Characteristics* : A management information system is developed in recognition of the unique managerial styles and behavioural patterns of the personnel who will use it, as well as the contributions made by managers. At the organization's more senior levels, the management information system is likely to be carefully tailored to each individual manager's personal tastes. At the organization's lowest levels, the management information system is more likely to be tailored to the unusual way in which clerical and operations personnel use information and interact with the information system. For middle managers, the information system is tailored to the general characteristics of managers. For professional and technical personnel, the information system is tailored to the nature of the specialized task, but attention also given to the way the minds of these specialists process information.
8. *Relevant Information* : A MIS should provide only relevant information. Determining what information is relevant may be difficult in situations in which analyses vary for different managers or according to particular circumstances, such as in the case of special problems. Systems designers must carefully consider the human factor when developing a management information system. Otherwise, the resulting system will be ineffective and probably will be discarded by its users.
9. *Uses Established Quality Criteria* : A management information system must be designed to the required tolerance for timeliness, relevance, and accuracy of information. These tolerances vary from task to task and from level to level within an organization.
10. *Feedback* : A management information system should provide feedback about its own efficiency and effectiveness. The reporting of computer malfunctions and transactions

processing error rates is a simple example of this feedback. Statistics prepared by the system about who uses each system facility and how much they use each one are more sophisticated forms of feedback. Computer programs can record and report how much computer time is used by each user, how many pages are printed for each user, and how much internal data file space is utilized by each user's data, as examples; these and other usage statistics can be used for managerial analysis or as basis for charging each user for computer usage if desired.

11. **Flexibility** : It must be designed to be easily modified if, for example, different information is needed because the environment changes or if the organization undertakes new activities (such as introducing new products) which require new modes of processing. The information system should be capable of being easily expanded to accommodate growth or new types of processing activities and also easily contracted.
12. **Modularity** : The MIS should be composed of many modules or sub-systems rather than be designed as one and only one for a few large systems.
13. **Selective Sharing of Data** : Another desirable quality of an MIS is selective sharing of data. Two or more managers often need to utilize the same information; the system should have features, which allow ready access to information by multiple managers. An advanced feature that promotes this sharing is databases. On the other hand, it is often important to reserve certain information for the exclusive use of only selected managers. Sometimes, this need extends down to the record or field level, in which case some parts of a record are available to all managers, but only certain managers are permitted to examine other parts. For example, an employee's current address or marital status may be needed by an employee or other personnel, but access to information about pay rate, hours worked, gross pay, and other details of payments may be restricted to certain payroll managers. This selective sharing quality can be established by controls that are part of the computer programs.
14. **Computerized** : It is possible to have an MIS without using a computer. But its use increases the effectiveness of the System. In fact, its use equips the system to handle necessary attributes of the computer to MIS, for example accuracy and consistency in processing data and reduction in staff. These needs in management information system make the computer a prime requirement.

To sum up, business correspondence is the backbone of a good organisation or company.

Basic Requirement of MIS

In the present context, most of the organizations are using computer-based management information system in the era of information economy. The basic requirements of a computer based MIS are listed as below :

1. **Hardware** : It refers to the physical computer equipment and associated devices. The hardware must provide five basic functions, i.e., input of data entry, output, secondary storage for data and programmes, central processor (Computation, Control, and primary storage) and communication.
2. **Software** : It is a broad term; it means the instructions or programs that direct the operation of the hardware. The software requirement is of two types: System Software and Application Software.

3. *Database* : The database contains all data utilized by the application software. An included set of stored data which is often referred to as a file. The physical existence of the stored data is known as a database.
4. *Procedures* : Formal operating procedures are physical components because they exist in a physical form such as a manual or instruction booklet. Basically, three major types of procedure are required:
 - User Instructions (for users of the application to record data, employ a terminal to enter or retrieve data, or use the result)
 - Instructions for preparation of input by data preparation personnel
 - Operating instructions for computer operations personnel.
5. *Operations Personnel* : It includes personnel such as Computer operators, system analysts, programmers, data preparation personnel.

Limitations of MIS

The main limitations of MIS are as follows:

1. The quality of the outputs of MIS is basically governed by the quality of inputs and processes.
2. MIS is not a substitute for effective management. It means that it cannot replace managerial judgement in making decisions in different functional areas. It is merely an important tool in the hands of executives for decision-making and problem solving.
3. MIS may not have the requisite flexibility to quickly update itself with the changing needs of time, especially in the fast changing and complex environment.
4. MIS cannot provide tailor made information packages suitable for the purpose of every type of decisions made by executives.
5. MIS takes into account mainly quantitative factors; thus it ignores non-quantitative factors like morale, attitudes of members of the organization, which have an important bearing on decision-making process of executives.
6. MIS is less useful for making non-programmed decision-making. Such type of decisions is not of a routine type and thus they require information, which may not be available from existing MIS to executives.
7. The effectiveness of MIS is reduced in the organization, where the culture is to hold information and not share with others.
8. MIS effectiveness decreases due to frequent changes in top management organizational structure and operational team.

CONCEPT OF E-CORRESPONDENCE

Introduction

Today in 21st century globalized world, the uses and needs for the 24 hours availability system of internet have been unprecedented.

Professionals, non-professionals, experts or students, we are all turning increasingly to the internet in our daily lives. Whether we want to find educational openings abroad, do banking operations online, find research material on any issue, send corporate e-mails, internet is the place where we go most often. From the trivial to the highly complex, we look for answers to most of our questions in the vast ocean of knowledge called World Wide Web (www).

The World Wide Web is a system of interlinked hypertext documents accessed via the Internet. With a web browser, one can view web pages that contain text, images, videos, and other multimedia and navigate among them via hyperlinks.

Many people use the terms Internet and World Wide Web interchangeably, but in fact these two terms are not synonymous. The Internet and the Web are two separate but related things.

What is Web?

The World Wide Web, or simply Web, is a way of accessing information over the medium of the Internet. It is an information-sharing model that is built on top of the Internet. The Web uses the HTTP protocol (one of the languages spoken over the Internet) to transmit data. Web services, which use HTTP to allow applications to communicate in order to exchange business logic, use the Web to share information. The Web also utilizes browsers, such as Google Chrome, Internet Explorer or Firefox to access Web documents called Web pages that are linked to one another via hyperlinks. Web documents also contain graphics, sounds, text and video.

The Web is just one of the ways through which information can be disseminated over the Internet. The Internet, not the Web, is also used for e-mail. So the Web is just part of the Internet, albeit a large part, but the two terms are not synonymous and should not be confused.

What is Browser?

A Web browser is software application that enables you to find, retrieve, and display information available on the World Wide Web (WWW). Browser also allows you to traverse information resources on the WWW. The information on the Web is organized and formatted using tags of a Markup language called Hypertext Markup Language or HTML. A web browser converts the HTML tags and their content into a formatted display of information. Thus, a web browser allows you to see the rich web contents from a website. Some of the popular web browsers are - Google Chrome, Internet Explorer, Mozilla Firefox, Safari and Opera.

A brief description about some of these interactions/buttons is as follows:

- **Back/Forward Buttons :** Back button can be used by you for going back to the previously visited web page whereas the Forward button is used to visit the nextpage (if you are not on the most recent page visited by you, this may happen when you have pressed the back button at least once).

- **Tab** : It allows you to view multiple web pages in the same browser without opening a new browser session.
- **Address bar** : Also known as URL Bar is a place where you can type the web page address that you want to retrieve from the web address. It also displays the address of the web page currently being visited by you.
- **Recent History** : This shows the links to the web pages previously visited by you.
- **Refresh** : This is also called as reload button. It reloads the current web page.
- **Stop** : It cancels loading of the current web page. This button is used when the page is in the loading state.
- **Home** : This button will bring you back to the home page of your website. Home page is the first page of any website.
- **Search** : Search box allows any term to be searched by the search engine from the web. It can also be used for searching of contents from the website visiting.

What is Internet?

The Internet is the network of networks and is used for many applications. Internet allows you to share resources and applications with ease. The Internet can carry any digital signals such as text, graphics, sound, video and animation. Today, Internet has thousands of networks and millions of users, using many services. The Internet is a massive network of networks - a networking infrastructure. It connects millions of computers together globally forming a network in which any computer can communicate with any other computer as long as they are both connected to the Internet. Information that travels over the Internet does so via a variety of languages known as protocols. The Internet uses TCP/IP as its basic protocol on which many more application level protocols have been developed.

The terms Internet and World Wide Web are often used in everyday speech without much distinction. The Internet is a global system of interconnected computer networks. In contrast, the Web is one of the services that runs on the Internet. It is a collection of textual documents and other resources, linked by hyperlinks and URLs, transmitted by web browsers and web servers. In short, the Web can be thought of as an application "running" on the Internet.

Viewing a web page on the World Wide Web normally begins either by typing the URL of the page into a web browser or by following a hyperlink to that page or resource. The web browser then initiates a series of communication messages, behind the scenes, in order to fetch and display it.

"The letters written by one party to another, and the answers thereto, make what is called the correspondence of the parties. Such correspondence if done through electronic signals via internet is called E-correspondence."

What is E-Correspondence?

E-Correspondence is commonly known as 'email-correspondence' or 'electronic correspondence'. It is an electronic method of providing you with important information on your email address. You must supply a valid email address in order to receive information via email. For example: johndoe@company.com.

Concept of Email

"Electronic mail" or "e-mail" as it is commonly called is the process of sending or receiving a computer file or message by computer modem over telephone wires to a pre-selected "mail box" or "address" on another computer. E-mail can also be sent automatically to a large number of electronic addresses via mailing lists (through 'mail-merge' option). E-mail messages can range from the simplest correspondence to business presentations, engineering blueprints, book chapters, or detailed contracts. Graphics, files of artwork or photography can be transmitted via this technology as well, though text messages comprise the vast majority of e-mail transmissions.

Today, e-mail stands as a central component of business communication, both within business enterprises and between business enterprises, because of the many advantages it offers over regular mail in terms of efficiency, speed, and 24-hour availability. These characteristics have made electronic mail a truly ubiquitous presence across the globe. Indeed, in terms of sheer volume, more than 536 billion pieces of e-mail were delivered in the United States in 1999, according to the eMarketer Internet research firm. Moreover, the eMarketer estimates that in 2000 the number of active e-mail users in America reached 111 million.

Since e-mail has emerged as such an important method of business communication in recent years, it is important for small business owners to know how to use this technology effectively. Towards that end, consultants generally recommend that small business owners and entrepreneurs should select and shape such e-mail packages that emphasize convenience and ease of use.

Electronic mail, known commonly by its abbreviation 'email', is probably the most used medium of communication today. 50 years ago, had someone said that it would be possible to instantly deliver documents to a recipient sitting halfway across the globe, he would have been a laughing stock. But, email came, saw and conquered the World Wide Web. Today, with email, there's so much more than just written text communication. Ability of the email to securely forward multimedia, photos, software, etc. has made it very popular. It's rightly said that 'necessity is the mother of all inventions', and we humans have always found a way whenever the need arose. The history of email communication is very interesting and intriguing.

History of Email

In 1965, the Massachusetts Institute of Technology (MIT) was the first to demonstrate the use of the first email system known as MAILBOX.

The history of email addresses can also be attributed to Tomlinson. He chose the '@' symbol to provide an addressing standard in the form of "user@host", which is in use till date. This is why Tomlinson is called the 'father of email' and is credited with its invention.

By 1974, email in its improved form was being used by the US military. By 1975, efforts to organize the email bore fruit. A general operating area, known as email account, was created for users who wanted to avail the email service. Access controlling was done by giving the user a secret password, which only he/she would know. Separate folders were created depending on the purpose. Inbox for incoming messages and outbox for outgoing messages.

The year 1976 was a watershed year in the history of email marketing. Email service was being offered in commercial packages and per-minute charges were applicable to those using these services. This led to the requirement for offline reading, which meant that users could then download their emails on to their personal computers, and read them leisurely without using and paying for the airtime. This led to the development of applications, which were similar to what Microsoft Outlook does today.

Requirement for protocols was felt almost immediately, and in 1972 file transfer protocol (FTP) was put in use to send email messages. The main drawback here was that FTP created a separate mail for every recipient and then dispatched it, which resulted in the loss of precious memory space. This prompted the creation of the more efficient SMTP (Simple Mail Transfer Protocol) in the early 1980s, which became a standard protocol to be used in sending email messages. But the initial versions of SMTP failed to control the cases of forgery and proved to be a naive protocol in the verification of the authenticity of a user. Email viruses, worms and spammers began exploiting these loopholes in SMTP, and even though many new and improved versions have been released, this problem continues to be addressed till date.

If SMTP is used to send messages, POP (Post Office Protocol) is a standard for receiving emails. This protocol is used by email clients to retrieve messages from the mail server using a connection. One drawback of POP is that it does not support offline retrieval of messages. This demerit has now been overcome, by the more capable IMAP (Internet Message Access Protocol). This is how one comes to know about the offline messages, i.e., messages received when the receiver is not signed in.

By the early 1990s, free and user-friendly email service providers had taken the industry by storm. Players like 'yahoo' and 'hotmail' were competing for the market share. It was this decade that saw the .com boom, to the extent that almost everyone wanted an email account. Today, there are more than 600 million email users across the globe, with newer players like Google (Gmail) and Rediff entering.

There's so much more about the origin and history of email, but these were the most important landmark events. Looking at its current usage, we can only add that instant messaging via email is here to stay!

Features of Email

- **Electronic** : It is an electronic mode of message transmission as it is sent using HTML (Hyper Text Markup Language)
- The computer code used to create web pages.
- **Cost-Effective** : It is one of the cost-effective modes of fast communication. Today with the advent of smartphones, communicating through emails has become even more cost-effective.
- **Packages** : Packages like 'Messenger' and 'Outlook' help us compose new mails or forward the received ones to one or all of the people whose email addresses are stored in the 'Address Box'. They allow us to change font, sizes and colour of the text; highlight, delete, store or save; align, center or justify the text; italicize, bold, underline or even print what we write or receive as email.
- **Interface**: An interface between email programme and word processing programme allows us to cut, copy and paste material from one place to the other.
- **Attachments** : The 'Attach' option allows us to share documents, worksheets, presentations, pictures and videos along with the mails.
- **Spam** : Unsolicited or Junk mails can be filtered by using the 'spam' option which forbids unwanted mails to enter your inbox. These unwanted mails may be advertisements, job offers, competition forms, etc. which one does not want to receive frequently.
- **Signature** : We can customize our signature as we want it to appear in the complimentary closure of every email. Once you add your signature it automatically appears at the end of every mail that you compose. One need not write the name, designation, contact no, etc. again and again.

- **Search :** The search option helps us to locate old email communications. This can be achieved by typing the sender's name in the search box and clicking the search button. It will reflect all mails containing the name so typed.
- **Cloud Storage :** A more recent feature is cloud storage. Data can be stored on cloud. This facilitates access and instant updates to multiple users. Google Drive, Dropbox etc. are examples of companies offering cloud service solutions to enterprises.
- **Changes at the Workplace :** This trend of online work has brought about other changes like virtual workplaces, work from home, flexi-time etc.

Features of an Email Account

An email account, in general has the following folders:

Inbox: Inbox is the main folder in your email account. It contains all the e-mails that have arrived in your e-mail account. You can click on inbox to see the mails that you have not read (shown in bold) as well as the mails that you have already read (in normal font).

Sent Mail : It shows all the e-mails sent by you from your e-mail account.

Drafts : This folder stores those messages that you have created but has not been sent by you so far. These messages are saved by you for more work.

Spam : Spam is unsolicited e-mails or junk mail. It is generally e-mail advertising sent to a group of people. We can also term spam as unwanted e-mails. Spam mails are also a big cause of computer viruses. Spam mails are identified by the mail services and placed in this folder. These spam mails are automatically deleted after a few days.

Trash : Any deleted mail is put in the Trash folder. Trash folder allows you to get back an e-mail which has already been deleted. But it is important to know that you can get back the mails only within a few days from trash after its deletion. After a few days, mails are permanently deleted from the trash folder.

An email account, in general has the following options:

Compose Mail : Composing is addressing, writing, and sending an e-mail message. By clicking on the Compose Mail button a window appears where we can write our message in the message box and the email addresses of the person we want to send the mail.

Contacts : The Contacts helps you to find email address of a person whom you have saved in your Contact list. We can also quickly find email conversations associated with a contact, and store additional information about other persons whose email id is stored in our contacts (such as a mailing address, title, phone number, etc).

To field - you have to put the address of the receiver. In case you want to send an email to more than one receiver then put commas between their email addresses or add cc. or add bcc.

Cc stands for Carbon copy the persons whose address is listed in this field will receive a carbon copy of the message and Bcc means blind carbon copy similar to Cc but the only difference is that the recipient who had got Bcc is invisible to other recipients.

Subject : The main heading of your mail i.e., it will explain that the mail is regarding which issue. Please note that the subject should be descriptive of the mail to help the receiver understand what mail is about without having to open the mail.

Text Area : The message is written in this area.

Send : you can send the mail by clicking the Send button.

Group Contacts is one such list as explained earlier. Contacts can be organized in different groups like office, school, relatives etc.

Electronic Mail System

Today companies are able to customize their e-mail services to meet their own unique communication needs. E-mail management tools in the market can help entrepreneurs and managers address a wide array of issues from excessive volumes of e-mail and/or excessively large file attachments –both of which can clog e-mail gateways or create network storage burdens –to virus detection, spam blocking, and search ability of e-mail data stores.

Optimizing Personal Email Use

Experts in the fields of business and electronic communication agree that managers and small business owners can take several steps to maximize the efficiency of their company's e-mail systems. These tips extend from patterns of personal e-mail use to guidelines for company wide e-mail policies.

Professional appearance and content are paramount in an e-mail. Some basic guidelines and action points to be followed are:

- The standards of professionalism that dictate postal correspondence stay –Proper Grammar, correct spelling, tone, courtesy, structure, content etc.
- Avoid ‘Emoticons’ – smileys, winks etc in official correspondence.
- Maintain separate accounts for official and personal e-mails. Many organizations have firewalls against personal mails like Yahoo, Gmail etc.
- Avoid ‘spamming.’ Maintain a proper distribution list of recipients for your mails.
- Limit the size of attachments to be received or sent out by e-mail. Organizations have policies and limits for the size of attachments. This helps monitor data security, virus attacks etc.
- Have a standard signature for your official e-mails – Name, Designation, Phone numbers. This helps in accurate identification.
- Respond promptly to official e-mail messages – less than 24 hours. In case the response takes more detailed information, write a short reply explaining how long it would take for you to give a proper response. Non-response sends out wrong signals.
- Set up efficient daily e-mail practices. Today, e-mails are configured on smartphones, further reducing the expected response time.
- Delete old messages that can clutter up your inbox. Ensure that your inbox is not cluttered and allows for incoming messages without delay.
- Review incoming e-mails only at two or three set times a day, rather than peeking at each one as it comes in; and
- Invest in supplementary tools that can block e-mail spam that clogs many systems.
- Use the “Reply/Reply All” features with care. Your response may be intended only for the sender and not for all included in the mail.

Important

Use the fields 'to,' 'cc,' and 'bcc' appropriately. The recipients in the 'to' are those who need to take action based on your e-mail; those in 'cc' are included for information; those in 'bcc' are included when the recipients are not known to each other and their e-mail ids are to be kept confidential.

This is important, because spammers love to see a whole slew of e-mail addresses that they can send spam to. Your friends will have good intentions, but those you may only know from a list may not. Hackers now have the addresses of everyone who will be receiving your e-mail. This is neither appropriate nor safe. Instead, choose to send a group or list of people the same message using BCC, which is the kindest and least obvious way to send mail short of encryption.

Also remember that all e-mail sent through normal channels can be intercepted. Therefore, only write what you want the world to see.

Again, the desire to say what we feel must be overcome with the desire to be courteous and professional, which we all know in our hearts, is the better way to communicate.

Proper E-mail Correspondence

Most of us e-mail back and forth every day, so we all deal with different types of e-mail correspondence. Whether it be for business, for personal use or for school, we all need to know the proper ways of sending emails to other people. Keep reading to see if you're being professional about it or not.

As stated above, e-mail correspondence comes in various colours and designs and it is as creative as the sender makes it. E-mail a decade ago was definitely not the same as the e-mail today. We must be more careful about what we say and how we say it. Words used in an e-mail are like a small, lit match; they can be used to mend fragile relationships, warm the heart and light the way, or they can ignite a whole forest aflame that could cause havoc and destruction.

Here is one scenario that may influence varied responses:-

Example

You just paid for some software over the Internet with your credit card. You were told that the software would reach your house in a few days. The item does not reach you in promoted time. No problem, you think. You will just call the 1-800 number they have on their Website but after redirecting your call four times, you hear the dial tone. You are upset, but you try calling again.

Now, after this phone calling nightmare for almost 45 minutes, you are angry that no one is answering. After all, you paid for the item and you want it. Should you not be angry? Of course you should be, but you can't get hold of them, so you decide to write an e-mail explaining your mounting frustration about how their customer service was always unavailable over the phone. You are careful to tell them that you have not received your purchase and also include the invoice statement as proof of what you bought. Three days go by and counting. You cannot get this dilemma off your mind. Another e-mail lands you nowhere. You do not know what to do. You tried contacting them, but you got no reply. You decide that you no longer want their software and want your money back. You swear not to deal with this company again, right?

So, you write a third e-mail, but you are not so polite this time. You say, "I will never do any business with you again. You are deaf to my phone calls and e-mails and insult my intelligence. I demand my money back. You are a thief and should not be in business and I will get to the bottom of this."

Surely, this is a letter you can write, but do you really think you should? Would it make you feel any better?

Maybe, but will it get you what you want? Not likely. In so many cases, we are obliged to overcome how we feel by an act of the will to do what we ought to do.

Now, let's take the same scenario and use a different technique. Instead, say something like, "Gentlemen, I am writing this e-mail as an addition to my other two. I have not received the item I paid for. It should have arrived two weeks ago. I am concerned that it may have gotten lost in transit or perhaps was overlooked with the many deliveries you are responsible for at your warehouse. I have also tried to contact you by phone twice, but there was some difficulty and my calls never got through. I would appreciate hearing from you regarding this matter.

Thank you."

A reply from the company finally comes and it says, "We apologize for not being able to get back to you about your purchase. Our servers were hacked into and we just got back online. It was also very alarming that we found our customer backup data was deleted. Please accept our apologies. Because of this delay, we are sending your purchase free of charge and we hope that this might retain you as one of our loyal customers."

Again, the desire to say what we feel must be overcome with the desire to be courteous and professional, which we all know in our hearts, is the better way to communicate.

There are many occasions however, when you simply do not hear back at all from a vendor. What do you do then? There is one more example of the proper way to send an e-mail.

This is one that is sent to many people. There is a thoughtful way to include others that will be the recipient of such mail. We all have had times that we find something useful to send or we find that there are stories that are uplifting that we want to share. How do we send a story like that to many people where safety and courtesy are concerns? Certainly, one way is to address your e-mail to each recipient. There is nothing wrong with this. Each person receives it and each person feels special, because you addressed your e-mail to him/her alone.

Suppose however, you would like to send the same e-mail to all of your readers at one time. Most of all e-mail recipients are known to have what is called Carbon Copy (CC) and Blind Carbon Copy (BCC). Here we want to be careful that only one person at a time will see your mail without seeing the address of every person you are sending it to. If we use CC, every person's address is listed for each e-mail recipient to see, but if we use BCC, only the address of a person in the 'To:' box is seen.

This is important, because spammers love to see a whole slew of e-mail addresses that they can send spam to.

Your friends will have good intentions, but those you may only know from a list may not. Hackers now have the addresses of everyone who will be receiving your e-mail. This is neither appropriate nor safe. Instead, choose to send a group or list of people the same message using BCC, which is the kindest and least obvious way to send mail short of encryption.

Also, remember that all e-mail sent through normal channels can be intercepted. Therefore, only write what you want the world to see.

Email Etiquette

While a lot of people understand the importance of following certain rules when writing a business letter, they often forget these rules when composing an email message. Here's a refresher.

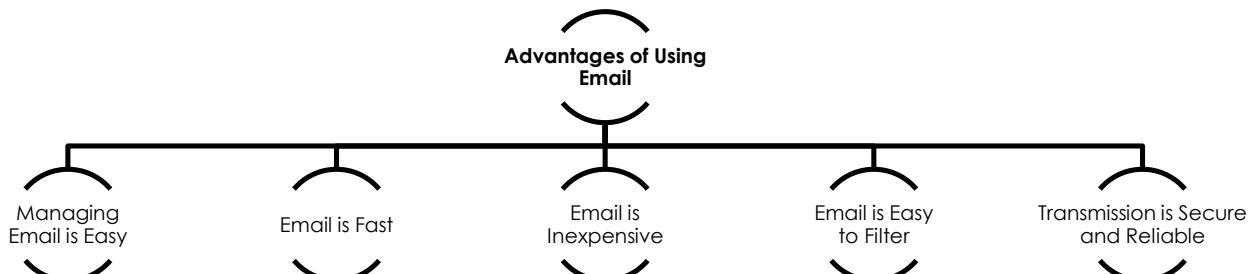
- **Mind Your Manners** : Think of the basic rules you learned growing up, like saying please and thank you.
- **Address people** you don't know as Mr., Mrs., or Dr. address someone by first name only if they imply it's okay with them to do so.
- **Watch Your Tone** : Merriam-Webster defines tone as an "accent or inflection expressive of a mood or emotion." It is very difficult to express tone in writing, but make sure that you should come across as respectful, friendly, and approachable. You should not sound curt or demanding.
- **Be Concise** : Get to the point of your email as quickly as possible, but don't leave out important details that will help your recipient answer your query.
- **Be Professional** : This means, stay away from abbreviations and don't use emoticons (those little smiley faces). Don't use a suggestive email address for business communications.
- **Use Correct Spelling and Proper Grammar** : Use a dictionary or a spell checker whichever works better for you. While you can write in a conversational tone (contractions are okay), pay attention to the basic rules of grammar.
- **Wait to Fill in the "TO" Email Address:** Career Planning Site visitor Larry Batchelor says, "I never fill in the 'TO' email address until I am completely through proofing my email and I am sure that it is exactly the way that I want it. This will keep you from accidentally sending an email prematurely. In the past, I have accidentally clicked on the send icon, when I really meant to click on the attachment icon."

Advantages and Disadvantages of Email

Email has changed the way we do business. Sure, people complain about the amount of Email they receive. But when all is said and done, use of Email has made a positive impact on business and has an edge over other methods of communication.

Here are five advantages of using Email:

- (i) **Managing Email is Easy** : You can manage all your correspondence on screen and so can your customers. Your proposal can be answered, revised, stored, and sent to others, all without reams of paper involved.



- (ii) **Email is Fast** : Mail is delivered instantly from your office to anywhere in the world. No other

method of delivery can provide this service. Timely buying and selling decisions can be made in one heartbeat.

- (iii) *Email is Inexpensive* : Compared to telephone calls, faxes, or overnight courier service, Email is less expensive.
- (iv) *Email is Easy to Filter* : The subject line on an Email makes it easy to prioritize messages. The reader can identify critical correspondence quickly and deal with it immediately. Unlike regular mail which needs to be opened and reviewed, or voice mail which requires you to either listen to or scan all your messages for those that require immediate attention.
- (iv) *Transmission is Secure and Reliable* : The level of security in transmitting Email messages is very high, and the industry continues to strive to develop even tighter security levels. Email is private. Often telephone and fax messages are not. If the address information is correct, rarely does an Email go astray. Fax machines can be out of order or out of paper and this prevents an important message from being delivered in a timely manner.

Email has been credited for increased efficiency, business readiness, and a host of other advantages tied to increased productivity.

However, there are some disadvantages.

- (i) *Time Consuming* : Writing an email takes less time than it takes to print a letter and mail it off the ease with which an e-mail is sent implies that an average person may do more correspondence electronically than he would if all correspondence was done by postal mail. Sometimes the message is better communicated over the telephone or directly. Organizing and reading through emails can also eat up a great deal of time and prove an obstacle in the way of a worker's productivity.
- (ii) *Security* : Sensitive information can be easily shared and distributed within a business through email. It does not matter if the email is sent accidentally or deliberately, the damage remains the same. Moreover, when someone hands you a business letter, you are the only person who receives that letter. An e-mail can be intercepted by a hacker or go on an incorrect email address and wind up in someone else's inbox. Your sensitive information and messages are easily accessible to hackers and to even unsuspecting recipients.
- (iii) *Impersonal Communication* : While email can be faster, the meaning of the message is often lost in the text. It can make customers or employees forget there are people involved in the transaction, which can affect customer service. Since email recipients cannot see one another, the emails do not have any voice inflection or emotion that can help in proper interpretation.
- (iv) *Misunderstanding* : Pronouns and popular jargon can lead to conflicts in emails. In addition, email is filled with abbreviations and short descriptions, which can often be misunderstood and/or interpreted the wrong way.

Disadvantages of using Email

- Time Consuming
- Security
- Impersonal Communication
- Misunderstanding
- Vulnerability
- Internet Connectivity

- (v) **Vulnerability** : It would take a manual effort on the part of someone to access all his important printed documents and destroy them. But all of your emails and important information can be lost with a simple hard-drive crash. Even if you store your email information on another server, you could lose your data if that site goes down or gets out of business.
- (vi) Whether an organisation depends on internet connectivity: E-mail depends on the internet connectivity which can get disturbed or disconnected due to various reasons.
 - Email cannot be considered a confidential mode of communication.
 - Email should not be considered as a replacement for direct, face-to-face communication.
 - Email cannot be relied in case of emergency messages as the receiver may read it at his own convenient time.
 - Email depends on the internet connectivity which can get disturbed or disconnected due to various reasons.

Intranet

The word 'intra' means within or internal. It is like the internet, except that it contains information specific to a particular organization. External people, who are not on the network cannot access the intranet.

The intranet is the most effective of all types of electronic communication.

A company intranet helps to keep employees atleast with various happenings within the company, and it can be used to communicate within the company by posting various newsletters, articles, and company training documents.

The intranet implies that only the company employees who are set up on the server can access the company pages. It is different from the Internet which is open to everyone who has an Internet connection.

Most companies use their intranet in place of paper and emails because it gives information to everyone within the company, regardless of their location. Thus, all employees in an organisation get to know about the carried happenings.

Intranet for companies are very secure in the sense that no one outside the company can access it once the security is set in place.

The benefits of an intranet are that it allows a central communication area for the entire company. Many people work in remote locations; therefore, it helps them in having a sense of connectedness with the company as a whole, regardless of the place someone is located in.

Intranet have been quite effective in keeping communication open to all employees, but at the same time, it is essential that they log into the intranet several times each day. Many companies make the intranet the default start-up page from any browser within the company, which makes it easier for employees to remember to log in for important information.



Benefits of Intranet

An intranet is a great tool that may be used in order to get messages across to the staff members. There are many creative ways in which one could use the intranet to one's advantage within the company. One can promote the workplace issues on just about any topic on an intranet.

- *Workforce Productivity* : Intranets can help users to locate and view information faster and use applications relevant to their roles and responsibilities.
- *Time* : Intranets allow organizations to distribute information to employees on an as-needed basis. Employees may link to relevant information at their convenience, rather than being distracted indiscriminately by electronic mail.
- *Communication* : Intranets can serve as a powerful tool of communication within an organization, vertically as well as horizontally. From the communication standpoint, intranets are useful to communicate strategic initiatives that have a global reach throughout the organization. By providing this information on the intranet, staff has the opportunity to keep up-to-date with the strategic focus of the organization. Some examples of communication are chat, email, and blogs.
- *Web Publishing* : It allows cumbersome corporate knowledge to be maintained and easily accessed throughout the company using hypermedia and Web technologies. Examples include: employee manuals, benefits documents, company policies, business standards, news feeds, and even training can be accessed using common Internet standards (Acrobat files, Flash files, CGI applications). Because each business unit can update the online copy of a document, the most recent version usually becomes available to the employees using the intranet.

- *Business Operations and Management* : Intranets are also being used as a platform for developing and deploying applications to support business operations and decisions across the internetworked enterprise.
- *Cost-effective* : Users can view information and data via a web-browser rather than maintaining physical documents, such as procedure manuals, internal phone list and requisition forms. This can potentially save the business money on printing, duplicating documents, and the environment as well as document maintenance overhead. For example, people using internet services “derived significant cost savings by shifting HR processes to the intranet”.
- *Enhance Collaboration* : Information is easily accessible by all authorized users, which enables teamwork.
- *Promote Common Corporate Culture* : Every user has the ability to view the same information within the Intranet.
- *Immediate Updates* : When dealing with the public in any capacity, laws, specifications, and parameters can change. Intranets make it possible to provide your audience with “live” changes so they are kept upto-date, which can limit a company's liability.
- *Supports a Distributed Computing Architecture* : The intranet can also be linked to a company's management information system, for example, a timekeeping system.

Purpose of Intranet

The purpose of the intranet is for internal communication. Increasingly, intranets are being used to deliver tools and applications, e.g., collaboration (to facilitate working in groups and teleconferencing) or sophisticated corporate directories, sales and customer relationship management tools, project management, etc., to advance productivity.

Intranets are also being used as corporate culture-change platforms. For example, large numbers of employees discussing key issues in an intranet forum application could lead to new ideas in management, productivity, quality, and other corporate issues.

When part of an intranet is made accessible to customers and others outside the business that becomes part of an extranet. Businesses can send private messages through the public network, using special encryption/ decryption and other security safeguards to connect one part of their intranet to another.

Intranet user-experience, editorial, and technology teams work together to produce in-house sites. Most commonly, intranets are managed by the communications, HR departments of large organizations, or some collaboration among these.

Web communication is here to stay and will only grow in use and importance.

Difference between Internet and Intranet

S. No.	<i>Internet</i>	<i>Intranet</i>
1	Internet is used to connect different	Intranet is owned by private firms. network of computers simultaneously.
2	In internet, there are multiple users.	In intranet, there are limited users.

S. No.	<i>Internet</i>	<i>Intranet</i>
3	Internet may be unsafe.	Intranet is safe.
4	In internet, there are more number of visitors.	In intranet, there are less number of visitors.
5	Internet is a public network.	Intranet is a private network.
6	Anyone can access Internet.	Anyone can't access the Intranet.
7	Internet provides unlimited information.	Intranet provides limited information.

Extranet

An extranet is a private network that uses Internet technology and the public telecommunication system to securely share part of a business's information or operations with suppliers, vendors, partners, customers, or other businesses. An extranet can be viewed as part of a company's intranet that is extended to users outside the company. It has also been described as a "state of mind" in which the Internet is perceived as a way to do business with other companies as well as to sell products to customers.

Companies can use an extranet to:

- (i) Exchange large volumes of data using Electronic Data Interchange (EDI).
- (ii) Share product catalogues exclusively with wholesalers or those "in the trade"
- (iii) Team up with other companies on joint development efforts
- (iv) Jointly develop and use training programs with other companies
- (v) Provide or access services provided by one company to a group of other companies, such as an online banking application managed by one company on behalf of affiliated banks
- (vi) Share news of common interest exclusively with partner companies.

Difference between Intranet and Extranet

S.No.	<i>Intranet</i>	<i>Extranet</i>
1	Intranet is a tool for sharing information throughout the organization.	Whereas Extranet is a tool for sharing information between the internal members and external members.
2	Intranet is owned by a single organization.	While Extranet is owned by either a single or a many organization.
3	In intranet, security is implemented through a firewall.	Whereas in this, security is implemented through a firewall in order to separate the extranet and the internet.

S.No.	<i>Intranet</i>	<i>Extranet</i>
4	Intranet is managed by an organization.	Whereas Extranet is managed by many organizations.
5	Intranet has a limited number of connected devices.	Whereas in the extranet, connected devices are comparable with the intranet.
6	Intranet is a private network type for an organization.	While it is also a private network in which public network is used in order to share the information to the suppliers and customers.
7	Intranet is used in order to get employee information, telephone directory etc.	While it is used to check status, access data, send mail, place order etc.
8	Intranet is the limited and compromised version of Extranet.	While Extranet is the limited and compromised version of Internet.
9	A particular organization is the regulating authority for intranet.	While it is regulated by multiple organizations.
10	It is accessible to only the members of organization.	It is accessible to members of organization as well as external members with logins.
11	It's restricted area is upto an organization.	It's restricted area is upto an organization and some of its stakeholders.
12	It is derived from Internet.	It is derived from Intranet.

LESSON 4

COMMON BUSINESS TERMINOLOGIES

The topic of 'Business Terminology' is the main vehicle by which facts, opinions and other 'higher' units of knowledge are represented and conveyed. Sound terminology work is meant for reducing ambiguity and increasing clarity. Terminology can thus be a safety factor, a quality factor and a productivity factor in its own right. In other words, the quality of specialist communication depends to a large extent on the quality of the terminology employed. Moreover, it is not possible to look up a word in a dictionary all the time. Thus, voluntarily or involuntarily we memorize the words of daily use. Making these terms a part of our daily conversation can surely help us to instil these terms in the memory. Hence we need a glossary of business terms providing us with definitions of the common words used in all aspects of the business. This business glossary serves as a ready guide for business proprietors, managers, students and general readers. Various spheres and topics have been covered ranging from accounting, banking, taxation, advertising, business law, communications, economics, finance, insurance, international business, management, marketing, real estate and various other areas of business. Therefore, we need to know their origins and meanings. Firstly let us have a glance at the most 'basic' and the most 'advanced' terms of 21st century just for curiosity, motivation and involvement:

Ten Basic but Most Important Terms / Words in Business English

- **Management** : those in charge of running a business
- **Business** : the activity of providing goods and services involving financial and commercial and industrial aspects
- **Marketing** : the commercial processes involved in promoting and selling and distributing a product or service
- **Profit** : the amount of money left over after expenses are taken out
- **Telecommuting** : involves working at home usually on a computer
- **Downsizing** : a planned reduction in the number of employees needed in a firm in order to reduce costs and make the business more efficient
- **Outsourcing** : contracting out selected functions or activities of an organization to other organizations that can do the work more cost efficiently
- **R & D or Research and Development** : Business or government activity that is purposely designed to stimulate invention and innovation
- **Headquarters** : (usually plural) the office that serves as the administrative center of an enterprise
- **Market** : the world of commercial activity where goods and services are bought and sold

Other Terminologies

ACCEPTANCE (BILL OF EXCHANGE)	Assent given by a party to a bill of exchange by signing across the face of it. Acceptance may be done online by clicking on the Accept button.
ACKNOWLEDGMENT	The signature of a clerk or attorney certifying that the person signing the document has signed by his or her free act and for the purposes set forth therein.

ACQUISITION COSTS	Acquisition costs are the incremental costs involved in obtaining a new customer.
ACT OF GOD	A term usually used in insurance to denote risks and dangers arising out of natural causes that are beyond human control.
ACTION	Also called a case or lawsuit. A civil judicial proceeding where one party sues another for a wrong done, or to protect a right or to prevent a wrong.
ADB	Asian Development Bank
ADJOURNMENT	Postponement of a court session until another time or place.
ADJUDICATION	A decision or sentence imposed by a judge
AFFIDAVIT	A written statement signed in the presence of a judicial officer, a Notary Public or an Oath Commissioner that is admissible as evidence in a court of law.
AFFIRMATION	Declaring something to be true under the penalty of perjury by a person who will not take an oath for religious or other reasons.
AGENDA	A program listing items of business to be transacted in a meeting.
AGENT	A person appointed to act generally or for a special business purpose on behalf of the Principal usually on payment of a commission.
ALLEGATION	Saying that something is true. The assertion, declaration or statement of a party in a case, made in a pleading.
ALLOTMENT	Issue of shares or debentures to an applicant after payment of notified price.
AMALGAMATION	The coming together of two or more previously autonomous businesses into a single undertaking.
AMERICAN DEPOSITORY RECEIPTS (ADR)	A receipt showing evidence that shares of a foreign corporation are held on deposit or under control of an U.S banking institution. Used to facilitate transactions and expedite transfer of beneficial ownership for a foreign security in the United States.
AMORTISATION	The extinction or gradual writing off of liability or debt over a period of time, loosely speaking, through depreciation of wasting assets through operation of a sinking or purchase fund.
ANNUAL RETURN	A statutory document filed by every company annually with the Registrar of Companies, stating the particulars such as status, names of directors, shareholders, indebtedness etc. of the company.
ANNUITY	A fixed sum of money payable for the whole or a part of a person's life under the terms of an insurance policy or a Will.

APPEAL	Appeal is a process by which the correctness of the decision of a lower court or tribunal is questioned in a higher court.
APPEARANCE	The official court form filed with the court clerk which tells the court that you are representing yourself in a lawsuit or criminal case or that an attorney is representing you. All court notices and calendars will be mailed to the address listed on the form. When a defendant in a civil case files an appearance, the person is submitting to the court's jurisdiction.
APPELLANT	The party appealing a decision or judgment to a higher court.
ARBITRAGE	The business of taking advantage of difference in price of a security traded on two or more stock exchanges, by buying in one and selling in other or vice versa.
ARBITRATION	A quasi-judicial arrangement whereby a dispute between parties is resolved by referring it by mutual consent to arbitrators whose decision is binding.
ARREST	When a person is taken into custody by a police officer and charged with a crime.
ASSET	Anything to which money value can be attached, owned by a business or individual. It may be financial such as cash; physical, such as land/ building; tangible, such as patent, trademark; or intangible, such as goodwill.
ASSET TURNOVER	Asset turnover is sales divided by total assets. Important for comparison over time and to other companies of the same industry. This is a standard business ratio.
ASSETS	Assets include everything that a company owns and has some economic value.
ASSIGNMENT	A transfer of right, title or interest in a property from one person to another. For an assignment to have legal effect it must be absolute, in writing and be communicated to the one owing the right.
ASSOCHAM	Associated Chamber of Commerce & Industry - one of the bodies representing the Indian industry.
ASSURANCE	The term originally denoted a form of protection against events, which must happen i.e. death. Insurance was used for cover against loss linked with contingencies such as fire or lightening.
ATTACHMENT	A lien on property or assets to hold it to pay or satisfy any final judgment.
ATTESTATION	Attestation is authentication of a signature by an authorized person, who could be an oaths commissioner or a notary public.
ATTORNEY	A person legally appointed or empowered to act on behalf of another during the latter's lifetime for a specific or general purpose.

ATTORNEY OF RECORD	Attorney whose name appears in the permanent records or files of a case.
AUCTION	A public sale conducted by the auctioneer in which the goods are given away to the highest bidder at the fall of a hammer.
AUDIT	An examination of accounts and their underlying records in order to be able to express an opinion on their honesty and trueness, with a report on them by the internal staff or a firm of auditors.
BAD DEBT	An open account balance or loan that is proved to be impossible to be collected.
BAIL	Also called Bond. Money or property given to the court for the temporary release of a defendant, to ensure that the defendant will return to court.
BALANCE SHEET	The financial statement generally prepared at the end of a period usually the financial year showing the assets, liabilities and net worth of an organisation.
BANK ACCOUNT	A bank account allows the account holder to deposit, safeguard his money, earn interest, and make cheque payments.
BANK RATE	The maximum lending/borrowing rate determined by the Reserve Bank of India from time to time taking into account the state of economy.
BANK STATEMENT	A statement issued in loose-leaf or Passbook form by the bank showing credit-debit entries and the balance in an account during a given period.
BANKRUPTCY	A legal condition where a person or a business in which liabilities exceed the assets and the debtor is unable to repay amounts owed.
BOOK VALUE	The value of an asset as appearing in the Books of Accounts, after the accounting processes to which it has been subject and is not necessarily the market value of the said asset.
BOOKKEEPING	A method of accounting that involves the timely recording of all financial transactions for the business.
BOUNCED CHEQUE	A bounced cheque is a normal cheque which a bank refuses to pay. The reasons for refusing it include insufficient funds, signature mismatch, or some other valid reason.
BREAK-EVEN POINT	Break-even point is output of the standard break-even analysis. The unit sales volumes or actual sales amounts that a company needs to equal its running expense rate and not lose or make money in a given month.
BUY-SELL AGREEMENT	A buy-sell agreement is an agreement designed to address situations in which one or more of the entrepreneurs wants to sell their interest in the venture.
CALL	A demand made by a limited company to the holders of partly paid-up shares to pay a further instalment towards the nominal value of their shares.

CAPITAL	The amount of money, invested in a business; available for working; manifest in tangible goods like building and machinery or in the form of circulating assets. The term has several specific uses. Money spent on improvement of fixed assets and not chargeable against profits is known as Capital Expenditure.
CAPITAL EXPENDITURE	Spending on capital assets (also called plant and equipment, or fixed assets, or long-term assets). Capital assets are long-term assets, also known as fixed assets.
CASE	A lawsuit or action in a court.
CASE LAWS	Judgments by courts usually of higher courts, in leading cases, which are treated as authorities and quoted and relied on in similar cases by the lower or same level courts.
CASH DISCOUNT	A discount offered in addition to normal trade discounts when payment is made in cash before the expiry of the period of credit.
CASH FLOW STATEMENT	The cash flow statement is one of the three main financial statements (along with income statement and balance sheet), the cash flow statement shows actual cash inflows and outflows of the business over a specified period of time. The cash flow statement reconciles the income statement (profit and loss) with the balance sheet.
CAUSE LIST	Cause list is issued by the Registry of the matters to be heard by the court on any day. Cause list contains information like bench, courtroom number and the position of the matter.
CAVEAT EMPTOR	A legal doctrine literally meaning 'let the buyer beware' of what he is buying and satisfy himself about the quality and condition of what he is buying.
CHEQUE	A negotiable instrument drawn on a bank where the drawer has an account ordering the bank to pay the stated sum to a person or to the order of another person. When the cheque is bearer, payment is made on presentation. Order cheques require endorsement while crossed ones are paid into an account. Blank cheque is for an unspecified amount while a stale cheque is more than six months old and no longer valid.
COLLATERAL	A security generally in the form of fixed assets and offered in addition to those already furnished.
COMMISSION	(i) A payment in percentage terms made to an agent or a broker for goods sold or services performed. When responsibility for payments is also accepted, an extra del credere is payable. (ii) The charge based on the percentage of funds invested which is paid by an investor to a broker or a financial advisor.

COMMON LAW	Laws that develop through case decisions by judges. Not enacted by legislative bodies.
COMPLAINT	A legal document that tells the court what you want, and is served with a summons on the defendant to begin the case.
CONDITION	A stipulation that is binding on signatories of a legal contract and the breach of which entitles the aggrieved party to rescind the contract.
CONSIGNMENT	Transferring the title of goods, the details of which are given in the Proforma Invoice, to an agent for sale. The proceeds and account of sale are furnished to the consignee periodically.
CONSORTIUM	An association of companies formed for the purpose of undertaking a particular activity. There may be no other connection between the companies outside the scope of activities. It is usually to share the limited resources and risks associated with the activity undertaken.
CONTEMPT OF COURT	A finding that someone disobeyed a court order. Can also mean disrupting court, for example, by being loud or disrespectful in court.
CONTRACT	An agreement between parties in order to create legal obligations under a seal or for a consideration and enforceable by law.
CONVICTION	To be found guilty of committing a crime
COSTS	Expenses in prosecuting or defending a case in court. Usually does not include attorney's fees.
COVER NOTE	A document issued by an insurance company to provide cover to the insured till a formal policy document is issued.
CREDIT	Literally "trust or belief". In commerce, it means giving goods the payment for which is to be made at a subsequent date.
CREDIT NOTE	A document sent by a seller to a buyer to rectify an error of overcharge in an invoice or to allow credit for goods returned. It is entered in the books of account.
CRISIL	Credit Rating and Information Services of India Limited.
CRISIS	Reckless heavy short sales leading unduly to depressed prices. In such a situation the Governing Board of the Stock Exchange may prohibit short sales, fix minimum prices below which sales or purchases are not permitted and also take any other suitable corrective action.
CROSS-EXAMINATION	Questioning by a party or the attorney of an adverse party or a witness.
CRR	Cash Reserve Ratio notified by the Reserve Bank of India from time to time. It indicates the reserves of commercial banks set apart as a measure of security.

CURRENT ASSETS	Current assets are the same as short-term assets.
CURRENT DEBT	Current debt refers to short-term debt and short-term liabilities.
CURRENT LIABILITIES	Current liabilities refers to short-term debt and short-term liabilities.
DAMAGES	Compensation awarded by a court of law for breach of contract in a civil litigation.
DAY ORDER	An order which remains valid for the day it is entered, unless matched, it is automatically cancelled at the end of the trading.
DEBENTURES	An instrument/security through which a company may borrow funds from public or public financial institutions, on which interest usually is payable on specific dates and principal amount repayable on a particular date on redemption of the same.
DEBIT NOTE	A note sent by seller to buyer to rectify an undercharge in the original invoice. It is in the nature of a supplementary invoice.
DEBT AND EQUITY	Debt and equity is the sum of liabilities and capital. This should always be equal to total assets.
DEBT FINANCING	When you borrow money from a lender and agree to repay the principal with interest in regular payments for a specified period of time, you're using debt financing. Traditionally, it has been the most common form of funding for small businesses. Debt financing can include borrowing from banks, business credit cards, lines of credit, personal loans, merchant cash advances, and invoice financing. This method creates a debt that must be repaid but lets you maintain sole control of your business.
DECLARATION	An unsworn statement of facts made by a party to the transaction, or by one who has an interest in the facts recounted.
DEED	A legal document in writing, signed, sealed and delivered by the person making the deed.
DEFAULT	To fail to respond or answer to the plaintiff 's claims by filing the required court document; usually an Appearance or an Answer.
DEFENDANT	In civil cases, the person who is given court papers, also called a respondent. In criminal cases, the person who is arrested and charged with a crime.
DEMATERIALISATION	Conversion of debentures from electronic form, securities paper or such as physical shares/ form to
DEPOSITORY	The system of organisation which works through registered members called depository participants, to maintain a record of securities in electronic or dematerialised form. Transactions in such shares are recorded immediately by the depository participants in the accounts of shareholders who hold the shares in dematerialised form.

DEPRECIATION	The fall in the value of a fixed or movable asset due to wear and tear or passage of time. Such amounts may be written off or provide a replacement through another fund.
DERIVATIVE MARKETS	Markets such as futures and option markets that are developed to satisfy specific needs arising in traditional markets. These markets provide the same basic functions as forward markets, but trading usually takes place on standardised contracts.
DIFFERENTIATION	Differentiation is an approach to create a competitive advantage based on obtaining a significant value difference that customers will appreciate and be willing to pay for, and which ideally will increase their loyalty as a result.
DISBURSEMENT	A legitimate payment of money out of some fund.
DISCOUNT	A reduction from a stated amount.
DISCOUNTED BILL	A Bill of Exchange encashed for a charge by the banker before the date on which it becomes payable.
DISMISSAL	A judge's decision to end the case.
DISPOSE	Ending a legal case or a judicial proceeding.
DISPOSITION	The manner in which a case is settled or resolved.
DISSOLUTION	The legal end of a marriage, also called a divorce.
DIVIDEND	A return on investment on securities such as shares dependent on the profitability of the company. It is distributed through dividend warrants similar to cheques. Alternatively it may be credited to the bank account or Demat account of the shareholder.
DOCUMENTS OF TITLE	Documents which provide conclusive evidence of ownership of some asset. Usually denotes non-negotiable documents such as Bills of Lading or Delivery Challans showing the transfer of title to the transferee for a specific period or purpose say transportation. In international trade, usually attached with bills of exchange.
DOMICILE	The permanent home of a person. A person may have several residences, but only one domicile.
DRAFT	A document requiring one party, usually a bank, to make payment to another from funds which are held by the former.
DUMPING	Selling goods in a market usually overseas, at a price well below cost, usually with an intention to ruin the indigenous market/competition.
EARNEST MONEY	A refundable security in the form of demand draft or bank guarantees to keep off non-serious applicants usually for tenders. It is also given by a buyer to the seller to bind the bargain and may be adjusted later with the cost of the purchase.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)	EBIT refers to earnings before interest and taxes.
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AND AMORTIZATION (EBITDA)	Earnings before interest, taxes, depreciation and amortization (or EBITDA) is equal to the gross margin (the difference between total sales revenue and total direct cost of sales) minus total operating expenses (tax-deductible expenses incurred in conducting normal business operations, such as wages and salaries, rent, and so on), plus any depreciation (The loss of value of assets over time) and amortization. This is similar to earnings before interest and taxes (EBIT). The difference between the two is that EBIT subtracts all expenses, including depreciation, as an expense, and EBITDA subtracts all expenses except depreciation and amortization.
ECONOMIES OF SCALE	Economies of scale refers to the benefit that larger production volumes allow fixed costs to be spread over more units lowering the average unit costs and offering a competitive price and margin advantage.
ED	Enforcement Directorate, that looks into violations involving foreign exchange.
ENCUMBRANCE	Some liability which is attached to a property and thereby, imposes a burden on the owner.
ENDORSEMENT	A writing on the back of a bill of exchange i.e. an Order cheque authorising the bank to pay to the bearer or a specified person or prohibit further endorsements. The effect of endorsement is to vary the terms of the document.
ENTREPRENEUR	An entrepreneur is someone who starts a new business venture; someone who recognizes and pursues opportunities others may not see as clearly, and finds the resources necessary to accomplish his or her goals.
EPS	Earnings per share. A company's net profit attributable to equity/ordinary shareholders divided by the number of such shares that have been issued and paid-up.
ESCROW	A legal document kept in the custody of a third party, taking effect or made available only when some conditions are satisfied or some period of time has elapsed.
ESOP	Employee Stock Option Scheme.
ESTIMATE	A forecast of the total cost of a particular work given before the work is actually undertaken by the person who may be called upon to undertake it.
EVIDENCE	Testimony, documents or objects presented at a trial to prove a fact.

EX GRATIA	Some action, normally the payment of money, taken where there is no legal necessity to do so but where some moral obligation is recognised.
EX PARTE	Done for, or at the request of, one side in a case only, without prior notice to the other side.
EXCHEQUER	The treasury of the Government.
EX-DOCK/SHIP/ WAREHOUSE	The prices, which exclude all expenses after the goods have been delivered on the docks, the side of the ship or at the designated warehouse.
EXECUTOR	A person named in the Will of the deceased testator to administer/carry out its provisions/ directions.
EXPECTED RETURN	The return an investor might expect on an investment if the same investment were made many times over an extended period. The return is found through the use of mathematical analysis.
EXTRINSIC VALUE	The amount by which the market price of an option exceeds the amount that could be realised if the option were exercised and the underlying commodity liquidated. Also known as time value.
FACE VALUE	A value evident from an examination of the object itself. Usually means the amount printed on the face of a security as opposed to its market value. Also known as nominal value, which may be higher or lower than the market value.
FACTOR	A mercantile agent who deals in his own name but enjoys the right to hold and dispose off goods on behalf of the principal at pre-negotiated terms.
FEMA	The Foreign Exchange Management Act, which replaced and is considered more liberal than FERA, the Foreign Exchange Regulation Act.
FICCI	Federation of Indian Chamber of Commerce & Industry, is also a representative body of Indian industry.
FIDUCIARY	Imposing the obligations of a trust. A fiduciary relationship imposes a legal as well as moral relationship.
FINANCIAL STATEMENTS	An integral part of the loan application process is furnishing information that shows your business is a good credit risk. The standard financial statement packet includes four main reports: the income statement, the balance sheet, the statement of cash flow, and the statement of shareholders' equity, if you have shareholders. Lenders and investors want to see that your business is well-balanced with assets and liabilities, has positive cash flow, and will have capital to make expected repayments.
FINDING	The court's or jury's decision on issues of fact.

FIPB	Foreign Investment Promotion Board, which clears proposals involving foreign direct investment (FDI) into India.
FIRM	A collective name given to partners in a business.
FIRM OFFER	A commitment to sell at a certain price subject to acceptance of offer within a specified time.
FISCAL	Relating to the raising and use of money by the Government.
FIXED ASSETS	Also known as long-term assets or non-current assets, these are things that are of a fixed nature because they cannot be easily converted into cash and often require complex procedures and a significant amount of time before you can have their cash value in hand. For instance, fixed assets would encompass things like land, real estate, machinery and equipment, and furniture.
FIXED INTEREST RATE	The interest rate on a loan that is established in the beginning and does not change for the lifetime of the loan is said to be fixed. Loans with fixed interest rates are appealing to small business owners because the repayment amounts are consistent and easier to budget for in the future.
FLOATING INTEREST RATE	In contrast to the business finance term and definition fixed rate, the floating interest rate will change with market fluctuations. Also referred to as variable rates or adjustable rates, these amounts may often start out lower than the fixed rate percentages. This makes them more appealing in the short term if the market is trending down.
FOREIGN EXCHANGE	A term denoting currency of another country. When held by the State, it constitutes the forex reserves. The rates of different currencies are settled either by market forces or by the State, which may link its own currency with a single or basket of external currencies.
FOREIGN EXCHANGE RATE	The price of one currency in terms of the other.
FORWARD CONTRACT	A contract where a party agrees to deliver at a specified future time a certain amount of specified securities at an agreed rate.
FORWARD DELIVERY	A term implying that goods transacted will be delivered at a future date on agreed terms.
FORWARD TRADING	It means deferment of contracts traded at present to some future date at current prices.
FREIGHT	A consideration paid for the carriage of goods. An account of freight payable is called Freight Note.
FUTURES	The purchase of commodities or currencies or financial instruments for delivery at some future time. It protects the buyer against a possible rise in prices. Trading in futures may carry an element of speculation and is also done as a hedging exercise.

GAAP	Generally Accepted Accounting Principles.
GDP	Gross Domestic Product - The total value of all the goods and services produced by a country for use within its own borders during a particular period.
GDR	Global Depository Receipts.
GOODWILL	An intangible saleable asset, such as reputation or location of a business, which makes the business worth more than its book value.
GRIEVANCE	A complaint filed against an attorney or judge, claiming an ethics violation.
GROSS PROFIT	This business finance term and definition can be calculated as total sales (income) less the costs (expenses) directly related to those sales. Raw materials, manufacturing expenses, labor costs, marketing, and transportation of goods are all included in expenses.
GUARANTEE	An undertaking by a person in writing to be answerable for the deeds of another. The liability of guarantor or surety is secondary and is invoked only when the original party defaults.
GUARANTOR	A guarantor creates a trust which takes the responsibility of repayment of a loan. Usually, a guarantor is not liable for the repayment of the loan. However, in some cases, the liability and responsibility of repaying the loan lie with the guarantor.
GUARDIAN	A person who has the power and duty to take care of another person and/or to manage the property and rights of another person who is considered incapable of taking care of his or her personal affairs.
HABEAS CORPUS	A court order used to bring a person physically before a court in order to test the legality of the person's detention. Usually, it is directed to the official or person detaining another, commanding him to bring the person to court for the judge to determine if that person has been denied liberty without due process of law.
HEDGE	Reducing risk by taking a position which offsets an existing or anticipated exposure in financial operations.
HIRE-PURCHASE	An agreement to hire goods for use with an option to transfer the title after payment of the instalments agreed upon.
HOLDING COMPANY	A company which controls the activities of one or more companies which are known as subsidiary companies.
HYPOTHECATION	The act of pledging or mortgaging movable or immovable assets.
IAS	International Accounting Standards.
IMF	International Monetary Fund.

INCOME STATEMENT	The income statement is where you analyze your company's profits and losses. As such, it should come as no surprise that the income statement is also commonly referred to as the "profit and loss statement." This document summarizes the profits and losses incurred during a specified period, which is usually a fiscal quarter or a full calendar year. As such, it provides important information about your company's ability to generate profit by increasing its revenue, decreasing its losses, or a combination of both.
INCOME TAX	A direct and graded tax imposed by the government upon income. The tax on income of corporate and other business enterprises may be higher than that of individuals.
INDEMNITY	A contractual obligation to compensate some other person in the event that a loss is suffered by them for a specified cause.
INDENT	An order sent to the agent to buy goods. It may mention specific goods or source from which to procure. Alternatively it may be left to the agent.
INDENTURE	It is deed signed between two or more parties as opposed to one made by a single party.
INFLATION	An increase in money supply without a corresponding increase in production. This leads to an increase in prices.
INJUNCTION	It is an order of the court directing a person to act or refrain from acting in a certain manner. Injunctions are often issued to prevent people from harming others.
INSIDER TRADING	Trading in a company's shares by a person connected with and having access to its sensitive, unpublished and confidential information.
INSOLVENCY	A state where the total assets of an entity are insufficient in value to meet its total liabilities. It may lead to bankruptcy with the pronouncement by a court.
INSTRUMENT	A formal, legal document.
INSURANCE	It is an arrangement under which the insurer agrees to compensate the insured in the event of a loss on payment of a premium. A proposal form has to be submitted. The premium depends on the extent of cover and the risk perception of the insurer. In the event of default in payment of premium, the contract becomes null and void unless revived.
INTANGIBLE ASSET	An asset which has no physical or documentary form.
INTELLECTUAL PROPERTY	A valuable intangible asset created by the exercise of human intelligence and imagination.

INTEREST	It is a payment made for the use of borrowed funds. It may be either simple or compound. It may be calculated on the basis of a flat rate on the total principal or on the reducing balance of the principal, as per the loan agreement.
INTEREST RATE	All loans and other lending instruments are assigned the business finance key term interest rates. This is a percentage of the principal amount charged by the lender for the use of its money. Interest rates represent the current cost of borrowing.
INTERNET BANKING	Most banks allow account holders to access their accounts using the internet. You can also perform certain transactions using this system. This is internet banking or online banking or e-banking.
INVENTORY	It is a list of items in stock at a given point of time.
INVOICE	It is document sent by a seller to the purchaser giving descriptions of goods, their quantity/ number, prices and total amount payable.
IRDA	Insurance Regulatory and Development Authority.
JUDGMENT	The decision/ruling of a court of law in a civil or criminal litigation.
JUMBO CERTIFICATE	A document issued by consolidating or aggregating a large number of market lots into a single composite share certificate.
JURY	It is a body of persons appointed to hear evidence and give their verdict in a criminal trial.
KIND	The basis of payment made in the form of goods or services rather than money.
LABOUR INTENSIVE	The characteristic of production methods which require large application of labour and uses relatively little capital.
LANDING ORDER	It is an order to facilitate the delivery of a ship's cargo issued after the completion of formalities. The loading or the discharge of cargo has to be completed within the lay days failing which a demurrage has to be paid.
LAUNDERING	The process of passing funds through a number of transactions with the intention to conceal their origin.
LEASE	The right to use a property for a specified term in lieu of lease-money or rent paid periodically. The lessor has to execute a deed in favor of lessee containing terms and conditions of lease.
LEGAL TENDER	The form of money that may be legally used to pay for the goods procured or the services used. For example, the currency notes issued by the Reserve Bank of India constitute a legal tender in India.

LETTER OF CREDIT	It is a letter addressed by a banker to a correspondent abroad authorising payment of a specified sum on its credit to the mentioned beneficiary under stated conditions, i.e., delivery of goods in a satisfactory condition. Letters of Credit are common in international trade and protect the interest of the exporter.
LIABILITIES	A legal obligation, by an individual or a body of persons, expressed in terms of money. Current liabilities are those that have to be discharged in the near future, like bills payable or bank overdrafts. Contingent liabilities are those whose existence or otherwise will be confirmed by the outcome of some future event and at times may not have to be met at all if the event does not occur.
LIBEL	Defamatory material in recorded form as opposed from slander which is oral. The victim may file a suit for damages.
LICENCE	A document issued by a competent authority granting permission to carry on some activity, which otherwise will be unlawful.
LIEN	The right to retain some asset till a claim is settled or a contractual obligation has been fulfilled. A General lien refers to a right to retain any property of the debtor's while a Particular lien permits the retention of the particular property connected with the claim.
LIMITED LIABILITY	The liability of a member to contribute to the assets of a company upto the nominal value of the shares held and not paid by him.
LIQUIDATOR	An official appointed to conduct the winding up of a company in accordance with due process of law.
LIQUIDITY	Liquidity is an indicator of how quickly an asset can be turned into cash for full market value. The more liquid your assets, the more financial flexibility you have.
LITIGANT	A party to a case.
MANDATE	Authority given to take some action.
MANIFEST	A declaration by the master of the ship about to set sail. It gives details about the crew, cargo, passengers and the port of destination.
MARKET LOT	The minimum number of shares, say 100, required for a transaction on a Stock Exchange. Fewer shares constitute an odd lot. In Demat form, even a single share may be traded.
MCA	Ministry of Corporate Affairs.
MEDIATION	A dispute resolution process in which an impartial third party assists the parties to voluntarily reach a mutually acceptable settlement.

MEMORANDUM OF ASSOCIATION	A fundamental document which contains the provisions of the company's constitution, which is filed with the Registrar of Companies at the time of the incorporation of a company. It states the name of the company, its objectives, the amount of capital etc.
MERCHANT BANKER	A financial institution that specialises in securities market activities such as underwriting and trading, and in advisory activities such as mergers and acquisitions. Merchant Banking also typically refers to acquisition of equity stakes in companies either for strategic or temporary investment purposes.
MERGER	The amalgamation of two or more enterprises which were previously separate usually to achieve greater viability and control. The new entity may retain the old name in full or part thereof for reasons of Goodwill.
MINIMUM SUBSCRIPTION	The minimum number of shares for which applications have to be received by a company in a public issue before allotment can be made by it.
MONOPOLY	A exclusive right or privilege created through law or by acquiring and exercising control with a view to regulating the price. When used by State for public benefit, a monopoly may be useful but as a matter of principle, it is harmful.
MORATORIUM	A freeze on the payment of debts by a government in times of national crisis or an emergency.
MORTGAGE	A legal charge on property which holds it as security for a loan.
NABARD	National Bank for Agricultural & Rural Development.
NASDAQ	National Association of Security Dealers Automated Quotations.
NEGOTIABLE INSTRUMENTS	A document in which property may be transferred to another in good faith by simple delivery, for e.g. Cheques, Bank Notes, Treasury Bills, Dividend Warrants. When made to order, they require endorsement but if in favor of bearer, they may be negotiated straightaway.
NET PROFIT	The amount remaining after all expenses have been deducted from the gross profit. It may be distributed in the form of dividend.
NET WORTH	This business finance term and definition is an expression of your business's total value, as determined by your total current assets less the total liabilities currently owed by the business. With your business's most recent balance sheet in hand, you can calculate the net worth using a simple formula: Assets – Liabilities = Net Worth.
NO-DELIVERY PERIOD	The time during which the register of shareholders of a company remains closed. Transactions continue but the trades are settled later. This is done to avoid confusion about the beneficiaries of dividend.
NON-CUMULATIVE	Implies that arrears of dividend will not accrue.

NON-CURRENT LIABILITIES	Also referred to as long-term liabilities, this category encompasses debts or obligations that your company must repay in over a year's time. For example, non-current liabilities would include things like business loans, deferred tax liabilities, mortgages, and leases.
NON-OPERATING ASSETS	Finally, non-operating assets are those that are not critical for a company to provide its product or service, but which are nevertheless essential to establish and run a business. For example, many intangible assets fall into this category, such as brands, trademarks, and patents.
NOTARIZE	To formally complete a document by acknowledgement or oath.
NOTARY PUBLIC	A person who attests or certifies documents by the authority of the court.
NSE	National Stock Exchange.
NYSE	New York Stock Exchange.
OATH	To swear/affirm to the truth of a statement/document.
OPERATING ASSETS	These assets are those that are required for a business to complete its day-to-day functions. In other words, these are things that a company uses to produce its product or service and can include fixed and current assets, as well as tangible and intangible assets. Some of the most common items included in this category are cash, a company's bank balance, inventory, and operating machinery.
OPTIONS	The contractual right but not the obligation, to buy and sell a specific amount of a given security at a previously fixed price or at a price fixed at a designated future date.
ORDER	A written direction of a court or judge to do or refrain from doing certain acts.
OUT-OF-POCKET-EXPENSES	Expenses incurred by a professional carrying out duties on behalf of a client that are to be reimbursed by the client in addition to any fee payable.
OVERDRAFT	An amount, which may be drawn from a current account in excess of the balance available. It is a revolving credit negotiated beforehand and unlike a loan, interest is payable on amount used. The banker holds lien on securities offered during the use of the facility.
OVERHEADS	These are the indirect expenses incurred in the production of goods and cannot be put under a specific heading. They represent the difference between the prime costs covering wages plus material and the total cost of a product.
PATENT	A right or privilege granted by law to an inventor also called a patentee, to enjoy the fruits of his invention for a specified period.

PAYEE	A person to whom the amount is payable or in whose favor the Bill of Exchange is drawn.
PAY-IN SLIP	A form filled up to deposit cash or cheque in a bank. The account holder retains the counterfoil. For bulk users, they may be bound in a Pay-in- Book.
PERJURY	Making false statements under oath.
PERQUISITE	Some benefit which is attached to an employment apart from the wages or salary paid.
PERSONAL GUARANTEE	If you're seeking financing for a very new business and don't have a high value asset to offer as collateral, you may be asked by the lender to sign a statement of personal guarantee. In effect, this statement affirms that you as an individual will act as guarantor for the business's debt, making you personally liable for the balance of the loan even in the event that your business fails.
PETITION	A formal written request to a court, which starts a special proceeding. In juvenile court, the legal document which specifies the complaint against the juvenile and/or family; it includes the name, age and address of the minor and his/her guardian, as well as the statutory grounds and facts upon which the request for the court intervention is based.
PETITIONER	Another word for plaintiff, the person starting the lawsuit.
PETTY CASH	A small amount of cash kept to cover day-to-day trivial or miscellaneous expenses.
PIG	Operators who get killed by the speculators.
PLACING	A prior arrangement to place or sell shares to select investors such as financial institutions.
PLAINTIFF	The person who sues or starts a civil case, also called the petitioner or the complainant.
PLEA	An accused persons answer to a criminal charge. For example: not guilty; guilty; no contest.
PLEA BARGAIN	The agreement a defendant makes with the prosecutor to avoid a trial. Usually involves pleading guilty to lesser charges in exchange for a lighter sentence.
PLEADINGS	The court documents filed with the court by the parties in a civil or criminal case. For example: motion to dismiss; motion for modification.
POLICY	A comprehensive document issued by the insurer to the insured setting out detailed terms and conditions governing the cover. It is common to spell out the risks, sum assured, premium payable and the date of renewal or maturity. Once issued a policy is not cancelled. Changes may be made through endorsements.

PORTFOLIO	A list of securities owned by a person or an institution.
POST-DATE	To affix a future date while executing a document or issuing a Bill of Exchange. Such an instrument becomes valid or payable only on the date mentioned. Conversely, a document may be antedated i.e carry an earlier date.
PRICE BAND	The limits within which the price of a security is allowed to fluctuate.
PRICE RIGGING	It is the collective effort of bulls or bears to manipulate the price of a security without any regard for fundamentals of the company.
PRINCIPAL	(1) The sum of money lent on which interest is being paid. (2) The party whom an agent represents.
PROPRIETOR	A person who owns or has a share in the ownership of a business.
PROSECUTE	To carry on a case or judicial proceeding. To proceed against a person criminally.
PROSECUTOR	Also called the state's attorney. Represents the state in a criminal case against a defendant.
PROSPECTUS	A document issued by a company inviting subscription to the public issue of its securities. It lists information for the use of investors and has to include the risk factors.
PROXY	One who acts on behalf of another, usually used to denote a person authorised by a member of a company to be present and vote on his behalf in a meeting.
QUORUM	The minimum number of members required to be present in order to transact business at a meeting.
QUOTATION	A firm statement of the total cost for which specified work will be undertaken.
QUOTE DRIVEN TRADING	It refers to trading in which the brokers quote for buying and selling a security simultaneously.
RECESSION	A condition of the economy of a country under which business is conducted at a reduced level. It is also characterised by unemployment and falling prices.
RECONCILIATION	An explanation of the difference between two figures which purport to express the same quantity.
RECORD DATE	A date on which the records of a company are closed for the purpose of determining the stockholders to whom dividends, proxies, rights, etc. are to be sent.
REMITTANCE	An amount of money sent by one person to another, usually by post.

REPO RATE	Repo Rate or the Repurchase Rate is the rate at which a bank borrows money from the Reserve Bank of India (RBI). The bank pledges or sells government securities to the RBI for the same. Also, these loans are usually for a period of up to two weeks. Hence, it refers to short-term loans. It is different from the Bank Rate with respect to the tenure of the loan.
RESERVE	An amount set aside out of profits or surpluses to meet contingencies.
RESERVE PRICE	The minimum price set in advance, that is acceptable to the auctioneer, so as to ensure that the object for sale will not be sold at too low a value.
RETAIL TRADE	The sale of goods to the final consumer.
RETAINED EARNINGS	Just like it sounds, this term represents any profits earned that are retained in the business. This can also be referred to as bootstrapping.
RETROSPECTIVE	Taking effect as though it had occurred at an earlier date.
REVERSE REPO RATE	When banks have surplus funds and they deposit them with the RBI for short periods, the RBI offers them a Reverse Repo Rate.
REVOLVING CREDIT	The facility to borrow money up to a certain specified amount and to replace one borrowing that has been paid off with another so long as the overall limit is not exceeded.
RIGGED MARKET	Manipulation of share prices to attract buyers and sellers to the rigger's advantage.
ROYALTY	Payment made to the owner of a property for permission to use it.
RUMMAGING	A thorough search of a ship by custom officers to detect contraband or undeclared dutiable cargo.
SAFTA	South Asian Free Trade Area. It is one of the aims of SAARC group of countries.
SALVAGE	Recovering items from a site of destruction.
SAMPLING	A method of drawing conclusions about the whole by examining portions of it selected at random.
SCAM	A fraudulent activity where usually small sums of money is obtained from a large number of persons, so that the activity is not detected.
SEBI	Securities and Exchange Board of India.
SECURED LOAN	Many lenders will require some form of security when loaning money. When this happens, this business finance term and definition is a secured loan. The asset being used as collateral for the loan is said to be "securing" the loan. In the event that your small business defaults on the loan, the lender can then claim the collateral and use its fair-market value to offset the unpaid balance.

SEGMENTAL REPORTING	Reporting on the various segments of a business's activity.
SET-OFF	A claim of one party when adjusted against an amount payable to another, so that only the balance remains payable or the whole debt is paid off.
SETTLEMENT	It is the scrip-wise netting of trades by a broker at the end of the trading cycle.
SHARE	A unit of capital in a limited company. Preference shares are entitled to a fixed rate of dividend. After their claim is exhausted, Equity shares become eligible to get returns. Bonus shares are allotted without any payment to existing shareholders out of accumulated profits. Rights shares are issued on pro rata basis and have to be paid for.
SHARE CERTIFICATE	A certificate issued to shareholders in paper or physical form. Besides the names of the holders, it carries the certificate, folio and distinctive numbers. It is signed by an authorised signatory and carries the common seal of the company.
SHAREHOLDER	A person holding shares of a company. His rights include an invitation to attend and vote in Annual General Meetings, to receive a copy of audited results and receive dividend whenever declared.
SIB	Securities and Investments Board of UK.
SPLITTING	Sub-division of a share of large denomination into shares of smaller denominations. Also means sub- division of holdings. The opposite process of combining shares of a small denominations into one of higher denomination is called consolidation.
SPOT	Spot Cash means payment is due immediately. Spot Price indicates the price on as is where is basis. Spot Sale promises an instant delivery. Spot Trading implies delivery and payment of shares on the day of purchase or the next. Spot Delivery implies delivery and payment on the same day of the contract or the day following the day of the contract.
STAG	(1) An applicant, for a new issue of shares, who hopes to sell the shares on allotment at a profit once trading commences in the secondary market;(2) A speculator who buys and sells stocks rapidly for fast profits.
STAMP DUTY	The ad valorem duty paid, evidenced by the affixing of revenue stamps on the instrument, to give legal effect to the same. For e.g. for transfer of shares.
STANDING ORDER	An instruction, which remains in force till withdrawn. It is useful to order routine and regular payments such as to an insurance company.
STATUTORY BOOKS	Records mandatory to be maintained under some law, such as those relating to charges, members, minute book for directors and shareholders' meetings etc.

STOCK EXCHANGE	An organised market for the sale and purchase of securities. In India stock exchanges are regulated by the Securities & Exchange Board of India. The movement in prices of select active scripts is reflected in Sensex or sensitive index in terms of points. Trading in major exchanges is Screen-based these days where buying & selling is done online. Matching of trades is done on computers installed in Stock Exchanges.
STOP TRANSFER	It is an instruction given by an account holder to his banker not to encash any payment for cheque/ demand draft from his account in case of loss, theft etc. of the same.
SUB JUDICE	A matter pending decision by a Court is called sub judice. Parties to such a matter should not do anything that would affect the outcome of the case.
SUBROGATION	The legal principle that entitles an insured only the actual loss sustained in cases of pure indemnity.
SUMMONS	A legal paper that is used to start a civil case and get jurisdiction over a party.
SUOMOTO	The Court may take action on its own when facts requiring legal intervention reach its notice. The Court is then said to be acting suo moto.
SWAP	A financial transaction which exploits arbitrage opportunities between markets and in which two counter parties agree to exchange streams of payments over time according to a predetermined rule.
TAKEOVER	The acquisition of control of a company by another company achieved by the purchase of the majority of its shares.
TANGIBLE ASSETS	As the name implies, tangible assets are those assets that you can see and touch. This can include items that may also be referred to as current or fixed assets. For instance, cash — a current asset — is a tangible asset because it's something you can physically touch. Most fixed assets are also tangible assets for the same reason. Land, real estate, machinery, equipment, and furniture are, after all, things you can see and touch.
TARIFF	A list of applicable rates of duty under excise or customs.
TAX HOLIDAY	A period of time established under statute, during which a business is not required to pay tax on its earnings.
TAX LIEN	If your business fails to pay taxes owed to the designated government entity, namely the IRS, you may find your assets seized by the claim of a tax lien. The government can not only seize your assets for liquidation to resolve the tax debt, but they can also charge you penalties on the amount you owe.
TENDER	Usually an offer to provide goods or services at mentioned prices and understated conditions in response to a notice published in a newspaper. The sealed bids are opened and contract awarded to the lowest bidder.

TERM LOAN	These are debt financing tools used to raise needed funds for your small business. Term loans provide the business with a lump sum of cash up front in exchange for a promise to repay the principal and interest at specified intervals over a set period of time. These are typically longer term, one-time loans for start-up expenses or costs for established business expansion.
TESTIMONIAL	A certificate issued by a responsible person to an individual about his conduct, ability, qualifications or credit.
TITLE	Legal recognition of the ownership of property, usually proven by a document.
TORT	A civil injury or wrong to someone else, or their property.
TQM	Total Quality Management.
TRADE DISCOUNTS	A discount given by one business to another which is making a purchase for resale to ultimate customers thereby enabling the buyers to earn profits. Sellers may adjust trade discounts to counter price fluctuations without having to change the catalogue prices.
TRADEMARK	A distinctive mark or sign or symbol protected by law and placed on goods to identify the manufacturer.
TRAI	Telecom Regulatory Authority of India.
TRANSMISSION	It is the process of transferring the ownership of securities after the death of the holder to the legal heirs.
TREASURY BILLS	A short term bearer discount security issued by Governments as a means of financing their cash requirements. Treasury Bills play an important role in the local money market because most banks are required to hold them as part of their reserve requirements and because central bank open market operations undertaken in the process of implementing monetary policy are usually conducted in the treasury bill market.
TRESPASS	To enter someone's land or property without their permission. It is an offence which is punishable in law.
TRUSTEE	A person who holds property in trust for another for the use or benefit of another.
TURNOVER	The total value of goods and services sold or provided in a given period, usually during a year by a trading organisation.
UNDERWRITER	One who undertakes in return for a commission to purchase shares offered to public and not subscribed for, up to an agreed number.
UNSECURED LOANS	Loans that are not backed by collateral are called unsecured loans. These types of loans represent a higher risk for the lender, so you can expect to pay higher interest rates and have shorter repayment time frames. Credit cards are an excellent example of unsecured loans that are a good option for small business funding when combined with other financing options.

USURY	The unlawful practice of lending money at an exorbitant rate of interest. This occurs usually when the borrower is in desperate need of money and not in a good position to negotiate.
VAKALATHNAMA	Document by which an advocate is authorized to represent a party in court.
VANILLA ISSUE	A straight fixed rate issue which has terms and conditions usually accepted as being conventional to a particular securities market.
VAT	Value Added Tax, a tax levied at specific rates on the selling price of goods at each stage of production and distribution so that only the value added at each stage is taxed and thereby cascading tax is avoided.
VENTURE CAPITAL	Capital invested in a business on the basis that the investor receives a share in the outcome of the enterprise rather than an agreed fixed rate of return.
VISA	It is an endorsement made on the passport of the traveller by the envoy of the country to which he intends to travel.
VOUCHER	A document or some such evidence of some transaction, usually payment of money.
WAGES	Remuneration paid to manual workers.
WARRANT	A tradable instrument giving the holder the right to buy from the issuer a fixed income security or equity stock under specified conditions after some period of time.
WARRANTY	A contractual obligation, which entitles the injured party to seek damages but not to cancel the contract.
WATCHDOG	A general term applied to a person or group appointed or set up to safeguard the interests of a particular group.
WINDING UP	Liquidating an asset with a view to distributing the receipts among creditors. It is the process that brings to a conclusion the life of a company.
WINDOW DRESSING	A manoeuvre engaged in by companies, banks, mutual funds etc., at the end of the accounting period in order to impress stock holders who will be receiving the report showing that funds are better managed and invested than what might have been drawn up.
WOLF	Speculators who make a kill in the market.
WORKING CAPITAL	Not to be confused with fixed capital, working capital is another business finance 101 term. It consists of the financial resources necessary for maintaining the day-to-day operation of the business. Working capital, by definition, is the business's cash on hand or instruments that you can convert to cash quickly.

WRIT	A document issued by the court directing the respondent to do or not to do some specified act.
WRIT & WRIT PETITION	A writ is a direction that the Court issues, which is to be obeyed by the authority/person to whom it is issued. A petition seeking issuance of a writ is a writ petition.
WRITE OFF	It is to extinguish or cancel a debt, treating it as if it has been paid by debiting it from the profit and loss account.
ZERO COUPON BOND	A bond that pays no interest while the investor holds it. It is sold originally at a substantial discount from its eventual maturity value, paying the investor its full face value when it comes due, with the difference between what he paid initially and what he finally collected representing the interest he would have received over the years it was held.

PART 2 : LEGAL APTITUDE AND LOGICAL REASONING

LESSONS

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SYLLABUS

PART 2 : LEGAL APTITUDE AND LOGICAL REASONING

Objective:

- To test basic understanding of Laws, Legal Aptitude, Logical Reasoning skills.

Total Marks : 50

S. No.	Topic	Sub Topics
Sub-part A - Legal Aptitude (30 Marks)		
1	Indian Constitution	<ul style="list-style-type: none">• Preamble• Fundamental Rights and Fundamental Duties• Directive Principles of State Policy• State under Constitution• President and Governors• Council of Ministers and Prime Minister• Lok Sabha, Rajya Sabha and Legislative Assembly, Legislative Council• Supreme Court and High Courts• Landmark Amendment in Constitution• List of subjects-Centre, State and Concurrent
2	Elements of General Laws (Indian Contract Act and Law of Torts)	<p>A. Law of Contract</p> <ul style="list-style-type: none">• Offer, Acceptance, Consideration and Competency to Contract• Agreement• Types of Contract: Void, Voidable, Unenforceable• Performance of Contract• Frustration of Contract• Quasi Contract• Breach of Contract and Remedies <p>B. Law of Torts</p> <ul style="list-style-type: none">• Basics of Torts• Specific Defenses• Nuisance and Negligence• Strict, Absolute and Vicarious Liability• Trespass• Malicious Prosecution

3	Elements of Company Secretaries Legislation	<ul style="list-style-type: none"> ● The Institute of Company Secretaries of India ● Vision, Mission, Motto and Core Values of the Institute ● Company Secretary under Company Secretaries Act, 1980 ● Functions of Company Secretary under the Companies Act, 2013 ● Role of Company Secretary in Employment ● Role of Company Secretary in Practice
4	Elements of Company Law	<ul style="list-style-type: none"> ● Meaning and Nature of Company ● Types of Companies ● Incorporation of a Company ● Types of capital ● Board of Directors - (Concept, Appointment and Removal of Directors) ● Board Meetings & Shareholders Meetings ● Corporate Social Responsibility ● Business Ethics ● Ethical Dilemma
5	Legal Reasoning	<ul style="list-style-type: none"> ● Legal Fundamentals and Terms ● Legal Problems – Reading and understanding a case ● Legal Terminology and Maxims ● Legal Reasoning – (a) Reasoning by Analogy (b) Inductive and Deductive Reasoning ● Questions of Fact (or factual issues) ● Questions of Law (or legal issues) ● Landmark Judgments of Supreme Court and High Court ● Reading Comprehension
Sub-part B - Logical Reasoning (20 Marks)		
6	Logical Reasoning	<ul style="list-style-type: none"> ● Calendars ● Cause and Effect Reasoning ● Clocks ● Coding and Decoding ● Deriving Conclusion from Passages ● Drawing Inference ● Number Test ● Sequence and Series ● Statement and Assumptions

7	Verbal Reasoning	<ul style="list-style-type: none">● Alphabet Test● Alpha Numeric Sequence Puzzle● Analogy● Assertion and Reason● Blood Relations● Decision Making● Inserting Missing Characters● Logical Sequence Test● Logical Venn Diagram● Number, Ranking and Time Sequence Test● Syllogism● Truth Tellers and Liars
8	Non-Verbal Reasoning	<ul style="list-style-type: none">● Analytical Reasoning● Classification● Completion of Incomplete Pattern● Figure Matrix● Grouping of Identical Figures● Mirror Image● Rule Detection● Numeric and Alphabet Series

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A : LEGAL APTITUDE

LESSON 1

INDIAN CONSTITUTION

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC and to secure to all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity;

and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

INTRODUCTION

The Constitution which lays down the basic structure of a nation's polity is built on the foundations of certain fundamental values. The vision of our founding fathers and the aim and objectives which they wanted to achieve through the Constitution are contained in the Preamble, the Fundamental Rights and the Directive Principles. These three may be described as the soul of the Constitution and the testament of founding fathers to the succeeding generations together with the later Part on Fundamental Duties.

The vision of socio-economic change through the Constitution is reflected in its Preamble. The Preamble expresses the ideals and aspirations of a renascent India. At independence, emerging out of a long period of foreign domination and oppression under a feudal system, the people were grimly struggling to be reborn into a life of dignity and hope.

The scheme of the Constitution for realisation of socio-economic agenda comprises of both the justiciable Fundamental Rights as well as the non-justiciable Directive Principles. The judicial contribution to the synthesis and the integration of Fundamental Rights and the Directive Principles in the process of "constitutionalising" social and economic rights has been crucial to the realisation of the Directive Principles not only as a means to effectuate Fundamental Rights but also as a source of laws for a welfare state. (Source: Report of the National Commission to Review the Working of the Constitution, 31st March, 2002)

The Constitution places a pre-eminent emphasis on the values of liberty and justice, on treating all citizens as equal before law and on safeguarding the rights of minorities and the oppressed. The people of India derive their existence as a political community from the Constitution, which "we the people", gave to ourselves and, in the process established the Republic of India. It is because the country is Republic, and not a mere democracy, that the people are enjoined to nurture and indeed celebrate, their linguistic, ethnic, cultural and religious diversity and to ensure that the citizens do not suffer from want and indignity. Though the Indian tapestry of traditional multiculturism nourished by many centuries of assimilative forces has been subjected to occasional fissures, the most diverse nation on earth has been able to overcome those crises and use the innate strength of Indian Republic to uphold the dignity and integrity of India.

Broad Framework of the Constitution

The Constitution of India came into force on January 26, 1950. It is a comprehensive document. Apart from dealing with the structure of Government, the Constitution makes detailed provisions for the rights of citizens and other persons in a number of entrenched provisions and for the principles to be followed by the State in the governance of the country, labelled as "Directive Principles of State Policy". All public authorities – legislative, administrative and judicial derive their powers directly or indirectly from the Constitution which in turn derive its authority from the people.

The preamble to the Constitution sets out the aims and aspirations of the people of India. It is a part of the Constitution. The preamble declares India to be a Sovereign, Socialist, Secular, Democratic Republic and secures to all its citizens Justice, Liberty, Equality and Fraternity. It is declared that the Constitution has been given by the people to themselves, thereby affirming the republican character of the polity and the sovereignty of the people.

The polity assured to the people of India by the Constitution is described in the preamble as a Sovereign, Socialist, Secular, and Democratic Republic. The expression "Sovereign" signifies that the Republic is externally and internally sovereign. Sovereignty in the strict and narrowest sense of the term implies independence all round, within and without the borders of the country. As discussed above, legal sovereignty is vested in the people of India and political sovereignty is distributed between the Union and the States.

The democratic character of the Indian polity is illustrated by the provisions conferring on the adult citizens the right to vote and by the provisions for elected representatives and responsibility of the executive to the legislature.

The word "Socialist", added by the 42nd Amendment, aims to secure to its people "justice—social, economic and political". The Directive Principles of State Policy, contained in Part IV of the Constitution are designed for the achievement of the socialistic goal envisaged in the preamble. The expression "Democratic Republic" signifies that our government is of the people, by the people and for the people.

Federal or Unitary

Constitution of India is basically federal but with certain unitary features. The majority of the Supreme Court judges in *Kesavananda Bharati v. State of Kerala*, AIR 1973 SC 1461, were of the view that the federal features form the basic structure of Indian Constitution. However, there are discussions as to whether the Indian Constitution establishes a federal system or it stipulates a unitary form of Government with some basic federal features. Thus, to decide whether Constitution is federal, unitary or quasi federal, it would be better to have a look at the contents of the Constitution.

The essential features of a Federal Polity or System are—dual Government, Distribution of Powers, Supremacy of the Constitution, Independence of Judiciary, Written Constitution, and a rigid procedure for the amendment of the Constitution.

The political system introduced by our Constitution possesses all the aforesaid essentials of a federal polity as both the Union and the State Governments and their respective organs derive their authority from the Constitution and it is not competent for the States to secede from the Union. There is a division of legislative and executive powers between the Union and the State Governments. The Supreme Court stands at the head of our judiciary to guard against the violation of the constitutional provisions. The Supreme Court decides disputes between the Union and the States, or the States inter se and interprets finally the provisions of the Constitution.

The question as to whether the Indian Constitution has a federal form of Government or a unitary constitution with some federal features came up in various cases before the Supreme Court and the High Courts. But in most cases, the observations have been made in a particular context and have to be understood accordingly. The question rests mostly on value judgement i.e. on one's own philosophy.

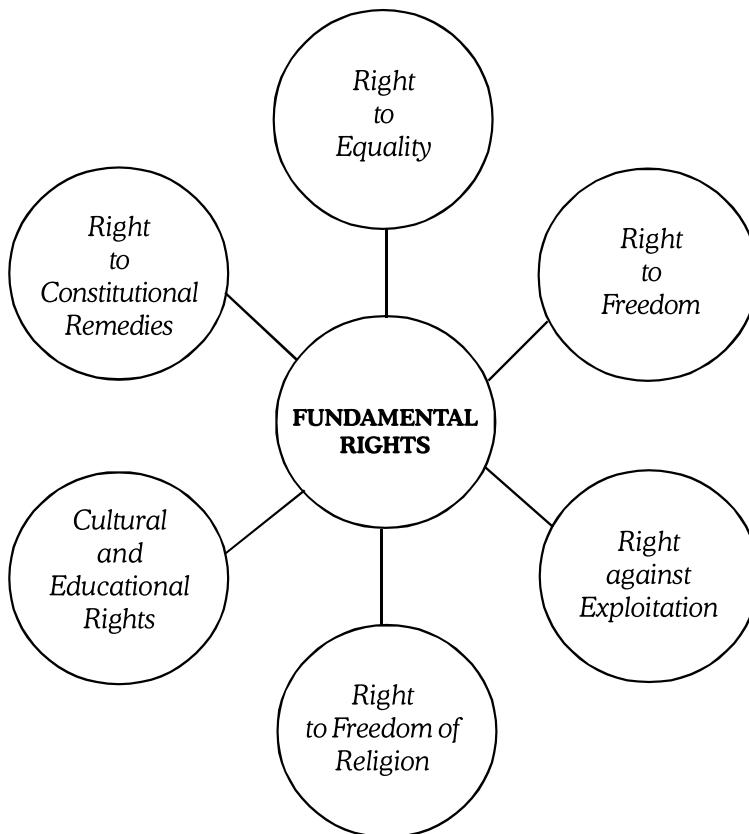
FUNDAMENTAL RIGHTS

The Constitution seeks to secure to the people "liberty of thought, expression, belief, faith and worship; equality of status and of opportunity; and fraternity assuring the dignity of the individual". With this object, the fundamental rights are envisaged in Part III of the Constitution.

Part III of the Indian Constitution guarantees six categories of fundamental rights. These are:

- Right to Equality — Articles 14 to 18;
- Right to Freedom — Articles 19 to 22;
- Right against Exploitation — Articles 23 and 24;
- Right to Freedom of Religion — Articles 25 to 28;
- Cultural and Educational Rights — Articles 29 and 30;
- Right to Constitutional Remedies — Articles 32.

Previously the right to property under Article 31 was also guaranteed as a Fundamental Right which has been removed by the 44th Constitutional Amendment Act, 1978. Now right to property is not a fundamental right, it is now only a legal right.



Apart from this, Articles 12 and 13 deal with definition of 'State' and 'Law' respectively. Articles 33 to 35 deal with the general provisions relating to Fundamental Rights.

No fundamental right in India is absolute and reasonable restrictions can be imposed in the interest of the state by valid legislation and in such case the Court normally would respect the legislative policy behind the same. (*People's Union for Civil Liberties v. Union of India* (2004) 2 SCC 476).

From the point of view of persons to whom the rights are available, the fundamental rights may be classified as follows:

- (a) Articles 15, 16, 19 and 30 are guaranteed only to citizens.
- (b) Articles 14, 20, 21, 22, 23, 25, 27 and 28 are available to any person on the soil of India—citizen or foreigner.
- (c) The rights guaranteed by Articles 15, 17, 18, 20, 24 are absolute limitations upon the legislative power.

State

With a few exceptions, all the fundamental rights are available against the State. Under Article 12, unless the context otherwise requires, "the State" includes –

- (a) the Government and Parliament of India;
- (b) the Government and the Legislature of each of the States; and
- (c) all local or other authorities:
 - (i) within the territory of India; or
 - (ii) under the control of the Government of India.

The expression 'local authorities' refers to authorities like Municipalities, District Boards, Panchayats, Improvement Trusts, Port Trusts and Mining Settlement Boards. In *Ajay Hasia v. Khalid Mujib*, AIR 1981 SC 481, the Supreme Court has enunciated the following test for determining whether an entity is an instrumentality or agency of the State:

- (1) If the entire share capital of the Corporation is held by the Government, it would go a long way towards indicating that the corporation is an instrumentality or agency of the Government.
- (2) Where the financial assistance of the State is so much as to meet almost the entire expenditure of the corporation it would afford some indication of the corporation being impregnated with government character.
- (3) Whether the corporation enjoys a monopoly status which is conferred or protected by the State.
- (4) Existence of deep and pervasive State control may afford an indication that the corporation is a State agency or an instrumentality.
- (5) If the functions of the corporation are of public importance and closely related to government functions, it would be a relevant factor in classifying a corporation as an instrumentality or agency of government.
- (6) If a department of government is transferred to a corporation, it would be a strong factor supporting an inference of the corporation being an instrumentality or agency of government.

Example: ICAR, CSIR, ONGC, IDBI, Electricity Boards, NAFED, Delhi Transport Corporation etc. come under the definition of state.

Example: ICAR, CSIR, ONGC, IDBI, Electricity Boards, NAFED, Delhi Transport Corporation etc. come under the definition of state.

Example : An act is passed by the parliament. The subject matter of the Act was to grant certain pay related benefits to all employees of the State. Are only states of India (eg. State of Maharashtra or Uttar Pradesh) are required to comply with law?

According to Article 12 of the constitution the word state includes not only States of India but also certain other authorities/ Organisations.

Justifiability of Fundamental Rights

Article 13 gives teeth to the fundamental rights. It lays down the rules of interpretation in regard to laws inconsistent with or in derogation of the Fundamental Rights.

Existing Laws : Article 13(1) relates to the laws already existing in force, i.e. laws which were in force before the commencement of the Constitution. A declaration by the Court of their invalidity, however, will be necessary before they can be disregarded and declares that pre-constitution laws are void to the extent to which they are inconsistent with the fundamental rights.

Future Laws : Article 13(2) relates to future laws, i.e., laws made after the commencement of the Constitution. After the Constitution comes into force the State shall not make any law which takes away or abridges the rights conferred by Part III and if such a law is made, it shall be void to the extent to which it curtails any such right.

The word 'law' according to the definition given in Article 13 itself includes –

"... any Ordinance, order, bye-law, rule, regulation, notification, custom or usage having in the territory of India, the force of law."

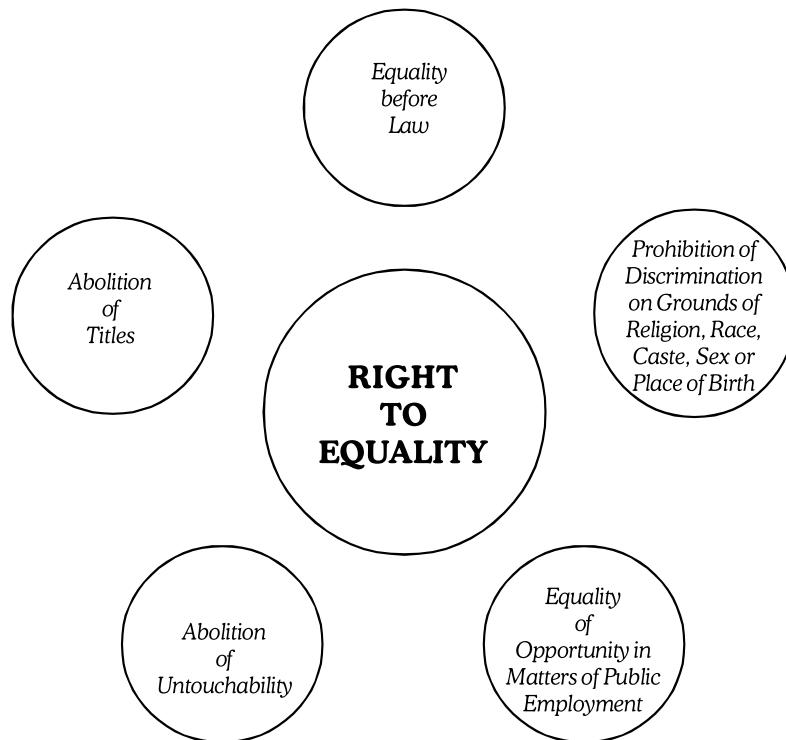
By the Constitution (Twenty-Fourth Amendment) Act, 1971 a new clause has been added to Article 13 which provides that –

"Nothing in this Article shall apply to any amendment of this Constitution made under Article 368"

Article 13 came up for judicial review in a number of cases and the Courts have evolved doctrines like doctrine of eclipse, severability, prospective overruling, acquiescence etc. for interpreting the provisions of Article 13.

Example: There was a Law in force before 26th January, 1950 which was against the Fundamental Rights. It was contended that it can still be in force as the constitution does not make it void. Is the contention correct?

According to Article 13(1) of the Constitution of India, all the laws that are inconsistent with Fundamental Rights are void.

Right of Equality

Articles 14 to 18 of the Constitution deal with equality and its various facets. The general principle finds expression in Article 14. Particular applications of this right are dealt with in Articles 15 and 16. Still more specialised applications of equality are found in Articles 17 and 18.

Equality before the law and equal protection of the laws

Article 14 of the Constitution says that “the State shall not deny to any person equality before the law or the equal protection of the laws within the territory of India”.

As is evident, Article 14 guarantees to every person the right to equality before the law or the equal protection of the laws. The expression 'equality before the law' which is barrowed from English Common Law is a declaration of equality of all persons within the territory of India, implying thereby the absence of any special privilege in favour of any individual. Every person, whatever be his rank or position is subject to the jurisdiction of the ordinary courts.

The second expression “the equal protection of the laws” which is based on the last clause of the first section of the Fourteenth Amendment to the American Constitution directs that equal protection shall be secured to all persons within the territorial jurisdiction of the Union in the enjoyment of their rights and privileges without favouritism or discrimination.

Article 14 applies to all persons and is not limited to citizens. A corporation, which is a juristic person, is also entitled to the benefit of this Article (*Chiranjit Lal Chowdhury v. Union of India*, AIR 1951 SC 41). The right to equality is also recognised as one of the basic features of the Constitution (*Indra Sawhney v. Union of India*, AIR 2000 SC 498).

Example: A law has been passed for grant of financial assistance to women below the Age of 14 years for education. It was contented that there shall be equality before the law. Can it be passed?

Yes, it can be passed if the Legislation is based on reasonable classification and intelligible differentia.

Prohibition of discrimination on grounds of religion etc.

Article 15(1) prohibits the State from discriminating against any citizen on grounds only of:

- (a) Religion
- (b) Race
- (c) Caste
- (d) Sex
- (e) Place of birth or
- (f) Any of them

Article 15(2) lays down that no citizen shall be subjected to any disability, restriction or condition with regard to –

- (a) Access to shops, public restaurants, hotels and places of public entertainment; or
- (b) The use of wells, tanks, bathing ghats, roads and places of public resort, maintained wholly or partially out of State funds or dedicated to the use of the general public.

Article 15(3) and 15(4) and 15(5) and 15(6) create certain exceptions to the right guaranteed by Article 15(1) and 15(2). Under Article 15(3) the State can make special provision for women and children. It is under this provision that courts have upheld the validity of legislation or executive orders discriminating in favour of women (*Union of India v. Prabhakaran*, (1997) 2 SCC 633).

Article 15(4) permits the State to make special provision for the advancement of–

- (a) Socially and educationally backward classes of citizens;
- (b) Scheduled Castes; and
- (c) Scheduled tribes.

Article 15(5) inserted in the Constitution of India by the Constitution (Ninety-third Amendment) Act, 2005, permits the State to make special provision for the advancement of any socially and educationally backward classes of citizens or for the Scheduled Castes or the Scheduled Tribes in so far as such special provisions relate to their admission to educational institutions including private educational institutions, whether aided or unaided by the State, other than the minority educational institutions referred to in clause (1) of article 30.

Further, Article 15(6) inserted in the Constitution of India by the Constitution (One Hundred and Third Amendment) Act, 2019, provides that nothing in this article or sub-clause (g) of clause (1) of article 19 or clause (2) of article 29 shall prevent the State from making,—

- (a) any special provision for the advancement of any economically weaker sections of citizens other than the classes mentioned in clauses (4) and (5); and
- (b) any special provision for the advancement of any economically weaker sections of citizens

other than the classes mentioned in clauses (4) and (5) in so far as such special provisions relate to their admission to educational institutions including private educational institutions, whether aided or unaided by the State, other than the minority educational institutions referred to in clause (1) of article 30, which in the case of reservation would be in addition to the existing reservations and subject to a maximum of ten per cent. of the total seats in each category.

Explanation.—For the purposes of Article 15 and Article 16, “economically weaker sections” shall be such as may be notified by the State from time to time on the basis of family income and other indicators of economic disadvantage.

Example: Fundamental Right have been given to the citizens but they are not without any restrictions. Certain exceptions are also provided with the Fundamental rights.

Equality of opportunity in matters of public employment

Article 16(1) guarantees to all citizens equality of opportunity in matters relating to employment or appointment of office under the State.

Article 16(2) prohibits discrimination against a citizen on the grounds of religion, race, caste, sex descent, place of birth or residence.

However, there are certain exceptions provided in Article 16(3), 16(4) and 16(5). These are as under:

- (1) Parliament can make a law that in regard to a class or classes of employment or appointment to an office under the Government of a State or a Union Territory, under any local or other authority within the State or Union Territory, residence within that State or Union Territory prior to such employment or appointment shall be an essential qualification. [Article 16(3)]
- (2) A provision can be made for the reservation of appointments or posts in favour of any backward class of citizens which in the opinion of the State is not adequately represented in the services under the State. [Article 16(4)]
- (3) Nothing in this article shall prevent the State from making any provision for reservation in matters of promotion, with consequential seniority, to any class or classes of posts in the services under the State in favour of the Scheduled Castes and the Scheduled Tribes which, in the opinion of the State, are not adequately represented in the services under the State. [Article 16(4A)]
- (4) Nothing in this article shall prevent the State from considering any unfilled vacancies of a year which are reserved for being filled up in that year in accordance with any provision for reservation made under clause (4) or clause (4A) as a separate class of vacancies to be filled up in any succeeding year or years and such class of vacancies shall not be considered together with the vacancies of the year in which they are being filled up for determining the ceiling of fifty per cent. reservation on total number of vacancies of that year. [Article 16(4B)]
- (5) A law shall not be invalid if it provides that the incumbent of an office in connection with the affair of any religious or denominational institution or any member of the governing body thereof shall be a person professing a particular religion or belonging to a particular denomination. [Article 16(5)]

- (6) Nothing in this article shall prevent the State from making any provision for the reservation of appointments or posts in favour of any economically weaker sections of citizens other than the classes mentioned in clause (4), in addition to the existing reservation and subject to a maximum of ten per cent. of the posts in each category. [Article 16(6)]

Abolition of untouchability

Article 17 says that "Untouchability" is abolished and its practice in any form is forbidden. The enforcement of any disability arising out of "Untouchability" shall be an offence punishable in accordance with law.

Untouchability does not include an instigation to social boycott (*Davarajiah v. Padamanna*, AIR 1961 Mad. 35, 39). Punishment for violation of Article 17 is to be provided by Parliament under Article 35(a) (ii).

Abolition of titles

Article 18 is more a prohibition rather than a fundamental right. British Government used to confer titles upon persons who showed special allegiance to them. Many persons were made Sir, Raj Bahadur, Rai Saheb, Knight, etc. These titles had the effect of creating a class of certain persons which was regarded superior to others and thus had the effect of perpetuating inequality. To do away with that practice, Article 18 provides as under:

- (i) No title, not being a military or academic distinction, shall be conferred by the State.
- (ii) No citizen of India shall accept any title from any foreign State.
- (iii) No person, who is not a citizen of India shall, while he holds any office or trust under the State, accept without the consent of the President, any title from any foreign State.
- (iv) No person, holding any office of profit or trust under State shall without the consent of the President, accept any present, emolument or office of any kind from or under a foreign State.

Rights Relating to Freedom

Articles 19-22 guarantee certain fundamental freedoms.

The Six Freedoms of Citizens

Article 19(1), of the Constitution, guarantees to the citizens of India six freedoms, namely:

- (a) Freedom of speech and expression;
- (b) Assemble peaceably and without arms;
- (c) Form associations or unions or co-operative societies
- (d) Move freely, throughout the territory of India;
- (e) Reside and settle in any part of the territory of India;
- (f) Sub-clause (f) is omitted by section 2 of the Constitution (Forty-fourth Amendment) Act, 1978;
- (g) practise any profession, or to carry on any occupation, trade or business.

These freedoms are those great and basic rights which are recognized as the natural rights inherent in the status of a citizen. At the same time, none of these freedoms is absolute but subject to reasonable restrictions specified under clauses (2) to (6) of the Article 19. The Constitution under Articles 19(2) to 19(6) permits the imposition of restrictions on these freedoms subject to the following conditions:

- (a) The restriction can be imposed by law and not by a purely executive order issued under a statute;
- (b) The restriction must be reasonable;
- (c) The restriction must be imposed for achieving one or more of the objects specified in the respective clauses of Article 19.

Article 19(2) specifies the limits upto which the freedom of speech and expression may be restricted. It enables the Legislature to impose by law reasonable restrictions on the freedom of speech and expression under the following heads:

Permissible Restrictions

- (1) Sovereignty and integrity of India
- (2) Security of the State
- (3) Friendly relations with foreign States
- (4) Public Order
- (5) Decency or morality
- (6) Contempt of court
- (7) Defamation
- (8) Incitement to an offence

Reasonable restrictions under these heads can be imposed only by a duly enacted law and not by the executive action [Express News Papers Pvt. Ltd. v. Union of India, (1986) 1 SCC 133].

Example: A certain class of persons were denied to form co-operative societies. They contended that it is their fundamental right to form co-operative societies. Is the contention correct?

Yes, it is the fundamental right of citizen to form co-operatives socities.

Protection of Life and Personal Liberty

Article 21 confers on every person the fundamental right to life and personal liberty. It says that, "No person shall be deprived of his life or personal liberty except according to procedure established by law."

The right to life includes those things which make life meaningful. The right to life enshrined in Article 21 guarantees right to live with human dignity. Right to live in freedom from noise pollution is a fundamental right protected by Article 21 and noise pollution beyond permissible limits is an inroad into that right. [Noise Pollution (v), in re, (2005) 5 SCC 733].

In *Satwant Singh Sawhney v. A.P.O.*, New Delhi, AIR 1967 S.C. 1836, it was held that right to travel is

included within the expression 'personal liberty' and, therefore, no person can be deprived of his right to travel, except according to the procedure established by law. Since a passport is essential for the enjoyment of that right, the denial of a passport amounts to deprivation of personal liberty. In the absence of any procedure prescribed by the law of land sustaining the refusal of a passport to a person, it's refusal amounts to an unauthorised deprivation of personal liberty guaranteed by Article 21.

Procedure established by law : The expression 'procedure established by law' means procedure laid down by statute or procedure prescribed by the law of the State. Accordingly, first, there must be a law justifying interference with the person's life or personal liberty, and secondly, the law should be a valid law, and thirdly, the procedure laid down by the law should have been strictly followed. The procedure must be fair, just and reasonable. It must not be arbitrary, fanciful or oppressive.

Example: Chapter V of Bharatiya Nagarik Suraksha Sanhita, 2023 consisting of section 35 to 62 provides the provisions relating to arrest of persons. This comes under the purview of Procedure established by law.

Right to Education

According to Article 21A of the Constitution of India, the State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may, by law, determine.

Protection against arrest and detention in certain cases

According to Article 22 of the Constitution of India no arrested person shall be detained in custody without being informed, of the grounds for such arrest nor shall he be denied the right to consult, and to be defended by, a legal practitioner of his choice. Further, every arrested person and who is detained in custody shall be produced before the nearest magistrate within a period of twenty-four hours of such arrest excluding the time necessary for the journey from the place of arrest to the court of the magistrate and no such person shall be detained in custody beyond the said period without the authority of a magistrate. However, the protection is not available to an enemy alien and a person arrested or detained under any law providing for preventive detention.

Right against Exploitation

According to Article 23 of Constitution of India traffic in human beings and begar and other similar forms of forced labour are prohibited and any contravention of Article 23 shall be an offence punishable in accordance with law. Further, as per Article 24 of Constitution of India, no child below the age of fourteen years shall be employed to work in any factory or mine or engaged in any other hazardous employment.

RIGHT AGAINST EXPLOITATION

Prohibition of traffic in human beings and forced labour

Prohibition of employment of children in factories, etc.

Right to Freedom of Religion

Articles 25, 26, 27 and 28 of Constitution of India deals with right to Freedom of Religion.

RIGHT TO FREEDOM OF RELIGION

Freedom of conscience and free profession, practice and propagation of religion

Freedom to manage religious affairs

Freedom as to payment of taxes for promotion of any particular religion

Freedom as to attendance at religious instruction or religious worship in certain educational institutions

Right to Constitutional Remedies

Article 32 guarantees the enforcement of Fundamental Rights. It is remedial and not substantive in nature. The rest of the Articles 33 to 35 relate to supplementary matters and do not create or guarantee any right. Therefore, we shall discuss Article 32 first and then rest of the Articles i.e. 33-35 briefly.

Remedies for Enforcement of Fundamental Rights

It is a cardinal principle of jurisprudence that where there is a right there is a remedy (*ubi jus ibi remedium*) and if rights are given without there being a remedy for their enforcement, they are of no use. While remedies are available in the Constitution and under the ordinary laws, Article 32 makes it a fundamental right that a person whose fundamental right is violated has the right to move the Supreme Court by appropriate proceedings for the enforcement of his fundamental right. It is really a far reaching provision in the sense that a person need not first exhaust the other remedies and then go to the Supreme Court. On the other hand, he can directly raise the matter before highest Court of the land and the Supreme Court is empowered to issue directions or orders or writs in the nature of ***habeas corpus, mandamus, prohibition, quo warranto and certiorari***, whichever may be appropriate for the enforcement of the right, the violation of which has been alleged. This power of the Supreme Court to issue directions, etc., may also be assigned to other Courts by Parliament without affecting the powers of the Supreme Court.

The right to move the Supreme Court is itself a guarantee right and the significance of this has been assessed by Gajendragadkar, J. in the following words:

"The fundamental right to move this Court can therefore be appropriately described as the cornerstone of the democratic edifice raised by the Constitution. That is why it is natural that this Court should, in the words of Patanjali Sastri, J., regard itself 'as the protector and guarantor of fundamental rights', and should declare that "it cannot, consistently with the responsibility laid upon it, refuse to entertain applications seeking protection against infringements of such rights. In discharging the duties assigned to it, this Court has to play the role of 'sentinel on the qui vive' (*State of Madras v. V.G. Row, AIR 1952 SC 196*) and it must always regard it as its solemn duty to protect the said fundamental rights 'zealously and vigilantly' (*Daryao v. State of U.P., AIR 1961 SC 1457*)."

DIRECTIVE PRINCIPLES OF STATE POLICY

The Sub-committee on Fundamental Rights constituted by the Constituent Assembly suggested two types of Fundamental Rights – one which can be enforced in the Courts of law and the other which because of their different nature cannot be enforced in the law Courts. Later on however, the former were put under the head 'Fundamental Rights' as Part III which we have already discussed and the latter were put separately in Part IV of the Constitution under the heading 'Directive Principles of State Policy' which are discussed in the following pages.

The Articles included in Part IV of the Constitution (Articles 36 to 51) contain certain Directives which are the guidelines for the Government to lead the country. Article 37 provides that the 'provisions contained in this part (i) shall not be enforceable by any Court, but the principles therein laid down are nevertheless (ii) fundamental in the governance of the country and it shall be the duty of the state to apply these principles in making laws. The Directives, however, differ from the fundamental rights contained in Part- III of the Constitution or the ordinary laws of the land in the following respects:

- (i) The Directives are not enforceable in the courts and do not create any justiciable rights in favour of individuals.
- (ii) The Directives require to be implemented by legislation and so long as there is no law carrying out the policy laid down in a Directive, neither the state nor an individual can violate any existing law.

- (iii) The Directives per-se do not confer upon or take away any legislative power from the appropriate legislature.
- (iv) The courts cannot declare any law as void on the ground that it contravenes any of the Directive Principles.
- (v) The courts are not competent to compel the Government to carry out any Directives or to make any law for that purpose.
- (vi) Though it is the duty of the state to implement the Directives, it can do so only subject to the limitations imposed by the different provisions of the Constitution upon the exercise of the legislative and executive power by the state.

Important Directive Principles

To be specific, the important Directive Principles are enumerated below:

- (a) State to secure a social order for the promotion of welfare of the people:
 - (1) The State must strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political should inform all the institutions of the national life.
 - (2) The State shall, in particular, strive to minimise the inequalities in income and endeavour to eliminate inequalities in status, facilities, and opportunities, not only amongst individuals but also among groups of people residing in different areas or engaged in different vocations. (Article 38).
- (b) Certain principles of policy to be followed by the State. The State, particularly, must direct its policy towards securing:
 - (i) that the citizens, men and women equally, have the right to an adequate means of livelihood;
 - (ii) that the ownership and control of the material resources of the community are so distributed as best to subserve the common goods;
 - (iii) that the operation of the economic systems does not result in the concentration of wealth and means of production to the common detriment;
 - (iv) equal pay for equal work for both men and women;
 - (v) that the health and strength of workers and children is not abused and citizens are not forced by the economic necessity to enter avocation unsuited to their age or strength;
 - (vi) that childhood, and youth are protected against exploitation and against moral and material abandonment (Article 39).
- (bb) The State shall secure that the operation of legal system promotes justice on a basis of equal opportunity, and shall, in particular provide free legal aid, by suitable legislation or schemes or in any other way, to ensure that opportunities for securing justice are not denied to any citizen by reason of economic or other disabilities (Article 39A).
- (c) The State must take steps to organise the Village Panchayats and enable them to function as units of self-government (Article 40).

- (d) Within the limits of economic capacity and development the State must make effective provision for securing the right to work, to education and to public assistance in case of unemployment, old age, etc. (Article 41).
- (e) Provision must be made for just and humane conditions of work and for maternity relief (Article 42).
- (f) The State must endeavour to secure living wage and good standard of life to all types of workers and must endeavour to promote cottage industries on an individual or co-operative basis in rural areas (Article 43).
- (ff) The State take steps, by suitable legislation or in any other way, to secure the participation of workers in the management of undertakings, establishments or other organisations engaged in any industry (Article 43A).
- (g) The State must endeavour to provide a uniform civil code for all Indian citizens (Article 44).
- (h) Provision for free and compulsory education for all children upto the age of fourteen years (Article 45).
- (i) The State must promote the educational and economic interests of Scheduled Castes, Scheduled Tribes and other weaker sections (Article 46).
- (j) The State must regard it one of its primary duties to raise the level of nutritional and the standard of living and to improve public health and in particular it must endeavour to bring about prohibition of the consumption, except for medicinal purposes, in intoxicating drinks and of drugs which are injurious to health (Article 47).
- (k) The State must organise agriculture and animal husbandry on modern and scientific lines and improve the breeds and prohibit the slaughter of cows and calves and other milch and draught cattle (Article 48).
- (kk) The State shall endeavour to protect and improve the environment and to safeguard the forests and wild life of the country (Article 48A).
- (l) Protection of monuments and places and objects of national importance is obligatory upon the State (Article 49).
- (m) The State must separate executive from judiciary in the public services of the State (Article 50).
- (n) In international matters the State must endeavour to promote peace and security, maintain just and honourable relations in respect of international law between nations, treaty obligations and encourage settlement of international disputes by arbitration (Article 51).

In State of Tamil Nadu Vs. L. Abu Kavur Bai (AIR 1984 SC 326) Supreme Court held that all though the directive principles are not enforceable yet the court should make an attempt at harmonising and reconciling the directive principles and the fundamental rights and any collision between the two should be avoided as far as possible.

FUNDAMENTAL DUTIES

Article 51A imposes the fundamental duties on every citizen of India. These Fundamental Duties are:

- (a) to abide by the constitution and respect its ideals and institutions, the National Flag and the National Anthem;

- (b) To cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
- (k) who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

Since the duties are imposed upon the citizens and not upon the States, legislation is necessary for their implementation. Fundamental duties can't be enforced by writs (*Surya Narain v. Union of India, AIR 1982 Raj 1*).

CITIZENSHIP

"The State is a compound made of citizens; and this compels us to consider who should properly be called a citizen and what a citizen really is. The nature of Citizenship like that of the State, is a question which is often disputed; there is no general agreement on a single definition; the man who is a citizen in democracy is often not one in an oligarchy."

Aristotle

National citizenship remains an essential and enduring feature of modern life in terms of politics and elections, welfare state benefits, all round integration etc. Articles 5 to 9 of the Constitution determine who are the Indian citizens at the commencement of the Constitution. Article 10 provides for their continuance as such citizens subject to the provisions of any law that may be made by Parliament. Article 11 entrust the Parliament with powers to regulate the right of citizenship. In other words, the Constitution under Article 11 expressly left acquisition and termination of citizenship and all other matters relating thereto to the Parliament by way of legislation. The legislation related to this matter is the Citizenship Act, 1955.

Article 5: Citizenship at the commencement of the Constitution

Article 5 provides that at the commencement of the Constitution, every person who has his domicile in the territory of India and—

- (a) Who was born in the territory of India; or
- (b) Either of whose parents was born in the territory of India; or

- (c) Who has been ordinarily resident in the territory of India for not less than five years immediately preceding such commencement, shall be a citizen of India.

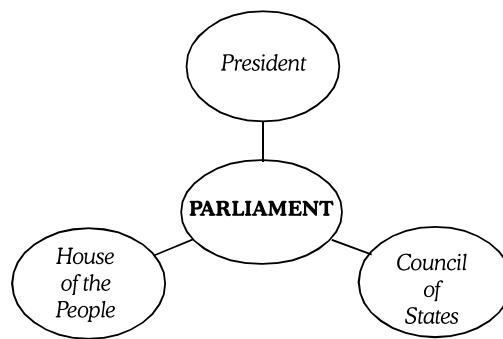
The Citizenship Act, 1955 has been passed by the Central Government providing the provisions for the acquisition and determination of Indian citizenship.

PARLIAMENT

There shall be a Parliament for the Union which shall consist of the President and two Houses to be known respectively as the Council of States and the House of the People.

President

The President shall be elected by the members of an electoral college consisting of— (a) the elected members of both Houses of Parliament; and (b) the elected members of the Legislative



Powers of the President

Article 53 the Constitution lays down that the executive power of the union shall be vested in the President. The President of India shall, thus, be the head of the 'executive power' of the union. The executive power may be defined as the power of "carrying on the business of Government" or "the administration of the affairs of the state" excepting functions which are vested in any other authority by the Constitution. Various powers that are included within the comprehensive expression 'executive power' in a modern state have been classified under following heads :

- (i) Administrative power, i.e., the execution of the laws and the administration of the departments of Government.
- (ii) Military power, i.e., the command of the armed forces and the conduct of war.
- (iii) Legislative power, i.e., the summoning prorogation, etc. of the legislature.
- (iv) Judicial power, i.e., granting of pardons, reprieves etc. to persons convicted of crime.

These powers vest in the President under each of these heads, subject to the limitations made under the Constitution.

Power to Promulgate Ordinance

The most important legislative power conferred on the President is to promulgate Ordinances. Article 123 of the Constitution provides that the President shall have the power to legislate by Ordinances at any time when it is not possible to have a parliamentary enactment on the subject, immediately. This is a special feature of the Constitution of India.

The ambit of this Ordinance-making power of the President is co-extensive with the legislative powers of Parliament, that is to say it may relate to any subject in respect of which Parliament has the right to legislate and is subject to the same constitutional limitations as legislation by Parliament.

Example: The Taxation Laws (Amendment) Ordinance, 2019 is an ordinance promulgated by the President of India.

Rajya Sabha (Council of States)

The Council of States shall consist of twelve members to be nominated by the President and not more than two hundred and thirty-eight representatives of the States and of the Union territories.

The allocation of seats in the Council of States to be filled by representatives of the States and of the Union territories shall be in accordance with the provisions in that behalf contained in the Fourth Schedule of the Constitution. The members to be nominated by the President shall consist of persons having special knowledge or practical experience in respect of literature, science, art and social service. The representatives of each State in the Council of States shall be elected by the elected members of the Legislative Assembly of the State in accordance with the system of proportional representation by means of the single transferable vote. The representatives of the Union territories in the Council of States shall be chosen in such manner as Parliament may by law prescribe.

Lok Sabha (House of the People)

Lok Sabha is composed of representatives of the people chosen by direct election on the basis of the adult suffrage. The maximum strength of the House envisaged by the Constitution is 552, which is made up by election of upto 530 members to represent the States, upto 20 members to represent the Union Territories and not more than two members of the Anglo-Indian Community to be nominated by the Hon'ble President, if, in his/her opinion, that community is not adequately represented in the House. The total elective membership is distributed among the States in such a way that the ratio between the number of seats allotted to each State and the population of the State is, so far as practicable, the same for all States.

COUNCIL OF MINISTERS

There shall be a Council of Ministers with the Prime Minister at the head to aid and advise the President who shall, in the exercise of his functions, act in accordance with such advice. The Prime Minister shall be appointed by the President and the other Ministers shall be appointed by the President on the advice of the Prime Minister. The total number of Ministers, including the Prime Minister, in the Council of Ministers shall not exceed fifteen per cent. of the total number of members of the House of the People.

The Ministers shall continue office at the pleasure of the President. The Council of Ministers shall be collectively responsible to the House of the People. Before a Minister enters upon his office, the President shall administer to him the oaths of office and of secrecy. The salaries and allowances of Ministers shall be such as Parliament may from time to time by law determine and, until Parliament so determines, shall be as specified in the Second Schedule.

The total number of Ministers, including the Prime Minister, in the Council of Ministers shall not exceed fifteen per cent of the total number of members of the House of the People.

CONSTITUTION OF LEGISLATURES IN STATES

For every State there shall be a Legislature which shall consist of the Governor, and

- (i) in the States of Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Telangana and Uttar Pradesh having two Houses
- (ii) in other States, one House.

Where there are two Houses of the Legislature of a State, one shall be known as the Legislative Council and the other as the Legislative Assembly, and where there is only one House, it shall be known as the Legislative Assembly.

The Legislative Assembly of each State shall consist of not more than five hundred, and not less than sixty, members chosen by direct election from territorial constituencies in the State. The total number of members in the Legislative Council of a State having such a Council shall not exceed one third of the total number of members in the Legislative Assembly of that State. The total number of members in the Legislative Council of a State shall in no case be less than forty.

Legislative Assembly of every State, unless sooner dissolved, shall continue for five years from the date appointed for its first meeting and no longer and the expiration of the said period of five years shall operate as a dissolution of the Assembly. The Legislative Council of a State shall not be subject to dissolution, but as nearly as possible one third of the members thereof shall retire as soon as may be on the expiration of every second year in accordance with the provisions made in that behalf by Parliament by law.

STATES HAVING LEGISLATIVE COUNCIL

Andhra Pradesh

Bihar

Madhya Pradesh

Maharashtra

Karnataka

Tamil Nadu

Uttar Pradesh

GOVERNOR

The executive power of the State is vested in the Governor and all executive action of the State has to be taken in the name of the Governor. Normally there shall be a Governor for each State but the same person can be appointed as Governor for two or more states. The Governor of a State is not elected but is appointed by the President and holds his office at the pleasure of the President. The head of the executive power to a State is the Governor just as the President for the Union.

The Governor possesses executive, legislation and judicial powers as the Presidents except that he has no diplomatic or military powers like the President.

The Governor's power to make Ordinances as given under Article 213 is similar to the Ordinance making power of the President and have the force of an Act of the State Legislature. He can make Ordinance only when the state Legislature or either of the two Houses (where it is bicameral) is not in session. He must be satisfied that circumstances exist which render it necessary to take immediate action. While exercising this power, the Governor must act with the aid and advise of the Council of Ministers. But in following cases, the Governor cannot promulgate any Ordinance without instructions from the President:

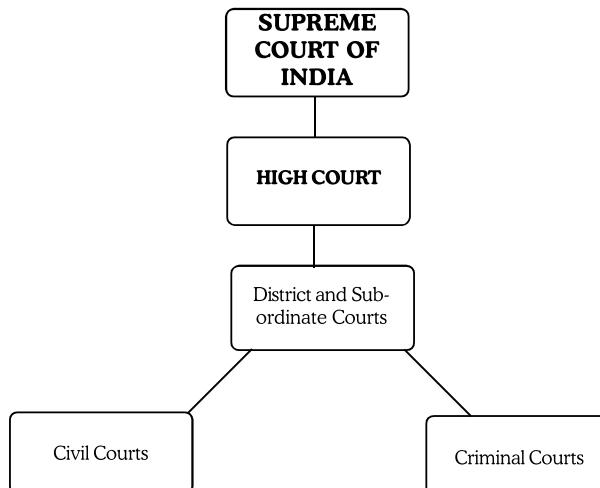
- (a) if a Bill containing the same provisions would under this constitution have required the previous sanction of the President.
- (b) he would have deemed it necessary to reserve a Bill containing the same provisions for the consideration of the President.
- (c) an Act of the state legislature containing the same provisions would under this constitution have been invalid unless, having been reserved for the consideration of the President, it had received the assent of the President.

The Ordinance must be laid before the state legislature (when it re-assembles) and shall automatically cease to have effect at the expiration of six weeks from the date of the re-assembly unless disapproved earlier by that legislature.

THE JUDICIARY

The Supreme Court

The Courts in the Indian speaking, consist of (i) the Supreme Court, (ii) the High Courts, and (iii) the Subordinate Courts. The Supreme Court, which is the highest Court in the country (both for matters of ordinary law and for interpreting the Constitution) is an institution created by the Constitution. Immediately before independence, the highest appellate authority for British India, for matters arising under ordinary law. But appeals from High Courts in constitutional Court (created under the Government of India Act, 1935) and hence to the Privy Council. The Supreme Court of India, in this sense, has inherited the jurisdiction of both the Privy Council and the Federal Court. However, the jurisdiction of the Supreme Court under the present Constitution is much more extensive than that of its two predecessors mentioned above.



The Supreme Court, entertains appeals (in civil and criminal and other cases) from High Courts and certain Tribunals. It has also writ jurisdiction for enforcing Fundamental Rights. It can advise the President on a reference made by the President on questions of fact and law. It has a variety of other special jurisdictions.

High Courts

The High Courts that function under the Constitution were not created for the first time by the Constitution. Some High Courts existed before the Constitution, although some new High Courts have been created after 1950. The High Courts in (British) India were established first under the Indian High Courts Act, 1861 (an Act of the U.K. Parliament). The remaining High Courts were established or continued under the Constitution or under special Acts. High Courts for each State (or Group of States) have appellate, civil and criminal jurisdiction over lower Courts. High Courts have writ jurisdiction to enforce fundamental rights and for certain other purposes.

Some High Courts (notably) Bombay, Calcutta and Delhi, have ordinary original civil jurisdiction (i.e. jurisdiction to try regular civil suits) for their respective cities. High Courts can also hear references made by the Income Tax Appellate Tribunal under the Income Tax Act and other tribunals.

It should be added, that the "writ" jurisdiction vested at present in all High Courts by the Constitution was (before the Constitution came into force) vested only in the High Courts of Bombay, Calcutta and Madras (i.e. the three Presidency towns).

Subordinate Courts

Finally, there are various subordinate civil and criminal courts (original and appellate), functioning under ordinary law. Although their nomenclature and powers have undergone change from time to time, the basic pattern remains the same. These have been created, not under the Constitution, but under laws of the competent legislature. Civil Courts are created mostly under the Civil Courts Act of each State. Criminal courts are created mainly under the Bharatiya Nagarik Suraksha Sanhita, 2023.

Civil Courts

In each district, there is a District Court presided over by the District Judge, with a number of Additional District Judges attached to the court. Below that Court are Courts of Judges (sometimes called subordinate Judges) and in, some States, Munsiffs. These Courts are created under State Laws.

Criminal Courts

Criminal courts in India primarily consist of the Magistrate and the Courts of Session. Magistrates themselves have been divided by the Bharatiya Nagarik Suraksha Sanhita, 2023 into 'Judicial' and 'Executive' Magistrates.

Executive Magistrate

The Executive Magistrate do not try criminal prosecutions, and their jurisdiction is confined to certain miscellaneous cases, which are of importance for public tranquillity and the like. Their proceedings do not end in conviction or acquittal, but in certain other types of restrictive orders. In some States, by local amendments, Executive Magistrates have been vested with powers to try certain offences.

Judicial Magistrate

Judicial Magistrates, are of two classes: Second Class and First Class. Judicial Magistrates are subject to the control of the Court of Session, which also in itself a Court of original jurisdiction. The powers of Magistrates of the two classes, vary according to their grade. The Court of Session can try all offences, and has power to award any sentence, prescribed by law for the offence, but a sentence of death requires confirmation by the High Court.

In some big cities (including the three Presidency towns and Ahmedabad and Delhi), the Magistrates are called Metropolitan Magistrates. There is no gradation inter se. Further, in some big cities (including the three Presidency towns and Ahmedabad and Hyderabad), the Sessions Court is called the "City Sessions Court", its powers being the same as those of the Courts of Session in the districts.

Special Tribunals

Besides these Courts, which form part of the general judicial set up, there are specialised Tribunals

dealing with Direct Taxes, Labour, Customs, Claims for accidents caused by motor vehicles, Copyright and Environment, Anti- Competitive Agreement etc.

WRIT JURISDICTION OF HIGH COURTS AND SUPREME COURT

Under the Constitution by virtue of Article 226, every High Court has the power to issue directions or orders or writs including writs in the nature of Habeas corpus, Mandamus, Prohibition, Quo warranto and Certiorari or any of them for the enforcement of fundamental rights stipulated in Part III of the Constitution or for any other purpose. This power is exercisable by each High Court throughout the territory in relation to which it exercises jurisdiction.

A person can also approach the Supreme Court by appropriate proceedings for the issue of directions or orders or writs, as referred to under Article 226 for the enforcement of the rights guaranteed by Part III of the Constitution. Article 32 itself being a fundamental right, the Constitutional remedy of writ is available to anyone whose fundamental rights are infringed by state action.

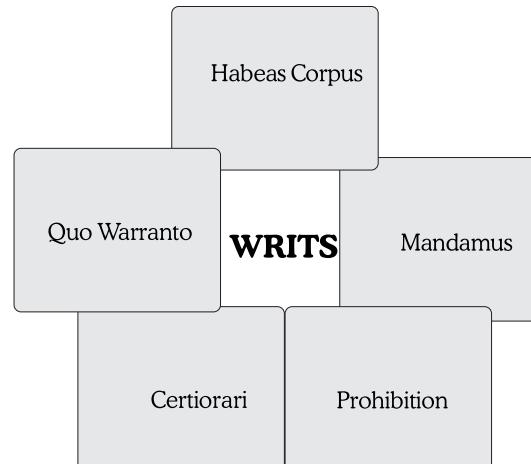
Types of Writs

A brief description of the various types of writs is given below:

1. Habeas Corpus

The writ of Habeas corpus - an effective bulwark of personal liberty – is a remedy available to a person who is confined without legal justification. The words 'Habeas Corpus' literally mean a prima facie case for the issue of writ has been made then the Court issues a rule nisi upon the relevant authority to show cause why the writ should not be issued. This is in national order to let the Court know on what grounds he has been confined and to set him free if there is no justification for his detention. This writ has to be obeyed by the detaining authority by producing the person before the Court.

Under Articles 32 and 226 any person can move for this writ to the Supreme Court and High Court respectively. The applicant may be the prisoner or any person acting on his behalf to safeguard his liberty for the issuance of the writ of Habeas Corpus as no man can be punished or deprived of his personal liberty except for violation of law and in the ordinary legal manner. An appeal to the Supreme Court of India may lie against an order granting or rejecting the application (Articles 132, 134 or 136). The disobedience to this writ is met with punishment for contempt of Court under the Contempt of Courts Act.



Example: Writ petition to seek the direction of the court to prohibit the subordinate court from usurping the jurisdiction..

2. Mandamus

The word 'Mandamus' literally means we command. The writ of mandamus is, a command issued to direct any person, corporation, inferior court, or Government requiring him or it do a particular thing specified therein which pertains to his or its office and is further in the nature of a public duty. This writ is used when the inferior tribunal has declined to exercise jurisdiction while resort to certiorari and prohibition arises when the tribunal has wrongly exercised jurisdiction or exceeded its jurisdiction and are available only against judicial and quasi-judicial bodies. Mandamus can be issued against any public authority. It commands activity. The writ is used for securing judicial enforcement of public duties. In a fit case, Court can direct executives to carry out Directive Principles of the Constitution through this writ (State of Maharashtra v. MP Vashi, 1995 (4) SCALE). The applicant must have a legal right to the performance of a legal duty by the person against whom the writ is prayed for. It is not issued if the authority has a discretion.

The Constitution of India by Articles 226 and 32 enables mandamus to be issued by the High Courts and the Supreme Court to all authorities.

Example: Writ petition to seek the direction of the court to prohibit the subordinate court from usurping the jurisdiction..

3. Prohibition

A writ of prohibition is issued to an Inferior Court preventing the latter from usurping jurisdiction which is not legally vested in it. When a tribunal acts without or in excess of jurisdiction, or in violation of rules or law, a writ of prohibition can be asked for. It is generally issued before the trial of the case.

While mandamus commands activity, prohibition commands inactivity, it is available only against judicial or quasi-judicial authorities and is not available against a public officer who is not vested with judicial functions. If abuse of power is apparent this writ may be of right and not a matter of discretion.

4. Certiorari

It is available to any person, wherever anybody of persons having legal authority to determine questions affecting the rights of subjects and having the duty to act judicially in excess of their legal authority" (See *The King v. Electricity Commissioners*, (1924) I.K.B. 171, P. 204-5).

The writ removes the proceedings from such body to the High Court, to quash a decision that goes beyond its jurisdiction. Under the Constitution of India, all High Courts can issue the writ of certiorari throughout their territorial jurisdiction when the subordinate judicial authority acts (i) without or in excess of jurisdiction or (ii) in contravention of the rules of natural justice or (iii) commits an error apparent on the face of the record. The jurisdiction of the Supreme Court to issue such writs arises under Article 32. Although the object of both the writs of prohibition and of certiorari is the same, prohibition is available at an earlier stage whereas certiorari is available at a later stage but on similar grounds i.e. Certiorari is issued after authority has exercised its powers.

Example: Writ petition to seek the direction of the court for removes the proceedings from such body.

5. Quo Warranto

The writ of quo warranto enables enquiry into the legality of the claim which a person asserts, to an office or franchise and to oust him from such position if he is an usurper. The holder of the office has to show to the court under what authority he holds the office. It is issued when:

- (i) the office is of public and of a substantive nature,
- (ii) created by statute or by the Constitution itself, and
- (iii) the respondent has asserted his claim to the office. It can be issued even though he has not assumed the charge of the office.

The fundamental basis of the proceeding of Quo warranto is that the public has an interest to see that a lawful claimant does not usurp a public office. It is a discretionary remedy which the court may grant or refuse.

Example: Writ petition to seek the direction of the court to order inquiry of an office.

MAJOR CONSTITUTIONAL AMENDMENTS 1951 - 2023

The Constitution (First Amendment) Act, 1951

- Added Ninth Schedule to protect the land reform and other laws included in it from the judicial review.
- Added three more grounds of restrictions on freedom of speech and expression, viz., public order, friendly relations with foreign states and incitement to an offence. Also, made the restrictions 'reasonable' and thus, justiciable in nature.
- Empowered the state to make special provisions for the advancement of socially and economically backward classes.

The Constitution (Second Amendment) Act, 1952

The scale of representation in the Lok Sabha by providing that one member could represent even more than 7,50,000 persons.

Constitution (Forty – Second Amendment) Act, 1976

- It is also known as Mini-Constitution. It was enacted to give effect to the recommendations of Swaran Singh Committee).
- Added three new words (i.e., socialist, secular and integrity) in the Preamble.
- Added Fundamental Duties by the citizens (new Part IV A).
- Made the president bound by the advice of the cabinet.

- Added three new Directive Principles viz., equal justice and free legal aid, participation of workers in the management of industries, protection and improvement of environment and safeguarding of forest & wild life.
- Shifted five subjects from the state list to the concurrent list, viz, education, forests, protection of wild animals and birds, weights and measures and administration of justice, constitution and organisation of all courts except the Supreme Court and the high courts.
- Empowered the Centre to deploy its armed forces in any state to deal with a grave situation of law and order.

Constitution (Fifty – Second Amendment) Act, 1985

- This amendment popularly known as Anti-Defection Law
- Provided for disqualification of members of Parliament and state legislatures on the ground of defection and added a new Tenth Schedule containing the details in this regard.

Constitution (Sixty – First Amendment) Act, 1989

Reduced the voting age from 21 years to 18 years for the Lok Sabha and state legislative assembly elections.

Constitution (Sixty – Ninth Amendment) Act, 1991

Accorded a special status to the Union Territory of Delhi by designing it as the National Capital Territory of Delhi.

Constitution (Seventieth Amendment) Act, 1989

Provided for the inclusion of the members of the Legislative Assemblies of National Capital Territory of Delhi and the Union Territory of Puducherry in the Electoral College for the election of the president.

Constitution (Eighty-Fourth Amendment) Act, 2001

The number of seats in the Lok Sabha and the assemblies are to remain same till 2026.

Constitution (Eighty-Sixth Amendment) Act, 2002

- Made elementary education a fundamental right. Added Article 21-A which declares that "the State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may determine".
- Changed the subject matter of Article 45 in Directive Principles. It now reads—"The State shall endeavour to provide early childhood care and education for all children until they complete the age of six years".
- Added a new fundamental duty under Article 51-A which reads—"It shall be the duty of every citizen of India who is a parent or guardian to provide opportunities for education to his child or ward between the age of six and fourteen years".

Constitution (Ninety-First Amendment) Act, 2003

- The total number of ministers, including the Prime Minister, in the Central Council of Ministers shall not exceed 15% of the total strength of the Lok Sabha [Article 75(1A)].
- The total number of ministers, including the Chief Minister, in the Council of Ministers in a state shall not exceed 15% of the total strength of the legislative Assembly of that state. But, the number of ministers, including the Chief Minister, in a state shall not be less than 12 [Article 164(1A)].
- The provision of the Tenth Schedule (anti-defection law) pertaining to exemption from disqualification in case of split by one-third members of legislature party has been deleted. It means that the defectors have no more protection on grounds of splits.

Constitution (One Hundred-One Amendment) Act, 2016

- Goods and Services Tax (GST) has commenced with the enactment of the 101st Constitution Amendment Act, 2016.
- Articles 246A, 269A and 279A were added in the constitution. The amendment made changes in the 7th schedule of the constitution.

Constitution (One Hundred-Second Amendment) Act, 2018

- Constitutional status to the National Commission for Backward Classes.
- Inserted a new Article 342-A which empowers President to notify the list of socially and educationally backward classes of that state/union territory.

Constitution (One Hundred-Third Amendment) Act, 2019

It changed two fundamental rights, Article 15 and 16. It provides for the advancement of the economically weaker sections of society. Ten (10%) of all government jobs and college seats will be reserved for people outside the high-income bracket.

Constitution (One Hundred-Fifth Amendment) Act, 2021

This amendment inserted proviso to clause 338B(9) of the Constitution of India which is relating to National Commission for Backward Classes. The Clause added is as under:

“Provided that nothing in this clause shall apply for the purpose of Article 342A(3) which is relating to provisions relating to Socially and educationally backward classes.

Further, Article 342A has also been amended by certain amendments and insertions.

The definition of “socially and educationally backward classes” has also been inserted as clause 26C of Article 366 of the Constitution of India.

Constitution (One Hundred-Sixth Amendment) Act, 2023

1. Article 239AA(2)(ba), 239AA(2)(bb) and 239AA(2)(bc) have been. The amendment is relating to reservation for Women in Legislative Assembly of the National Capital Territory of Delhi.

2. Article 330A has been inserted. The amendment is relating to reservation of women in House of the People(Lok Sabha).
3. Article 332A has been inserted. The amendment is relating to reservation of women in Legislative assembly of other states.
4. The reservation of seats for women in the House of the People, the Legislative Assembly of a State and the Legislative Assembly of the National Capital Territory of Delhi shall come into effect after an exercise of delimitation is undertaken for this purpose after the relevant figures for the first census taken after commencement of the Constitution (One Hundred and Sixth Amendment) Act, 2023 have been published and shall cease to have effect on the expiration of a period of fifteen years from such commencement.
5. The amendments made to the Constitution by the Constitution (One Hundred and Sixth Amendment) Act, 2023 shall not affect any representation in the House of the People, the Legislative Assembly of a State or the Legislative Assembly of the National Capital Territory of Delhi until the dissolution of the House of the People, the Legislative Assembly of a State or the Legislative Assembly of the National Capital Territory of Delhi, as the case may be, in existence at the commencement of the said Act.

LESSON 2

ELEMENTS OF GENERAL LAWS (INDIAN CONTRACT ACT AND LAW OF TORTS)

LAW OF CONTRACT

INTRODUCTION

A contract is an agreement enforceable at law, made between two or more persons, by which rights are acquired by one or more to acts or forbearances on the part of the other or others. A contract is an agreement creating and defining obligations between the parties.

The Indian Contract Act, 1872 lays down general principles relating to formation and enforceability of contracts; rules governing the provisions of an agreement and offer; the various types of contracts including those of indemnity and guarantee, bailment and pledge and agency. It also contains provisions pertaining to breach of a contract.

The Law of Contract constitutes the most important branch of Mercantile or Commercial Law. It affects everybody, more so, trade, commerce and industry. It may be said that the contract is the foundation of the civilized world.

The Indian Contract Act, 1872 came into force on the first day of September, 1872. The preamble to the Act says that it is an Act "to define and amend certain parts of the law relating to contract". The Act is by no means exhaustive on the law of contract. It does not deal with all the branches of the law of contract. Thus, contracts relating to partnership, sale of goods, negotiable instruments, insurance etc. are dealt with by separate Acts. The Indian Contract Act majorly deals with the general principles and rules governing contracts. The Act is divisible into two parts:

- The first part (Section 1-75) deals with the general principles of the law of contract, and therefore applies to all contracts irrespective of their nature.
- The second part (Sections 124-238) deals with certain special kinds of contracts, namely contracts of Indemnity and Guarantee, Bailment, Pledge, and Agency.

CONTRACT

The Indian Contract Act has defined "Contract" in Section 2(h) as "an agreement enforceable by law". This definition indicate that a contract essentially consists of two distinct parts. First, there must be an agreement. Secondly, such an agreement must be enforceable by law. To be enforceable, an agreement must be coupled with an obligation. A contract therefore, is a combination of the two elements:

- An agreement, and
- An obligation.

AGREEMENT

An agreement gives birth to a contract. As per Section 2(e) of the Indian Contract Act every promise and every set of promises, forming the consideration for each other, is an agreement.

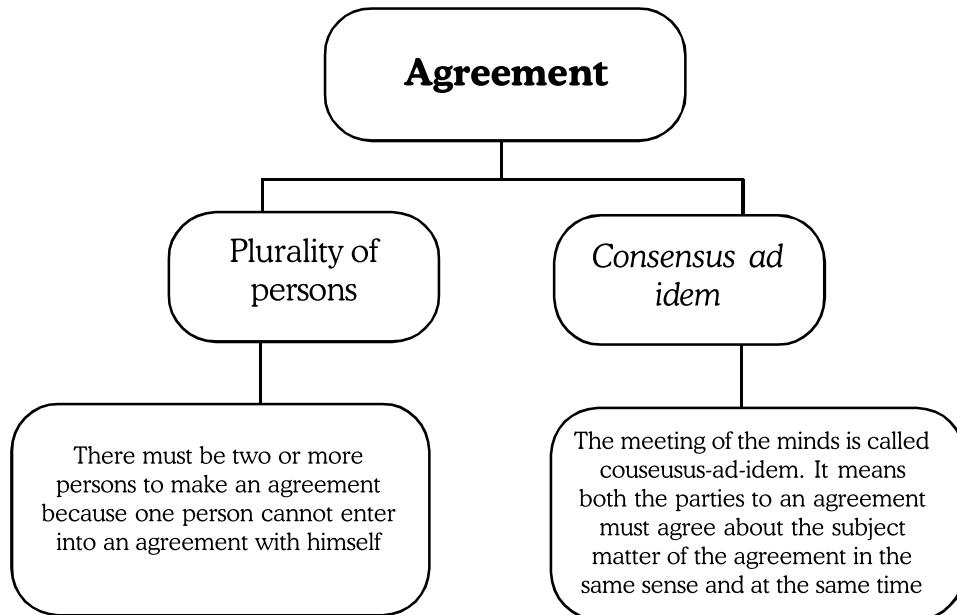
It is evident from the definition given above that an agreement is based on a promise. What is a promise? According to Section 2(b) of the Indian Contract Act "when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted,

becomes a promise. An agreement, therefore, comes into existence when one party makes a proposal or offer to the other party and that other party signifies his assent thereto. In a nutshell, an agreement is the sum total of offer and acceptance."

Example: Mr. A orally agreed to supply 50 Kg Rice of a certain brand and quality to Mr. B and to receive payment against it. Is it an agreement?

Yes, it is an agreement.

An analysis of the definition given above reveals the following characteristics of an agreement:



OBLIGATION

An obligation is the legal duty to do or abstain from doing what one has promised to do or abstain from doing. A contractual obligation arises from a bargain between the parties to the agreement who are called the promisor and the promisee. Section 2(b) says that when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted; and a proposal when accepted becomes a promise. In broad sense, therefore, a contract is an exchange of promises by two or more persons, resulting in an obligation to do or abstain from doing a particular act, where such obligation is recognised and enforced by law.

Rights and Obligations

Where parties have made a binding contract, they have created rights and obligations between themselves. The contractual rights and obligations are correlative, e.g., A agrees with B to sell his car for Rs.10,00,000/- to him. In this example, the following rights and obligations have been created:

- (i) A is under an obligation to deliver the car to B. B has a corresponding right to receive the car.
- (ii) B is under an obligation to pay Rs.10,00,000/- to A. A has a correlative right to receive Rs.10,00,000/-.

Agreements which are not Contracts

Agreements in which the idea of bargain is absent and there is no intention to create legal relations are not contracts. These are:

- (a) *Agreements relating to social matters* : An agreement between two persons to go together to the cinema, or for a walk, does not create a legal obligation on their part to abide by it. Similarly, if I promise to take you for dinner and break that promise, I do not expect to be liable to legal penalties. There cannot be any offer and acceptance to hospitality.
- (b) *Domestic arrangements between husband and wife* : In *Balfour v. Balfour* (1919) 2 KB 571, a husband working in Ceylon, had agreed in writing to pay a housekeeping allowance to his wife living in England. On receiving information that she was unfaithful to him, he stopped the allowance. He was held to be entitled to do so. This was a mere domestic arrangement with no intention to create legally binding relations. Therefore, there was no contract.

Three consequences follow from the above discussion

- To constitute a contract, the parties must intend to create legal relationship.
- The law of contract is the law of those agreements which create obligations, and those obligations have their source in agreement.
- Agreement is the genus of which contract is the specie and, therefore, all contracts are agreements but all agreements are not contracts.

Essential Elements of a Valid Contract

Section 10 of the Indian Contract Act, 1872 provides that “all agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void”.

The essential elements of a valid contract are:

- (i) An offer or proposal by one party and acceptance of that offer by another party resulting in an Agreement – *consensus-ad-idem*.
- (ii) An intention to create legal relations or an intent to have legal consequences.
- (iii) The agreement is supported by a lawful consideration.
- (iv) The parties to the contract are legally capable of contracting.
- (v) Genuine consent between the parties.
- (vi) The object and consideration of the contract is legal and is not opposed to public policy.
- (vii) The terms of the contract are certain.
- (viii) The agreement is capable of being performed i.e., it is not impossible of being performed.

Therefore, to form a valid contract there must be:

- An agreement
- Based on the genuine consent of the parties
- Supported by a lawful consideration

- Made for a lawful object, and
- Between the competent parties.

Example: There is an agreement with a term that A will provide 50 kg of Wheat on a price of more than Rs. Per 50 Kg?

An agreement cannot be on ambiguous terms. Therefore, this agreement is not valid.

Offer or Proposal and Acceptance

One of the early steps in the formation of a contract lies in arriving at an agreement between the contracting parties by means of an offer and acceptance. Thus, when one party (the offeror) makes a definite proposal to another party (the offeree) and the offeree accepts it in its entirety and without any qualification, there is a meeting of the minds of the parties and a contract comes into being, assuming that all other elements are also present.

A proposal is also termed as an offer. The word 'proposal' is synonymous with the English word "offer". An offer is a proposal by one person, whereby he expresses his willingness to enter into a contractual obligation in return for a promise, act or forbearance. Section 2(a) of the Indian Contract Act defines proposal or offer as "when one person signifies to another his willingness to do or abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal". The person making the proposal or offer is called the proposer or offeror and the person to whom the proposal is made is called the offeree.

Rules Governing Offers

A valid offer must comply with the following rules:

- (a) An offer must be clear, definite, complete and final. It must not be vague. For example, a promise to pay an increased price for a horse if it proves lucky to promisor, is too vague and is not binding.
- (b) An offer must be communicated to the offeree. An offer becomes effective only when it has been communicated to the offeree so as to give him an opportunity to accept or reject the same.
- (c) The communication of an offer may be made by express words-oral or written-or it may be implied by conduct.
- (d) The communication of the offer may be general or specific. Where an offer is made to a specific person it is called specific offer and it can be accepted only by that person. But when an offer is addressed to an uncertain body of individuals i.e. the world at large, it is a general offer and can be accepted by any member of the general public by fulfilling the condition laid down in the offer'.

Lapse of Offer

Section 6 deals with various modes of lapse of an offer. It states that an offer lapses if–

- (a) It is not accepted within the specified time (if any) or after a reasonable time, if none is specified;
- (b) It is not accepted in the mode prescribed or if no mode is prescribed in some usual and reasonable manner, e.g., by sending a letter by mail when early reply was requested;

- (c) The offeree rejects it by distinct refusal to accept it;
- (d) Either the offeror or the offeree dies before acceptance;
- (e) The acceptor fails to fulfil a condition precedent to an acceptance.
- (f) The offeree makes a counter offer, it amounts to rejection of the offer and an offer by the offeree may be accepted or rejected by the offeror.

Revocation of Offer by the Offeror

- An offer may be revoked by the offeror at any time before acceptance.
- Revocation must be communicated to the offeree, as it does not take effect until it is actually communicated to the offeree. Before its actual communication, the offeree, may accept the offer and create a binding contract. The revocation must reach the offeree before he sends out the acceptance.
- An offer to keep open for a specified time (option) is not binding unless it is supported by consideration.

Acceptance

A contract emerges from the acceptance of an offer. Acceptance is the act of assenting by the offeree to an offer. Under Section 2(b) of the Contract Act when a person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted becomes a promise.

Rules Governing Acceptance

- (a) Acceptance may be express i.e. by words spoken or written or implied from the conduct of the parties.
- (b) If a particular method of acceptance is prescribed, the offer must be accepted in the prescribed manner.
- (c) Acceptance must be unqualified and absolute and must correspond with all the terms of the offer.
- (d) A counter offer or conditional acceptance operates as a rejection of the offer and causes it to lapse, e.g., where a horse is offered for Rs.1,000 and the offeree counter-offers Rs.990, the offer lapses by rejection.
- (e) Acceptance must be communicated to the offeror, for acceptance is complete the moment it is communicated. Where the offeree merely intended to accept but does not communicate his intention to the offeror, there is no contract. Mere mental acceptance is not enough.
- (f) Mere silence on the part of the offeree does not amount to acceptance.

Ordinarily, the offeror cannot frame his offer in such a way as to make the silence or inaction of the offeree as an acceptance. In other words, the offeror can prescribe the mode of acceptance but not the mode of rejection.

- (g) If the offer is one which is to be accepted by being acted upon, no communication of acceptance to the offeror is necessary, unless communication is stipulated for in the offer itself.

Thus, if a reward is offered for finding a lost dog, the offer is accepted by finding the dog after reading about the offer, and it is unnecessary before beginning to search for the dog to give notice of acceptance to the offeror.

- (h) Acceptance must be given within a reasonable time and before the offer lapses or is revoked. An offer becomes irrevocable by acceptance.

An acceptance never precedes an offer. There can be no acceptance of an offer which is not communicated. Similarly, performance of conditions of an offer without the knowledge of the specific offer, is no acceptance.

Contracts over the Telephone

Contracts over the telephone are regarded the same in principle as those negotiated by the parties in the actual presence of each other. In both cases an oral offer is made and an oral acceptance is expected. It is important that the acceptance must be audible, heard and understood by the offeror. If during the conversation the telephone lines go "dead" and the offeror does not hear the offeree's word of acceptance, there is no contract at the moment. If the whole conversation is repeated and the offeror hears and understands the words of acceptance, the contract is complete (Kanhaiyalal v. Dineshwarchandra (1959) AIR, M.P. 234).

Intention to Create Legal Relations

The second essential element of a valid contract is that there must be an intention among the parties that the agreement should be attached by legal consequences and create legal obligations. If there is no such intention on the part of the parties, there is no contract between them. Agreements of a social or domestic nature do not contemplate legal relationship. As such they are not contracts.

A proposal or an offer is made with a view to obtain the assent of the other party and when that other party expresses his willingness to the act or abstinence proposed, he accepts the offer and a contract is made between the two. But both offer and acceptance must be made with the intention of creating legal relations between the parties. The test of intention is objective. The Courts seek to give effect to the presumed intention of the parties. Where necessary, the Court would look into the conduct of the parties, for much can be inferred from the conduct. The Court is not concerned with the mental intention of the parties, rather what a reasonable man would say, was the intention of the parties, having regard to all the circumstances of the case.

For example, if two persons agree to assist each other by rendering advice, in the pursuit of virtue, science or art, it cannot be regarded as a contract. In commercial and business agreements, the presumption is usually that the parties intended to create legal relations. But this presumption is rebuttable which means that it must be shown that the parties did not intend to be legally bound.

Consideration

Consideration is one of the essential elements of a valid contract. The requirement of consideration stems from the policy of extending the arm of the law to the enforcement of mutual promises of parties. A mere promise is not enforceable at law. For example, if A promises to make a gift of Rs. 500 to B, and subsequently changes his mind, B cannot succeed against A for breach of promise, as B has not given anything in return.

It is only when a promise is made for something in return from the promisee, that such promise can be enforced by law against the promisor. This something in return is the consideration for the promise.

Sir Fredrick Pollock has defined consideration "as an act or forbearance of one party, or the promise thereof is the price for which the promise of the other is bought".

It is "some right, interest, profit, or benefit accruing to one party or some forbearance, detriment, loss or responsibility, given, suffered or undertaken by the other" (*Currie v. Misa* (1875) L.R. 10 Ex. 153).

Section 2(d) of the Indian Contract Act, 1872 defines consideration thus: "when at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing something, such act or abstinence or promise is called a consideration for the promise".

The fundamental principle that consideration is essential in every contract, is laid down by both the definitions but there are some important points of difference in respect of the nature and extent of consideration and parties to it under the two systems:

- (a) Consideration at the desire of the promisor : Section 2(d) of the Act begins with the statement that consideration must move at the desire or request of the promisor. This means that whatever is done must have been done at the desire of the promisor and not voluntarily or not at the desire of a third party. If A rushes to B's help whose house is on fire, there is no consideration but a voluntary act. But if A goes to B's help at B's request, there is good consideration as B did not wish to do the act gratuitously.
- (b) Consideration may move from the promisee or any other person : In English law, consideration must move from the promisee, so that a stranger to the consideration cannot sue on the contract. A person seeking to enforce a simple contract must prove in court that he himself has given the consideration in return for the promise he is seeking to enforce.

In Indian law, however, consideration may move from the promisee or any other person, so that a stranger to the consideration may maintain a suit. In *Chinnaya v. Ramaya*, (1882) 4 Mad. 137, a lady by a deed of gift made over certain property to her daughter directing her to pay an annuity to the donor's brother as had been done by the donor herself before she gifted the property. On the same day, her daughter executed in writing in favour of the donor's brother agreeing to pay the annuity. Afterwards the donee (the daughter) declined to fulfil her promise to pay her uncle saying that no consideration had moved from him. The Court, however, held that the uncle could sue even though no part of the consideration received by his niece moved from him. The consideration from her mother was sufficient consideration.

Example: A & B, entered into a contract in which A will send goods to B free of cost and B is not required to do anything against it. Is the contract valid?

No, a valid contract must have consideration.

Privity of Contract

A stranger to a contract cannot sue both under the English and Indian law for want of privity of contract. The following illustration explains this point.

In *Dunlop Pneumatic Tyre Co. v. Selfridge Ltd.* (1915) A.C. 847, D supplied tyres to a wholesaler X, on

condition that any retailer to whom X re-supplied the tyres should promise X, not to sell them to the public below D's list price. X supplied tyres to S upon this condition, but nevertheless S sold the tyres below the list price. Held: There was a contract between D and X and a contract between X and S. Therefore, D could not obtain damages from S, as D had not given any consideration for S's promise to X nor was he party to the contract between D and X.

Thus, a person who is not a party to a contract cannot sue upon it even though the contract is for his benefit. A, who is indebted to B, sells his property to C, and C the purchaser of the property, promises to pay off the debt to B. In case C fails to pay B, B has no right to sue C for there is no privity of contract between B and C.

Kinds of Consideration

Consideration may be:

- (a) Executory or future which means that it makes the form of promise to be performed in the future, e.g., an engagement to marry someone; or
- (b) Executed or present in which it is an act or forbearance made or suffered for a promise. In other words, the act constituting consideration is wholly or completely performed, e.g., if A pays today Rs.100 to a shopkeeper for goods which are promised to be supplied the next day, A has executed his consideration but the shopkeeper is giving executory consideration—a promise to be executed the following day. If the price is paid by the buyer and the goods are delivered by the seller at the same time, consideration is executed by both the parties.
- (c) Past which means a past act or forbearance, that is to say, an act constituting consideration which took place and is complete (wholly executed) before the promise is made.

Rules Governing Consideration

- (a) Every simple contact must be supported by valuable consideration otherwise it is formally void subject to some exceptions.
- (b) Consideration may be an act of abstinence or promise.
- (c) There must be mutuality i.e., each party must do or agree to do something. A gratuitous promise as in the case of subscription for charity, is not enforceable.
- (d) Consideration must be real, and not vague, indefinite, or illusory, e.g., a son's promise to "stop being a nuisance" to his father, being vague, is no consideration.
- (e) Although consideration must have some value, it need not be adequate i.e., a full return for the promise. Section 25 (Exp. II) clearly provides that "an agreement to which the consent of the promisor is freely given is not void merely because the consideration is inadequate."
- (f) Consideration must be lawful, e.g., it must not be some illegal act such as paying someone to commit a crime. If the consideration is unlawful, the agreement is void.
- (g) Consideration must be something more than the promisee is already bound to do for the promisor. Thus, an agreement to perform an existing obligation made with the person to whom the obligation is already owed, is not made for consideration

When Consideration not Necessary

The general rule is that an agreement made without consideration is void. But Section 25 of the Indian Contract Act lays down certain exceptions which make a promise without consideration valid and binding. Thus, an agreement without consideration is valid:

- If it is expressed in writing and registered and is made out of natural love and affection between parties standing in a near relation to each other; or
- If it is made to compensate a person who has already done something voluntarily for the promisor, or done something which the promisor was legally compellable to do; or
- If it is promise in writing and signed by the person to be charged therewith, or by his agent, to pay a debt barred by the law of limitation; or
- Besides, according to section 185 of the Indian Contract Act, consideration is not required to create an agency; or
- In the case of gift actually made, no consideration is necessary. There need not be nearness of relation and even if it is, there need not be any natural love and affection between them.

The requirements in the above exceptions are noteworthy. The first one requires written and registered promise. The second may be oral or in writing and the third must be in writing.

Flaws in Contract

There may be circumstances under which a contract made under these rules may still be bad, because there is a flaw, vice or error somewhere. As a result of such a flaw, the apparent agreement is not a real agreement. Where there is no real agreement, the law has three remedies:

- Firstly* : The agreement may be treated as of no effect and it will then be known as void agreement.
- Secondly* : The law may give the party aggrieved the option of getting out of his bargain, and the contract is then known as voidable.
- Thirdly* : The party at fault may be compelled to pay damages to the other party

Void Agreement and Voidable Contract

A void agreement is one which is destitute of all legal effects. It cannot be enforced and confers no rights on either party. It is really not a contract at all, it is non-existent. Technically the words 'void contract' are a contradiction in terms. But the expression provides a useful label for describing the situation that arises when a 'contract' is claimed but in fact does not exist. For example, a minor's contract is void.

According to Section 2 (j) of the Indian Contract Act, a contract which ceases to be enforceable by law becomes void when it ceases to be enforceable. Void means a lack of existence or a nullity.

Contract Act, an agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract.

A voidable contract is one which a party can put to an end. He can exercise his option, if his consent was not free. The contract will, however be binding, if he does not exercise his option to avoid it within a reasonable time. The consent of a party is not free and so he is entitled to avoid the contract, if he has given his consent due to misrepresentation, fraud, coercion or undue influence.

Illegal Agreement

An illegal agreement is one which, like the void agreement has no legal effects as between the immediate parties. Further, transactions collateral to it also become tainted with illegality and are, therefore, not enforceable. Parties to an unlawful agreement cannot get any help from a Court of law, for no polluted hands shall touch the pure fountain of justice. On the other hand, a collateral transaction can be supported by a void agreement.

For example, one party may have deceived the other party, or in some other way there may be no genuine consent. The parties may be labouring under a mistake, or one or both the parties may be incapable of making a contract. Again, the agreement may be illegal or physically impossible. All these are called “the FLAWS in contract or the VICES of contract”.

The chief flaws in contract are:

Incapacity

Mistake

Mis- representation

Fraud

Flaw in Capacity - Capacity and Persons

In law, persons are either natural or artificial. Natural persons are human beings and artificial persons are corporations. Contractual capacity or incapacity is an incident of personality.

The general rule is that all natural persons have full capacity to make binding contracts. But the Indian Contract Act, 1872 admits an exception in the case of:

- (i) minors,
- (ii) lunatics, and
- (iii) persons disqualified from contracting by any law to which they are subject.

These persons are not competent to contract. Section 11 of the Act provides that every “person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind, and is not disqualified from contracting by any law to which he is subject”. A valid agreement requires that both the parties should understand the legal implications of their conduct. Thus, both must have a mature mind. The legal yardstick to measure maturity according to the law of contract is, that both should be major and of sound mind and if not, the law would presume that the maturity of their mind has not reached to the extent of visualising the pros and cons of their acts, hence, a bar on minors and lunatics competency to contract.

Example: A & B entered into a contract in which A will steal a Diamond from a museum and B will give him Rs. 5,00,000/- against its delivery. Is it a valid contract?

No, the consideration should not be illegal.

Example: S, a nurse is taking medical care of H, a seriously ill patient. They entered into a contract in which H transfers his Flat situated at Mumbai and S pays a consideration of Rs. 500/- . The actual market value of the flat is 50 Lakh. Is this agreement voidable?

Yes, this contract may have the element of undue influence. Therefore, it may be voidable.

Lunatics Agreement

A person of unsound mind is a lunatic. That is to say for the purposes of making contract, a person is of unsound mind if at the time when he makes the contract, he is incapable of understanding it and of forming rational judgment as to its effect upon his interests.

A person of unsound mind cannot enter into a contract. A lunatic's agreement is therefore void. But if he makes a contract when he is of sound mind, i.e., during lucid intervals, he will be bound by it.

If a contract entered into by a lunatic or person of unsound mind is for his benefit, it can be enforced (for the benefit) against the other party but not vice-versa [Jugal Kishore v. Cheddu, (1903) 1 All. L.J 43]

Flaw in Consent

The basis of a contract is agreement, i.e., mutual consent. In other words, the parties should mean the same thing in the same sense and agree voluntarily. It is when there is consent, that the parties are said to be consensus ad idem i.e. their minds have met. Not only consent is required but it must be a free consent. Consent is not free when it has been caused by coercion, undue influence, misrepresentation, fraud or mistake. These elements if present, may vitiate the contract.

When this consent is wanting, the contract may turn out to be void or voidable according to the nature of the flaw in consent. Where there is no consent, there can be no contract as in the case of mutual mistake. Where there is consent, but it is not free, a contract is generally voidable at the option of the party whose consent is not free. In the case of misrepresentation, fraud, coercion, undue influence, the consent of one of the parties is induced or caused by the supposed existence of a fact which did not exist.

Wilful Misrepresentation or Fraud

As per Section 7 of the Indian Contract Act, 'Fraud' means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent, with intent to deceive another party thereto or his agent, or to induce him to enter into the contract:

- The suggestion, as a fact, of that which is not true, by one who does not believe it to be true;
- The active concealment of a fact by one having knowledge or belief of the fact;
- A promise made without any intention of performing it;
- Any other act fitted to deceive;
- Any such act or omission as the law specially declares to be fraudulent.

Fraud is an untrue statement made knowingly or without belief in its truth or recklessly, carelessly, whether it be true or false with the intent to deceive. The chief ingredients of a fraud are:

- (i) a false representation or assertion;

- (ii) of fact (and not a mere opinion),
- (iii) made with the intention that it should be acted upon,
- (iv) the representation must have actually induced the other party to enter into the contract and so deceived him,
- (v) the party deceived must thereby be indemnified, for there is no fraud without damages, and
- (vi) the statement must have been made either with the knowledge that it was false or without belief in its truth or recklessly without caring whether it was true or false.

It is immaterial whether the representation takes effect by false statement or with concealment. The party defrauded can avoid the contract and also claim damages.

Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless silence is in itself equivalent to speech, or where it is the duty of the person keeping silent to speak as in the cases of contracts uberrimae fidei- (contracts requiring utmost good faith).

Contracts Uberrimae Fidei

There are contracts in which the law imposes a special duty to act with utmost good faith i.e., to disclose all material information. Failure to disclose such information will render the contract voidable at the option of other party.

Contracts uberrimae fidei are:

- (a) *Contract of insurance of all kinds* : The assured must disclose to the insurer all material facts and whatever he states must be correct and truthful.
- (b) *Company prospectus* : When a company invites the public to subscribe for its shares, it is under statutory obligation to disclose truthfully the various matters set out in the Companies Act. Any person responsible for non-disclosure of any of these matters is liable to damages. Also, the contract to buy shares is voidable where there is a material false statement or non-disclosure in the prospectus.
- (c) *Contract for the sale of land* : The vendor is under a duty to the purchaser to show good title to the land he has contracted to sell.
- (d) *Contracts of family arrangements* : When the members of a family make agreements or arrangements for the settlement of family property, each member of the family must make full disclosure of every material fact within his knowledge.

Coercion

Coercion as defined in Section 15 of the Act means “the committing or threatening to commit any act forbidden by the Bharatiya Nyaya Sanhita, 2023(BNS), or unlawful detaining or threatening to detain, any property to the prejudice of any person whatever with the intention of causing any person to enter into an agreement”. Simply stated, the doing of any act forbidden by BNS is coercion even though such an act is done in a place where the BNS is not in force. If A at the point of a pistol asks B to execute a promissory note in his favour and B to save his life does so he can avoid this agreement as his consent was not free. Even a threat to third-party, e.g., where A compels B to sign a document threatening to harm C, in case B does not sign would also amount to coercion.

It has been held that mere threat by one person to another to prosecute him does not amount to coercion. There must be a contract made under the threat and that contract should be one sought to be avoided because of coercion (*Ramchandra v. Bank of Kohlapur*, 1952 Bom. 715). It may be pointed out that coercion may proceed from any person and may be directed against any person, even a stranger and also against goods, e.g., by unlawful detention of goods.

Undue Influence

Under Section 16 of the Indian Contract Act, 1872, a contract is said to be produced by undue influence "where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other".

The elements of undue influence are:

- (i) A dominant position, and
- (ii) The use of it to obtain an unfair advantage.

The words "unfair advantage" do not limit the jurisdiction to cases where the transaction would be obviously unfair as between persons dealing on an equal footing. In the words of Lord Kingston, "the principle applies to every case where influence is acquired and abused where confidence is reposed and betrayed".

Legality of Object

One of the requisites of a valid contract is that the object should be lawful. Section 10 of the Indian Contract Act, 1872, provides, "All agreements are contracts if they are made by free consent of parties competent to contract for a lawful consideration and with a lawful object..." Therefore, it follows that where the consideration or object for which an agreement is made is unlawful, it is not a contract.

Section 23 of the Indian Contract Act, 1872 provides that the consideration or object of an agreement is lawful unless it is

- (i) forbidden by law; or
- (ii) it is of such nature that if permitted it would defeat the provisions of law; or
- (iii) is fraudulent; or
- (iv) involves or implies injury to the person or property of another; or
- (v) the Court regards it as immoral or opposed to public policy.

In each of these cases the consideration or object of an agreement is said to be unlawful. Every agreement of which the object or consideration is unlawful is void.

Void and Illegal Contracts

A void contract is one which is destitute of legal effects altogether. An illegal contract too has no legal effect as between the immediate parties to the contract, but has the further effect of tainting the collateral contracts also with illegality. For instance A borrows from B, Rs. 1,000 for lending to C a minor. The contract between A and C is void, but B can nevertheless recover the money from A. On the other hand, if A had borrowed Rs. 1,000 from B to buy a pistol to shoot C, the question whether B can recover the money hinges on whether B was aware of the purpose for which money was borrowed.

If B had knowledge of the illegal purpose, he cannot recover. Therefore, it may be said that all illegal agreements are void but all void agreements are not necessarily illegal.

Consequence of Illegal Agreements

- (i) an illegal agreement is entirely void;
- (ii) no action can be brought by a party to an illegal agreement. The maxim is "Ex turpi cause non-oritur action" - from an evil cause, no action arises;
- (iii) money paid or property transferred under an illegal agreement cannot be recovered. The maxim is *in parti delicto potest condition defendentes*- In cases of equal guilt, more powerful is the condition of the defendant;
- (iv) where an agreement consist of two parts, one part legal and other illegal, and the legal parts is separable from the illegal one, then the Court will enforce the legal one. If the legal and the illegal parts cannot be separated the whole agreement is illegal; and
- (v) any agreement which is collateral to an illegal agreement is also tainted with illegality and is treated as being illegal, even though it would have been lawful by itself [*Firm Pratapchand v. Firm Kotri Re.* AIR (1975) S.C. 1223].

Agreements Void as being opposed to Public Policy

The head public policy covers a wide range of topics. Agreements may offend public policy by tending to prejudice of the State in times of war, by tending to abuse of justice or by trying to impose unreasonable and inconvenient restrictions on the free choice of individuals in marriage, or their liberty to exercise lawful trade or calling.

The doctrine of public policy is a branch of Common Law and like any other branch of Common Law it is governed by the precedents [*Gherulal Parakh v. Mahadeodas Maiya* (1959) 2 S.C.R. (Suppl.) 406; AIR 1959 S.C. 781]. The doctrine of public policy is not to be extended beyond the classes of cases already covered by it and no Court can invent a new head of public policy [*Lord Halsbury, Janson v. Driefontien Consolidated Mines* (1902) A.C. 484, 491]. It has been said by the House of Lords that public policy is always an unsafe and treacherous ground for legal decisions. Even if it is possible for Courts to evolve a new head of public policy, it should be done under extraordinary circumstances giving rise to incontestable harm to the society.

The following agreements are void as being against public policy but they are not illegal:

- (a) *Agreement in restraint of parental rights* : An agreement by which a party deprives himself of the custody of his child is void.
- (b) *Agreement in restraint of marriage* : An agreement not to marry at all or not to marry any particular person or class of persons is void as it is in restraint of marriage.
- (c) *Marriage brokerage or brokerage Agreements* : An agreement to procure marriage for reward is void. Where a purohit (priest) was promised Rs.200 in consideration of procuring a wife for the defendant, the promise was held void as opposed to public policy, and the purohit could not recover the promised sum.

- (d) *Agreements in restraint of personal freedom are void* : Where a man agreed with his money lender not to change his residence, or his employment or to part with any of his property or to incur any obligation on credit without the consent of the money lender, it was held that the agreement was void.
- (e) *Agreement in restraint of trade* : An agreement in restraint of trade is one which seeks to restrict a person from freely exercising his trade or profession.

Wagering Agreements

The literal meaning of the word “wager” is a “bet”. Wagering agreements are nothing but ordinary betting agreements. For example, A and B enter into an agreement that if England’s Cricket Team wins the test match, A will pay B Rs.100 and if it loses B will pay Rs.100 to A. This is a wagering agreement and nothing can be recovered by winning party under the agreement.

The essence of gaming and wagering is that one party is to win and the other to lose upon a future event which at the time of the contract is of an uncertain nature that is to say, if the event turns out one way A will lose; but if it turns out the other way he will win (*Thacker v. Hardy*, (1878) 4 OBD 685).

Wagering Agreements Void

In India except Mumbai, wagering agreements are void. In Mumbai, wagering agreements have been declared illegal by the Avoiding Wagers (Amendment) Act, 1865. Therefore, in Mumbai a wagering agreement being illegal, is void not only between the immediate parties, but taints and renders void all collateral agreements to it.

Thus, A bets with B and losses, applies to C for a loan, who pays B in settlement of A's losses. C cannot recover from A because this is money paid “under” or “in respect of” a wagering transaction which is illegal in Mumbai. But in respect of India such a transaction (i.e., betting) being only void, C could recover from A. Of course, if A refused to pay B the amount of the bet that he has lost, B could not sue A anywhere. Again, where an agent bets on behalf of his principal and loses and pays over the money to the winner, he cannot recover the money from his principal, if the transactions took place in Mumbai, but elsewhere he could recover. But if the agent wins, he must pay the winnings to the principal, as this money was received on behalf of the principal.

Sometimes, commercial transactions assume the form of wagering contracts. The sample test to find out whether a particular transaction is a wager or a genuine commercial transaction is: “Where delivery of the goods sold is intended to be given and taken, it is valid contract, but where only the differences are intended to be paid, it will be a wagering contract and unenforceable”.

In a wagering contract there must be mutuality in the sense that the gain of one party should be loss to the other on the happening of an uncertain event which is the subject matter of the contract.

Void Agreements

The following types of agreements are void under Indian Contract Act:

- (a) Agreement by or with a minor or a person of unsound mind or a person disqualified to enter into a contract - Section 11.
- (b) Agreement made under a mistake of fact, material to the agreement on the part of the both the parties - Section 20.

- (c) An agreement of which the consideration or object is unlawful - Section 23.
- (d) If any part of a single consideration for one or more objects, or any one or any part of any one of several considerations for a single object, is unlawful, the agreement is void - Section 24.
- (e) An agreement made without consideration subject to three exceptions provided to Section 25.
- (f) An agreement in restraint of marriage - Section 26.
- (g) An agreement in restraint of trade - Section 27.
- (h) An agreement in restraint of legal proceedings - Section 28.
- (i) Agreements, the meaning of which is not certain, or capable of being made certain - Section 29.
- (j) Agreement by way of wager- Section 30.
- (k) An agreement to enter into an agreement in the future.
- (l) An agreement to do an act impossible in itself - Section 56(1).

When Contract becomes Void

- An agreement not enforceable by law is void ab initio - Section 2(g).
- A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable - Section 2(j).
- A contract becomes void when, by reason of some event which the promisor could not prevent, the performance of the contract becomes impossible, e.g., by destruction of the subject- matter of the contract after the formation of the contract.
- A contract becomes void by reason of subsequent illegality. A in India agrees to supply goods to B in Pakistan. After the formation of the contract war breaks out between India and Pakistan and the supply of goods to Pakistan is prohibited by legislation. The contract becomes void.
- A contingent contract to do or not do to anything if an uncertain future event happens becomes void if the event becomes impossible.
- Where a contract is voidable at the option of the aggrieved party, the contract becomes void when the option is exercised by him.

Contingent Contract

As per Section 31, a contingent contract is a contract to do or not to do something, if some event collateral to such contract, does or does not happen. For example, A contracts to sell B 10 bales of cotton for Rs. 20,000, if the ship by which they are coming returns safely. This is a contingent contract. Contract of insurance and contracts of indemnity and guarantee are popular instances of contingent contracts.

Quasi-Contracts

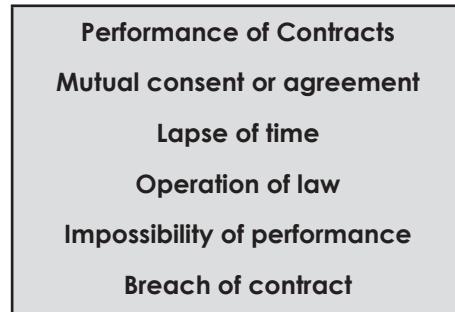
A valid contract must contain certain essential elements, such as offer and acceptance, capacity to contract, consideration and free consent. But sometimes the law implies a promise imposing obligations on one party and conferring right in favour of the other even when there is no offer, no acceptance, no

consensus ad idem, and in fact, there is neither agreement nor promise. Such cases are not contracts in the strict sense, but the Court recognises them as relations resembling those of contracts and enforces them as if they were contracts, hence the term quasi-contracts (i.e., resembling a contract).

A quasi-contract rests on the equitable principle that a person shall not be allowed to enrich himself unjustly at the expense of another. In truth, it is not a contract at all. It is an obligation which the law creates, in the absence of any agreement, when any person is in the possession of other person's money, or its equivalent, under such circumstances that in equity and good conscience he ought not to retain it, and which in justice and fairness belongs to another. It is the duty and not an agreement or intention which defines it. A very simple illustration is money paid under mistake. Equity demands that such money must be paid back.

Discharge or Termination of Contracts

A contract is said to be discharged or terminated when the rights and obligations arising out of a contract are extinguished. Contracts may be discharged or terminated by any of the following modes:



Discharge by Impossibility or Frustration

In India, the doctrine of frustration is primarily looked at as contained in Sections 32 and 56 of the Act. The Court usually gives relief on the ground of subsequent impossibility when it finds that the whole purpose or the basis of the contract was frustrated by the intrusion or occurrence of an event that was not contemplated by the parties. The Court also grants relief where one of the parties was or could have been aware of such a contingency happening and the other party was not. Before invoking the doctrine, it must be shown that the event, which has produced the frustration was one which the parties to the contract did not foresee and could not with reasonable diligence have foreseen.

A contract which is entered into to perform something that is clearly impossible is void. For instance, A agrees with B to discover treasure by magic. The agreement is void by virtue of Section 56 para 1 which lays down the principle that an agreement to do an act impossible in itself is void.

Sometimes subsequent impossibility (i.e. where the impossibility supervenes after the contract has been made) renders the performance of a contract unlawful and stands discharged; as for example, where a singer contracts to sing and becomes too ill to do so, the contract becomes void. In this connection, para 2 of Section 56 provides that a contract to do an act, which after the contract is made, becomes impossible or by reason of some event which the promisor could not prevent, unlawful, becomes void when the act becomes impossible or unlawful.

If the impossibility is not obvious and the promisor alone knows of the impossibility or illegally then existing or the promisor might have known as such after using reasonable diligence, such promisor is bound to

compensate the promisee for any loss he may suffer through the non-performance of the promise in spite of the agreement being void ab-initio (Section 56, para 3).

In *Satyabarta Ghose v. Mugnuram A.I.R. 1954 S.C. 44* the Supreme Court interpreted the term 'impossible' appearing in second paragraph of Section 56. The Court observed that the word 'impossible' has not been used here in the sense of physical or literal impossibility. The performance of an act may not be literally impossible but it may be impracticable and useless from the point of view of the object and purpose which the parties had in view; and if an untoward event or change of circumstances totally upsets the very foundation upon which the parties rested their bargain; it can very well be said that the promisor found it impossible to do the act which he promised to do. In this case, A undertook to sell a plot of land to B but before the plot could be developed, war broke out and the land was temporarily requisitioned by the Government. A offered to return earnest money to B in cancellation of contract. B did not accept and sued A for specific performance. A pleaded discharge by frustration. The Court held that Section 56 is not applicable on the ground that the requisition was of temporary nature and there was no time limit within which A was obliged to perform the contract. The impossibility was not of such a nature which would strike at the root of the contract.

Breach of Contract

Where the promisor neither performs his contract nor does he tender performance, or where the performance is defective, there is a breach of contract. The breach of contract may be (i) actual; or (ii) anticipatory. The actual breach may take place either at the time the performance is due, or when actually performing the contract. Anticipatory breach means a breach before the time for the performance has arrived. This may also take place in two ways – by the promisor doing an act which makes the performance of his promise impossible or by the promisor in some other way showing his intention not to perform it.

Breach of contract may occur, before the time for performance is due. This may happen where one of the parties definitely renounces the contract and shows his intention not to perform it or does some act which makes performance impossible. The other party, on such a breach being committed, has a right of action for damages.

He may either sue for breach of contract immediately after repudiation or wait till the actual date when performance is due and then sue for breach. If the promisee adopts the latter course, i.e., waits till the date when performance is due, he keeps the contract alive for the benefit of the promisor as well as for his own. He remains liable under it and enables the promisor not only to complete the contract in spite of previous repudiation, but also to avail himself of any excuse for non-performance which may have come into existence before the time fixed for performance.

In *Hochester v. De La Tour* (1853) E.R. 922, A hired B in April to act as a courier commencing employment from 1st June, but wrote to B in May repudiating the agreement, B sued A for breach of contract immediately after repudiation. A contended that there could not be breach of contract before June 1. Held, B was immediately entitled to sue and need not wait till 1st June, for his right of action to accrue.

In *Avery v. Bowden* (1856) 116 E.R. 1122, A hired B's ship to carry a cargo from Russia. Later on B repudiated the contract. A delayed taking action hoping B would change his mind before the performance date. War broke out between Russia and Britain before the performance date frustrating the contract. Held, A lost his right to sue B for damages by his delay.

In *Frost v. Knight* (1872) L.R. 7 Ex. 111, the law on the subject of anticipatory breach was summed up as follows:

"The promisee if he pleases may treat the notice of intention as inoperative and await the time when the contract is to be executed and then hold the other party responsible for all the consequences of non-performance: but in that case he keeps the contract alive for the benefit of the other party as well as his own; he remains subject to all his own obligations and liabilities under it, and enables the other party not only to complete the contract, if so advised, notwithstanding his previous repudiation of it, but also to take advantage of any supervening circumstances which would justify him in declining to complete it."

Remedies for Breach of Contract

Where a contract is broken, the injured party has several courses of action open to him. The appropriate remedy in any case will depend upon the subject-matter of the contract and the nature of the breach.

When a party to a contract has broken the contract, the other party may treat the contract as rescinded and he is absolved from all his obligations under the contract. Under Section 65, when a party treats the contract as rescinded, he makes himself liable to restore any benefits he has received under the contract to the party from whom such benefits were received. Under Section 75 of the Indian Contract Act, if a person rightfully rescinds a contract, he is entitled to a compensation for any damage which he has sustained through the non-fulfilment of the contract by the other party. Section 64 deals with consequences of rescission of voidable contracts, i.e., where there is flaw in the consent of one party to the contract. Under this Section when a person at whose option a contract is voidable rescinds, the other party thereto need not perform any promise therein contained in which he is the promisor. The party rescinding a voidable contract shall, if he has received any benefit thereunder, from another party to such contract, restore such benefit so far as may be, to the person from whom it was received.

IN CASE OF BREACH OF CONTRACT, THE INJURED PARTY MAY:

Rescind the contract and refuse further performance of the contract	Sue for damages	Sue for specific performance	Sue for an injunction to restrain the breach of a negative term	Sue on quantum meruit
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Contract of Indemnity and Guarantee

A contract of indemnity is a contract by which one party promises to save the other party from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person (Section 124). For example, A contracts to indemnify B against the consequence of any proceedings which C may take against B in respect of a certain sum of 300 rupees. This is a contract of indemnity. The contract of indemnity may be express or implied. The later may be inferred from the circumstances of a particular case, e.g., an act done by A at the request of B. If A incurs any expenses, he can recover the same from B.

The person who promises to indemnify or make good the loss is called the indemnifier and the person whose loss is made good is called the indemnified or the indemnity holder. A contract of insurance is an example of a contract of indemnity according to English Law. In consideration of premium, the insurer promises to make good the loss suffered by the assured on account of the destruction by fire of his property insured against fire.

Under the Indian Contract Act, the contract of indemnity is restricted to such cases only where the loss promised to be reimbursed, is caused by the conduct of the promisor or of any other person. The loss caused by events or accidents which do not depend on the conduct of any person, it seems, cannot be sought to be reimbursed under a contract of indemnity.

A contract of guarantee is a contract to perform the promise, or discharge the liability of a third person in case of his default. The person who gives the guarantee is called the Surety, the person for whom the guarantee is given is called the Principal Debtor, and the person to whom the guarantee is given is called the Creditor (Section 126). A guarantee may be either oral or written, although in the English law, it must be in writing.

Illustration

A advances a loan of Rs.5, 000 to B and C promises to A that if B does not repay the loan, C will do so. This is a contract of guarantee. Here B is the principal debtor, A is the creditor and C is the surety or guarantor.

Like a contract of indemnity, a guarantee must also satisfy all the essential elements of a valid contract. There is, however, a special feature with regard to consideration in a contract of guarantee. The consideration received by the principal debtor is sufficient for surety. Section 127 provides that anything done or any promise made for the benefit of the principal debtor may be a sufficient consideration to the surety for giving the guarantee.

Distinction between Contract of Indemnity and Contract of Guarantee

Contract of Indemnity	Contract of Guarantee
In a contract of indemnity there are only two parties: the indemnifier and the indemnified.	In a contract of guarantee, there are three parties; the surety, the principal debtor and the creditor.
In a contract of indemnity, the liability of the indemnifier is primary.	In a contract of guarantee, the liability of the surety is secondary. The surety is liable only if the principal debtor makes a default, the primary liability being that of the principal debtor.
The indemnifier need not necessarily act at the request of the debtor.	The surety gives guarantee only at the request of the principal debtor.
In the case of indemnity, the possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.	In the case of a guarantee, there is an existing debt or duty, the performance of which is guaranteed by the surety.

The indemnifier cannot sue third-parties in his own name, unless there be assignment. He must sue in the name of the indemnified.

The surety, on payment of the debt when the principal debtor has failed to pay is entitled to proceed against the principal debtor in his own right.

Law of Agency

An agent is a person who is employed to bring his principal into contractual relations with third-parties. As the definition indicates, an agent is a mere connecting link between the principal and a third-party. But during the period that an agent is acting for his principal, he is clothed with the capacity of his principal.

A contract of agency may be express or implied, (Section 186) but consideration is not an essential element in this contract (Section 185). Agency may also arise by estoppel, necessity or ratification.

- (a) *Express Agency* : A contract of agency may be made orally or in writing. The usual form of written contract of agency is the Power of Attorney, which gives him the authority to act on behalf of his principal in accordance with the terms and conditions therein. In an agency created to transfer immovable property, the power of attorney must be registered. A power of attorney may be general, giving several powers to the agent, or special, giving authority to the agent for transacting a single act.
- (b) *Implied Agency* : Implied agency may arise by conduct, situation of parties or necessity of the case.
 - (i) *Agency by Estoppel (Section 237)* : Estoppel arises when you are precluded from denying the truth of anything which you have represented as a fact, although it is not a fact. Thus, where P allows third-parties to believe that A is acting as his authorised agent, he will be estopped from denying the agency if such third-parties relying on it make a contract with A even when A had no authority at all.
 - (ii) *Wife as agent* : Where a husband and wife are living together, the wife is presumed to have her husband's authority to pledge his credit for the purchase of necessaries of life suitable to their standard of living. But the husband will not be liable if he shows that (i) he had expressly warned the tradesman not to supply goods on credit to his wife; or (ii) he had expressly forbidden the wife to pledge his credit; or (iii) his wife was already sufficiently supplied with the articles in question; or (iv) she was supplied with a sufficient allowance. Similarly, where any person is held out by another as his agent, the third-party can hold that person liable for the acts of the ostensible agent, or the agent by holding out. Partners are each other's agents for making contracts in the ordinary course of the partnership business.
 - (iii) *Agency of Necessity (Sections 188 and 189)* : In certain circumstances, a person who has been entrusted with another's property, may have to incur unauthorised expenses to protect or preserve it. Such an agency is called an agency of necessity. For example, A sent a horse by railway and on its arrival at the destination there was no one to receive it. The railway company, being bound to take reasonable steps to keep the horse alive, was an agent of necessity of A.

A wife deserted by her husband and thus forced to live separate from him, can pledge

her husband's credit to buy all necessaries of life according to the position of the husband even against his wishes.

- (iv) **Agency by ratification (Sections 169-200):** Where a person having no authority purports to act as agent, or a duly appointed agent exceeds his authority, the principal is not bound by the contract supposedly based on his behalf. But the principal may ratify the agent's transaction and so accept liability. In this way an agency by ratification arises. This is also known as *ex post facto* agency— agency arising after the event. The effect of ratification is to render the contract binding on the principal as if the agent had been authorised beforehand. Also ratification relates back to the original making of the contract so that the agency is taken to have come into existence from the moment the agent first acted, and not from the date the principal ratified it. Ratification is effective only if the following conditions are satisfied-
 - (a) The agent must expressly contract as agent for a principal who is in existence and competent to contract.
 - (b) The principal must be competent to contract not only at the time the agent acted, but also when he ratified the agents act.
 - (c) The principal at the time of ratification has full knowledge of the material facts, and must ratify the whole contract, within a reasonable time.
 - (d) Ratification cannot be made so as to subject a third-party to damages, or terminate any right or interest of a third person.
 - (e) Only lawful acts can be ratified.

Classes of Agents

Agents may be special or general or, they may be mercantile agents:

- (a) **Special Agent :** A special agent is one who is appointed to do a specified act, or to perform a specified function. He has no authority outside this special task. The third-party has no right to assume that the agent has unlimited authority. Any act of the agent beyond that authority will not bind the principal.
- (b) **General Agent :** A general agent is appointed to do anything within the authority given to him by the principal in all transactions, or in all transactions relating to a specified trade or matter. The third- party may assume that such an agent has power to do all that is usual for a general agent to do in the business involved. The third party is not affected by any private restrictions on the agent's authority.

Sub-Agent

A person who is appointed by the agent and to whom the principal's work is delegated to known as sub- agent. Section 191 provides that "a sub-agent is a person employed by, and acting under the control of the original agent in the business of the agency." So, the sub-agent is the agent of the original agent.

As between themselves, the relation of sub-agent and original agent is that of agent and the principal. A sub- agent is bound by all the duties of the original agent. The sub-agent is not directly responsible to the principal except for fraud and wilful wrong. The sub-agent is responsible to the original agent. The

original agent is responsible to the principal for the acts of the sub-agent. As regards third persons, the principal is represented by sub-agent and he is bound and responsible for all the acts of sub-agent as if he were an agent originally appointed by the principal.

Mercantile Agents

Section 2(9) of the Sale of Goods Act, 1930, defines a mercantile agent as "a mercantile agent having in the customary course of business as such agent authority either to sell goods or consign goods for the purposes of sale, or to buy goods, or to raise money on the security of goods". This definition covers factors, brokers, auctioneers, commission agents etc.

Factors

A factor is a mercantile agent employed to sell goods which have been placed in his possession or contract to buy goods for his principal. He is the apparent owner of the goods in his custody and can sell them in his own name and receive payment for goods. He has an insurable interest in goods and also a general lien in respect of any claim he may have arising out of the agency.

Brokers

A broker is a mercantile agent whose ordinary course of business is to make contracts with other parties for the sale and purchase of goods and securities of which he is not entrusted with the possession for a commission called brokerage. He acts in the name of principal. He has no lien over the goods as he is not in possession of them.

Del Credere Agent

A del credere agent is a mercantile agent, who is in consideration of an extra remuneration guarantees to his principal that the purchasers who buy on credit will pay for the goods they take. In the event of a third-party failing to pay, the del credere agent is bound to pay his principal the sum owned by third-party.

Auctioneers

An auctioneer is an agent who sells goods by auction, i.e., to the highest bidder in public competition. He has no authority to warrant his principal's title to the goods. He is an agent for the seller but after the goods have been knocked down he is agent for the buyer also for the purpose of evidence that the sale has taken place.

Partners

In a partnership firm, every partner is an agent of the firm and of his co-partners for the purpose of the business of the firm.

Bankers

The relationship between a banker and his customer is primarily that of debtor and creditor. In addition, a banker is an agent of his customer when he buys or sells securities, collects cheques, dividends, bills or promissory notes on behalf of his customer. He has a general lien on all securities and goods in his possession in respect of the general balance due to him by the customer.

Duties of the Agent

An agent's duties towards his principal are as follows (which give corresponding rights to the principal who may sue for damages in the event of a breach of duty by the agent):

- (a) An agent must act within the scope of the authority conferred upon him and carry out strictly the instructions of the principal (Section 211).
- (b) In the absence of express instructions, he must follow the custom prevailing in the same kind of business at the place where the agent conducts the business (Section 211).
- (c) He must do the work with reasonable skill and diligence whereby the nature of his profession, the agent purports to have special skill, he must exercise the skill which is expected from the members of the profession (Section 212).
- (d) He must disclose promptly any material information coming to his knowledge which is likely to influence the principal in the making of the contract.
- (e) He must not disclose confidential information entrusted to him by his principal (Section 213).
- (f) He must not allow his interest to conflict with his duty, e.g., he must not compete with his principal (Section 215).
- (g) The agent must keep true accounts and must be prepared on reasonable notice to render an account.
- (h) He must not make any secret profit; he must disclose any extra profit that he may make.

Where an agent is discovered taking secret bribe, etc., the principal is entitled to (i) dismiss the agent without notice, (ii) recover the amount of secret profit, and (iii) refuse to pay the agent his remuneration.

He may repudiate the contract, if the third-party is involved in secret profit and also recover damages.

- (i) An agent must not delegate his authority to sub-agent. A sub-agent is a person employed by and acting under the control of the original agent in the business of agency (Section 191). This rule is based on the principle: Delegatus non-potest delegare – a delegate cannot further delegate (Section 190).

But there are exceptions to this rule and the agent may delegate (i) where delegation is allowed by the principal, (ii) where the trade custom or usage sanctions delegation, (iii) where delegation is essential for proper performance, (iv) where an emergency renders it imperative, (v) where nature of the work is purely ministerial, and (vi) where the principal knows that the agent intends to delegate.

Rights of Agents

Where the services rendered by the agent are not gratuitous or voluntary, the agent is entitled to receive the agreed remuneration, or if none was agreed, a reasonable remuneration. The agent becomes entitled to receive remuneration as soon as he has done what he had undertaken to do (Section 219).

Certain classes of agents, e.g., factors who have goods and property of their principal in their possession, have a lien on the goods or property in respect of their remuneration and expense and liabilities incurred. He has a right to stop the goods in transit where he is an unpaid seller.

As the agent represents the principal, the agent has a right to be indemnified by the principal against all charges, expenses and liabilities properly incurred by him in the course of the agency (Sections 222-223).

The extent of the authority of an agent depends upon the terms expressed in his appointment or it may be implied by the circumstances of the case. The contractual authority is the real authority, but implied authority is to do whatever is incidental to carry out the real authority. This implied authority is also known as apparent or ostensible authority. Thus, an agent having an authority to do an act has authority to do everything lawful which is necessary for the purpose or usually done in the course of conducting business.

An agent has authority to do all such things which may be necessary to protect the principal from loss in an emergency and which he would do to protect his own property under similar circumstances. Where butter was becoming useless owing to delay in transit and was therefore sold by the station master for the best price available as it was not possible to obtain instructions from the principal, the sale was held binding upon the principal.

TERMINATION OF AGENCY

- By the performance of the contract of agency; (Section 201)
- By an agreement between the principal and the agent;
- By expiration of the period fixed for the contract of agency;
- By the death of the principal or the agency; (Section 201)
- By the insanity of either the principal or the agent; (Section 201)
- By the insolvency of the principal, and in some cases that of the agent; (Section 201)
- Where the principal or agent is an incorporated company, by its dissolution;
- By the destruction of the subject-matter; (Section 56)
- By the renunciation of his authority by the agent; (Section 201)
- By the revocation of authority by the principal. (Section 201)

E-Contract

Electronic contracts are not paper based but rather in electronic form are born out of the need for speed, convenience and efficiency. In the electronic age, the whole transaction can be completed in seconds, with both parties simply affixing their digital signatures to an electronic copy of the contract. There was initially an apprehension amongst the legislatures to recognize this modern technology, but now many countries have enacted laws to recognize electronic contracts. The conventional law relating to contracts is not sufficient to address all the issues that arise in electronic contracts. The Information Technology Act, 2000 solves some of the peculiar issues that arise in the formation and authentication of electronic contracts.

Example: Sale and Purchase transactions on the online platform like Amazon, Flipkart, OLX etc. attracts the operation of Indian Contract Act, 1872 and Information Technology Act, 2000. Parties enter into e- contracts in these cases.

NECESSARY INGREDIENTS OF ELECTRONIC CONTRACT

- An offer needs to be made.
- The offer needs to be acknowledged.
- There has to be lawful consideration.
- There has to be an intention to create lawful relations.
- The parties must be competent to contract.
- There must be free and genuine consent.
- The object of the contract must be lawful.
- There must be certainty and possibility of performance.

LAW OF TORTS

INTRODUCTION

The word 'tort' is a French equivalent of English word 'wrong'. The word tort is derived from Latin word Tortum. Thus, simply stated 'tort' means wrong. But every wrong or wrongful act is not a tort. Tort is really a kind of civil wrong as opposed to criminal wrong. Wrongs, in law, are either public or private.

Broadly speaking, public wrongs are the violations of 'public law and hence amount to be offences against the State, while private wrongs are the breaches of private law, i.e., wrongs against individuals. Public wrongs or crimes are those wrongs which are made punishable under the penal law belonging to the public law group.

"Tort" means a civil wrong which is not exclusively the breach of a contract or the breach of trust. The distinction between civil and criminal wrongs depends on the nature of the appropriate remedy provided by law.

Section 2(m) of the Limitation Act, 1963, states: "Tort means a civil wrong which is not exclusively a breach of contract or breach of trust."

Salmond defines it as "a civil wrong for which the remedy is a common law action for unliquidated damages and which is not exclusively the breach of a contract or the breach of a trust or other merely equitable obligation."

Fraser describes it as "an infringement of a right in rem of a private individual giving a right of compensation at the suit of the injured party."

Winfield says: "Tortious liability arises from the breach of duty, primarily fixed by law; this duty is towards persons generally and its breach is redressable by an action for unliquidated damages".

Two important elements can be derived from these definitions, namely: (i) that a tort is a species of civil injury or wrong as opposed to a criminal wrong, and (ii) that every civil wrong is not a tort. Accordingly, it is possible to distinguish tort from a crime and from a contract, a trust and a quasi-contract. The distinction between civil and criminal wrongs depends on the nature of the appropriate remedy provided by law.

General Conditions of Liability for a Tort

As stated earlier, there is no fixed catalogue of circumstances, which along and for all-time mark the limit of what are torts. Certain situations have been held to be torts and will continue to be so in the absence of statutory repeal, and others have been held not to be torts. However, certain general conditions for tortious liability can be laid down.

In general, a tort consists of some act or omission by the defendant (tortfeasor) whereby he has without just cause or excuse caused some harm to plaintiff. To constitute a tort, there must be:

A wrongful act or omission of the defendant;

The wrongful act must result in causing legal damage to another; and

The wrongful act must be of such a nature as to give rise to legal remedy.

- (i) *Wrongful act* : The act complained of, should under the circumstances, be legally wrongful as regards the party complaining. In other words, it should prejudicially affect any of the above mentioned interests, and protected by law. Thus, every person whose legal rights, e.g., right of reputation, right of bodily safety and freedom, and right to property are violated without legal excuse, has a right of action against the person who violated them, whether loss results from such violation or not.
- (ii) *Legal damages* : It is not every damage that is a damage in the eye of law. It must be a damage which the law recognizes as such. In other words, there should be legal injury or invasion of the legal right. In the absence of an infringement of a legal right, an action does not lie. Also, where there is infringement of a legal right, an action lies even though no damage may have been caused. As was stated in *Ashby v. White*, (1703) 2 Ld. Raym. 938 legal damage is neither identical with actual damage nor is it necessarily pecuniary. Two maxims, namely: (i) *Damnum sine injuria*, and (ii) *injuria sine damnum*, explain this proposition.

Damnum Sine Injuria

Damnum means harm, loss or damage in respect of money, comfort, health, etc. Injuria means infringement of a right conferred by law on the plaintiff. The maxim means that in a given case, a man may have suffered damage and yet have no action in tort, because the damage is not to an interest protected by the law of torts. Therefore, causing damage, however substantial to another person is not actionable in law unless there is also a violation of a legal right of the plaintiff. Common examples are, where the damage results from an act done in the exercise of legal rights. Thus, if I own a shop and you open a shop in the neighbourhood, as a result of which I lose some customers and my profits fall off, I cannot sue you for the loss in profits, because you are exercising your legal right. [*Gloucester Grammer School case*, (1410) Y.B. Hill. 11 Hen. IV to 27, pp. 21, 36]

Example: A has stored 100 Ltr of Spirit in a barrel and kept it at a place in which he is legally entitled to store. B kept his goods on the barrel and left it overnight. All the goods were spoilt.

In this case, there is damage to B but there is no legal injury. Therefore, this is not actionable under Law of Torts.

Injuria Sine Damnum

It means injury without damage, i.e., where there is no damage resulted yet it is an injury or wrong

in tort, i.e. where there is infringement of a legal right not resulting in harm but plaintiff can still sue in tort.

Some rights or interests are so important that their violation is an actionable tort without proof of damage. Thus when there is an invasion of an "absolute" private right of an individual, there is an *injuria* and the plaintiff's action will succeed even if there is no *Domnum* or damages. An absolute right is one, the violation of which is actionable *per se*, i.e., without the proof of any damage.

Injuria sine domno covers such cases and action lies when the right is violated even though no damage has occurred. Thus, the act of trespassing upon another's land is actionable even though it has not caused the plaintiff even the slightest harm.

Example: A casted his vote in the election. The returning officer cancelled his vote illegally. The action did not effect the election as the candidate voted by A has won by big majority. Can A sue the returning officer under Law of Torts.

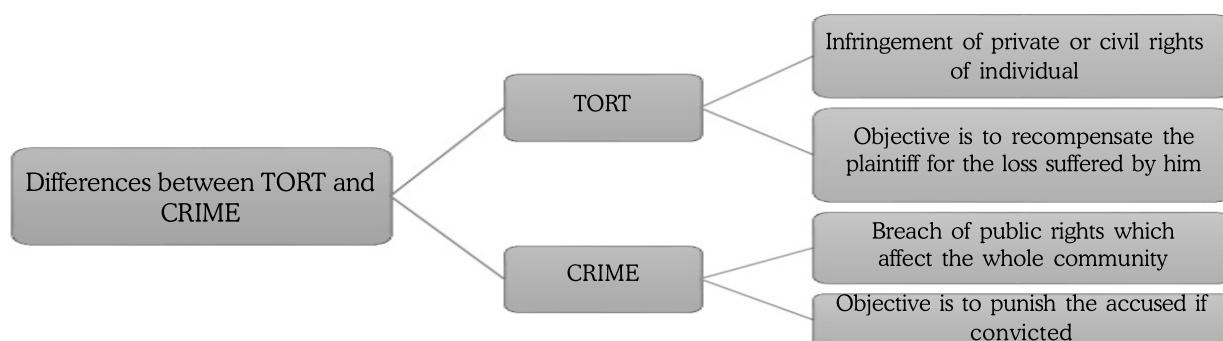
Yes, there is Legal Injury in this case. Therefore, A can take action under Law of Torts.

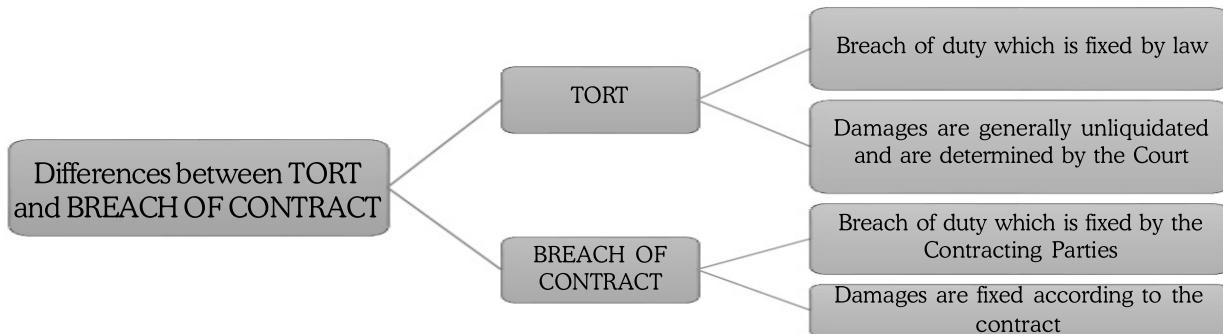
- (iii) **Legal remedy :** The third condition of liability for a tort is legal remedy. This means that to constitute a tort, the wrongful act must come under the law. The main remedy for a tort is an action for unliquidated damages, although some other remedies, e.g., injunction, may be obtained in addition to damages or specific restitution may be claimed in an action for the detention of a chattel. Self-help is a remedy of which the injured party can avail himself without going to a law court. It does not apply to all torts and perhaps the best example of these to which it does apply is trespass to land. For example, if "A" finds a drunken stranger in his room who has no business to be there, and is thus a trespass, he (A) is entitled to get rid of him, if possible without force but if that be not possible with such force as the circumstances of the case may warrant.

Mens Rea

How far a guilty mind of persons is required for liability for tort?

The General principle lies in the maxim "actus non facit reum nisi mens sit rea" i.e. the act itself creates no guilt in the absence of a guilty mind. It does not mean that for the law of Torts, the act must be done with an evil motive, but simply means that mind must concur in the Act, the act must be done either with wrongful intention or negligence. However, the cases of absolute or strict liability are exceptions to this principle.





Kinds of Tortious Liability

Strict or Absolute Liability	Vicarious Liability	Vicarious Liability of the State
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Strict or Absolute Liability

In some torts, the defendant is liable even though the harm to the plaintiff occurred without intention or negligence on the part of defendant. In other words, the defendant is held liable without fault. These cases fall under the following categories:

- (i) **Liability for Inevitable Accident** – Such liability arises in cases where damage is done by the escape of dangerous substances brought or kept by anyone upon his land. Such cases are where a man is made by law an insurer of other against the result of his activities.
- (ii) **Liability for Inevitable Mistake** – Such cases are where a person interferes with the property or reputation of another.
- (iii) **Vicarious Liability for Wrongs committed by others** – Responsibility in such cases is imputed by law on the grounds of social policy or expediency. These case involve liability of master for the acts of his servant.

The rule in *Rylands v. Flethercer* (1868) L.R. 3 H.L. 330 is that a man acts at his peril and is the insurer of the safety of his neighbour against accidental harm. Such duty is absolute because it is independent of negligence on the part of the defendant or his servants. It was held in that case that: "If a person brings or accumulates on his land anything which, if it should escape may cause damage to his neighbours, he does so at his own peril. If it does not escape and cause damage he is responsible, however careful he may have been, and whatever precautions he may have taken to prevent damage."

The facts of this case were as follows: B, a mill owner employed independent contractors, who were apparently competent to construct a reservoir on his land to provide water for his mill. There were old disused mining shafts under the site of the reservoir which the contractors failed to observe because they were filled with earth. The contractors therefore, did not block them. When the water was filled in the reservoir, it bursts through the shafts and flooded the plaintiff's coal mines on the adjoining land. It was found as a fact that B did not know of the shafts and had not been negligent, though the independent contractors, had been, B was held liable. Blackburn, J., observed; "We think that the true rule of law is that the person, who for his own purposes brings on his lands and collects and keeps there anything likely to do mischief if it escapes, must keep it at his peril and if, he does not do so is, *prima facie* answerable for all the damage which is the natural consequence of its escape."

Later in the case of *Read v. Lyons* [(1946) 2 All. E.R. 471 (H.L.)], it has been explained that two conditions are necessary in order to apply the rule in *Ryland v. Fletcher*, these are:

- Escape from a place of which the defendant has occupation or over which he has a control to a place which is outside his occupation or control or something likely to do mischief if it escapes; and
- Non-natural use of Land : The defendant is liable if he makes a non-natural use of land. If either of these conditions is absent, the rule of strict liability will not apply.

Exceptions to the Rule of Strict Liability

The following exceptions to the rule of strict liability have been introduced in course of time, some of them being inherent in the judgment itself in *Ryland v. Fletcher*:

(i) Damage due to Natural Use of the Land

In *Ryland v. Fletcher* water collected in the reservoir in such large quantity, was held to be non-natural use of land. Keeping water for ordinary domestic purpose is 'natural use'. Things not essentially dangerous which is not unusual for a person to have on his own land, such as water pipe installations in buildings, the working of mines and minerals on land, the lighting of fire in a fire-place of a house, and necessary wiring for supplying electric light, fall under the category of "natural use" of land.

(ii) Consent of the plaintiff

Where the plaintiff has consented to the accumulation of dangerous thing on the defendant's land, the liability under the rule in *Ryland v. Fletcher* does not arise. Such a consent is implied where the source of danger is for the 'common benefit' of both the plaintiff and the defendant.

(iii) Act of Third Party

If the harm has been caused due to the act of a stranger, who is neither defendant's servant nor agent nor the defendant has any control over him, the defendant will not be liable. Thus, in *Box v. Jubh* (1879) 4 Ex. D. 76, the overflow from the defendant's reservoir was caused by blocking of a drain by stranger, the defendant was held not liable. But if the act of the stranger, is or can be foreseen by the defendant and the damage can be prevented, the defendant must, by due care prevent the damage. Failure on his part to avoid such damage will make him liable.

(iv) Statutory Authority

Sometimes, public bodies storing water, gas, electricity and the like are by statute, exempted from liability so long as they have taken reasonable care.

Thus, in *Green v. Chelzea Water Works Co.* (1894) 70 L.T. 547 the defendant company had a statutory duty to maintain continuous supply of water. A main belonging to the company burst without any fault on its part as a consequence of which plaintiff 's premises were flooded with water. It was held that the company was not liable as the company was engaged in performing a statutory duty.

(v) Act of God

If an escape is caused, through natural causes and without human intervention circumstances

which no human foresight can provide against and of which human prudence is not bound to recognize the possibility, there is then said to exist the defence of Act of God.

(vi) Escape due to plaintiff 's own Default

Damage by escape due to the plaintiff 's own default was considered to be good defence in *Rylands v. Fletcher* itself. Also, if the plaintiff suffers damage by his own intrusion into the defendant's property, he cannot complain for the damage so caused.

Example: XYZ Limited is a company engaged in the business of manufacturing of Sun glasses. It has stored 1000 litres of transparent spirit which is dangerous, if consumed by humans. A with the intent to committing theft, entered into the property of XYZ Limited. After entering into the premises, he changed his mind and dropped the idea of theft and decided to go back. While leaving the premises, he saw the spirit and drank one glass out of it, misconceiving it with water. He had to hospitalize for 6 Months due to this. A intends to claim damages under Law of Torts.

In this case, Damage is due to plaintiff 's own default. Therefore, he can not claim damages.

Applicability of the Rule in *Rylands v. Fletcher* in Cases of Enterprises Engaged in a Hazardous or Inherently Dangerous Industry.

The Supreme Court has discussed the applicability of the rule of *Rylands v. Fletcher* in the case of *M.C. Mehta v. Union of India and Others* (1987) 1. Comp. L.J. p. 99 S.C. while determining the principles on which the liability of an enterprise engaged in a hazardous or inherently dangerous industry depended if an accident occurred in such industry.

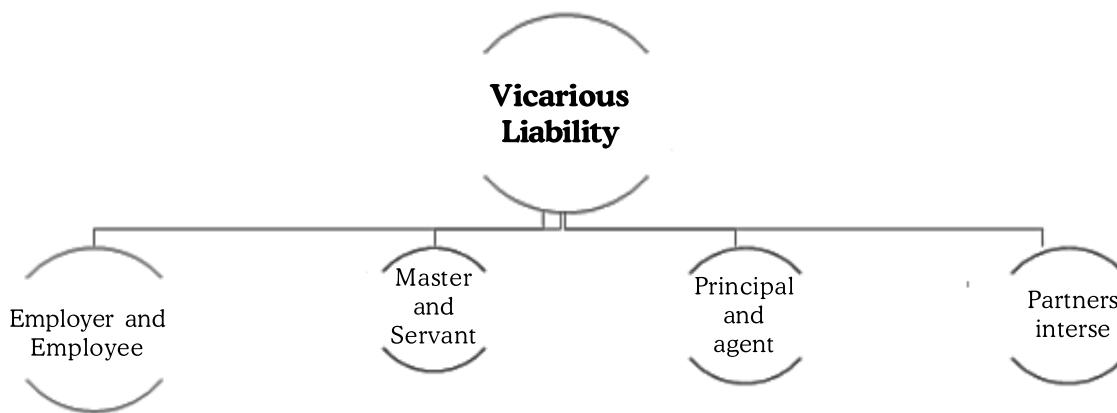
"We have to evolve new principle and lay down new norms which would adequately deal with the new problems which arise in a highly industrialized economy. We cannot allow our judicial thinking to be constricted by reference to the law as it prevails in England or for the matter of that, in any other foreign country".

On the question of the nature of liability for a hazardous enterprise the court while noting that the above rule as developed in England recognizes certain limitations and responsibilities, recorded its final view as follows:

"We are of the view that an enterprise which is engaged in a hazardous or inherently dangerous industry which poses a potential threat to the health and safety of the persons working in the factory and residing in the surrounding areas, owes an absolute and non-delegable duty to the community to ensure that no harm results to anyone on account of hazardous or inherently dangerous nature of the activity which it has undertaken. The enterprise must be held to be under an obligation to provide that the hazardous or inherently dangerous activity in which it is engaged, must be conducted with the highest standards of safety; and if any harm results on account of such activity, the enterprise must be absolutely liable to compensate for such harm; and it should be no answer to the enterprise to say that it had taken all reasonable care and that the harm occurred without negligence on its part."

Thus, while imposing absolute liability for manufacture of hazardous substances, the Supreme Court intended that the requirement of non-natural use or the aspect of escape of a dangerous substance, commonly regarded as essential for liability under *Rylands v. Fletcher*, need not be proved in India.

Vicarious Liability



Normally, the tortfeasor is liable for his tort. But in some cases a person may be held liable for the tort committed by another. A master is vicariously liable for the tort of his servant, principal for the tort of his agent and partners for the tort of a partner. This is known as vicarious liability in tort. The common examples of such a liability are:

(a) Principal and Agent [Specific authority]

Qui facit per alium facit per se – he who acts through another is acting himself, so that the act of the agent is the act of the principal. When an agent commits a tort in the ordinary course of his duties as an agent, the principal is liable for the same. In *Lloyd v. Grace, Smith & Co.* (1912) A.C. 716, the managing clerk of a firm of solicitors, while acting in the ordinary course of business committed fraud, against a lady client by fraudulently inducing her to sign documents transferring her property to him. He had done so without the knowledge of his principal who was liable because the fraud was committed in the course of employment.

Partners

For the tort committed by a partner in the ordinary course of the business of firm, all the other partners are liable to the same extent as the guilty partner. The liability of the partners is joint and several. In *Hamlyn v. Houston & Co.* (1903) 1 K.B. 81, one of the two partners bribed the plaintiff's clerk and induced him to divulge secrets relating to his employer's business. It was held that both the partners were liable for the tort committed by only one of them.

(b) Master and Servant [Authority by relation]

A master is liable for the tort committed by his servant while acting in the course of his employment. The servant, of course, is also liable; their liability is joint and several.

In such cases (i) liability of a person is independent of his own wrongful intention or negligence (ii) liability is joint as well several (iii) In case of vicarious liability the liability arises because of the relationship between the principal and the wrongdoer but in case of absolute or strict liability the liability arises out of the wrong itself.

A master is liable not only for the acts which have been committed by the servant, but also for acts done by him which are not specifically authorized, in the course of his employment. The basis of the rule has been variously stated: on the maxim *Respondeat Superior* (Let the principal

be liable) or on the maxim *Qui facit per alium facit per se* (he who does an act through another is deemed to do it himself).

The master is liable even though the servant acted against the express instructions, for the benefit of his master, so long as the servant acted in the course of employment.

(c) Employer and Independent Contractor

It is to be remembered that an employer is vicariously liable for the torts of his servants committed in the course of their employment, but he is not liable for the torts of those who are his independent contractors.

A servant is a person who is employed by another (the employer) to perform services in connection with the affairs of the employer, and over whom the employer has control in the performance of these services. An independent contractor is one who works for another but who is not controlled by that other in his conduct in the performance of that work. These definitions show that a person is a servant where the employer “retains the control of the actual performance” of the work.

(d) Where Employer is Liable for the acts of Independent Contractor

The employer is not liable merely because an independent contractor commits a tort in the course of his employment; the employer is liable only if he himself is deemed to have committed a tort. This may happen in one of the following three ways:

- (i) When employer authorizes him to commit a tort.
- (ii) In torts of strict liability.
- (iii) Negligence of independent contractor.

(e) Where Employer is not Liable for the acts of an Independent Contractor

An employer is not liable for the tort of an independent contractor if he has taken care in the appointment of the contractor. In *Philips v. Britania Hygienic Laundry Co.* (1923), the owner of lorry was held not liable when a third-party's vehicle was damaged, in consequence of the negligent repair of his lorry by a garage proprietor. Employers of independent contractors are liable for the “collateral negligence” of their contractors in the course of his employment. Where A employed B to fit casement windows into certain premises. B's servant negligently put a tool on the still of the window on which he was working at the time. The wind blew the casement open and the tool was knocked off the still on to a passer-by. The employer was held to be liable, because the harm was caused by the work on a highway and duty lies upon the employer to avoid harm.

(f) Liability for the acts of Servants

An employer is liable whenever his servant commits a tort in the course of his employment. An act is deemed to be done in the course of employment if it is either:

- (i) a wrongful act authorized by the employer, or
- (ii) a wrongful and unauthorized mode of doing some act authorized by the employer.

So far as the first alternative is concerned there is no difficulty in holding the master liable for the tort of his servant. A few examples, however, are necessary to explain the working of the rule in the second. These are as follows:

In *Century Insurance Co. Ltd. v. Northern Ireland Road Transport Board* (1942) A.C. 509, the director of a petrol lorry, while transferring petrol from the lorry to an underground tank at a garage, struck a match in order to light a cigarette and then threw it, still alight on the floor. An explosion and a fire ensued. The House of Lords held his employers liable for the damage caused, for he did the act in the course of carrying out his task of delivering petrol; it was an unauthorized way of doing what he was employed to do.

Similarly, in *Bayley v. Manchester, Sheffield and Lincolnshire Rly. Co.* (1873) L.R. 7 C.P. 415, erroneously thinking that the plaintiff was in the wrong train, a porter of the defendants forcibly removed him. The defendants were held liable.

Vicarious Liability of the State

(a) The Position in England

At Common Law the Crown could not be sued in tort, either for wrongs actually authorized by it or committed by its servants, in the course of their employment. With the passing of the Crown Proceeding Act, 1947, the Crown is liable for the torts committed by its servants just like a private individual. Thus, in England, the Crown is now vicariously liable for the torts of its servants.

(b) The Position in India

Unlike the Crown Proceeding Act, 1947 of England, we have no statutory provision with respect to the liability of the State in India.

When a case of Government liability in tort comes before the courts, the question is whether the particular Government activity, which gave rise to the tort, was the sovereign function or non-sovereign function. If it is a sovereign function it could claim immunity from the tortious liability, otherwise not. Generally, the activities of commercial nature or those which can be carried out by the private individual are termed as non-sovereign functions.

The whole idea of Vicariously Liability of the State for the torts committed by its servants is based on three principles:

- Respondeat superior (let the principal be liable).
- Quifacit per alium facit per se (he who acts through another does it himself).
- Socialisation of Compensation.

The position of State liability as stated in Article 300 of the Constitution is as under: Clause (1) of Article 300 of the Constitution provides first, that the Government of India may sue or be sued by the name of the Union of India and the Government of a State may sue or be sued by the name of the State; secondly, that the Government of India or the Government of a State may sue or be sued in relation to their respective affairs in the like cases as the Dominion of India and the corresponding Provinces or the corresponding Indian States might have sued or be sued, "if this Constitution had not been enacted", and thirdly, that the second mentioned rule shall be

subject to any provisions which may be made by an Act of Parliament or of the Legislature of such State, enacted by virtue of powers conferred by the Constitution.

Torts or Wrongs to Personal Safety and Freedom

An action for damages lies in the following kinds of wrongs which are styled as injuries to the person of an individual:

(a) **Battery**

Any direct application of force to the person of another individual without his consent or lawful justification is a wrong of battery. To constitute a tort of battery, therefore, two things are necessary:

- (i) use of force, however, trivial it may be without the plaintiff's consent, and (ii) without any lawful justification.

Even though the force used is very trivial and does not cause any harm, the wrong is committed. Thus, even to touch a person in anger or without any lawful justification is battery.

(b) **Assault**

Assault is any act of the defendant which directly causes the plaintiff immediately to apprehend a contact with his person. Thus, when the defendant by his act creates an apprehension in the mind of the plaintiff that he is going to commit battery against him, the tort of assault is committed. The law of assault is substantially the same as that of battery except that apprehension of contact, not the contact itself has to be established. Usually when there is a battery, there will also be assault, but not for instance, when a person is hit from behind. To point a loaded gun at the plaintiff, or to shake first under his nose, or to curse him in a threatening manner, or to aim a blow at him which is intercepted, or to surround him with a display of force is to assault him clearly if the defendant by his act intends to commit a battery and the plaintiff apprehends it, is an assault.

(c) **Bodily Harm**

A wilful act (or statement) of defendant, calculated to cause physical harm to the plaintiff and in fact causing physical harm to him, is a tort.

(d) **False Imprisonment**

False imprisonment consists in the imposition of a total restraint for some period, however short, upon the liberty of another, without sufficient lawful justification. It means unauthorized restraint on a person's body. What happens in false imprisonment is that a person is confined within certain limits so that he cannot move about and so his personal liberty is infringed. It is a serious violation of a person's right and liberty whether being confined within the four walls or by being prevented from leaving place where he is. If a man is restrained, by a threat of force from leaving his own house or an open field there is false imprisonment.

(e) Malicious Prosecution

Malicious prosecution consists in instigating judicial proceedings (usually criminal) against another, maliciously and without reasonable and probable cause, which terminate in favour of that other and which results in damage to his reputation, personal freedom or property.

The following are the essential elements of this tort:

- (i) There must have been a prosecution of the plaintiff by the defendant.
- (ii) There must have been want of reasonable and probable cause for that prosecution.
- (iii) The defendant must have acted maliciously (i.e. with an improper motive and not to further the end of justice).
- (iv) The plaintiff must have suffered damages as a result of the prosecution.
- (v) The prosecution must have terminated in favour of the plaintiff.

To be actionable, the proceedings must have been instigated actually by the defendant. If he merely states the fact as he believes them to a policeman or a magistrate he is not responsible for any proceedings which might ensue as a result of action by such policeman or magistrate on his own initiative.

(f) Nervous Shock

This branch of law is comparatively of recent origin. It provides relief when a person may get physical injury not by an impact, e.g., by stick, bullet or sword but merely by the nervous shock through what he has seen or heard. Causing of nervous shock itself is not enough to make it an actionable tort, some injury or illness must take place as a result of the emotional disturbance, fear or sorrow.

(g) Defamation

Defamation is an attack on the reputation of a person. It means that something is said or done by a person which affects the reputation of another. It is defined as follows:

“Defamation is the publication of a statement which tends to lower a person in the estimation of right thinking members of society generally; or which tends to make them shun or avoid that person.”

Defamation may be classified into two heads: Libel and Slander. Libel is a representation made in some permanent form, e.g. written words, pictures, caricatures, cinema films, effigy, statue and recorded words. In a cinema films both the photographic part of it and the speech which is synchronized with it amount to tort.

Slander is the publication of a defamatory statement in a transient form; statement of temporary nature such as spoken words, or gestures.

Generally, the punishment for libel is more severe than for slander. Defamation is tort as well as a crime in India.

In India both libel and slander are treated as a crime. Section 356 of Bharatiya Nyaya

Sanhita, 2023 recognizes both libel and slander as an offence. However, torts in criminal law are stricter than in law of tort.

Remedies in Torts

Judicial Remedies

Three types of judicial remedies are available to the plaintiff in an action for tort namely:

(a) Damages

The courts may award damages against the wrong caused to any person.

(b) Injunction

A person may be prohibited to act in a particular way or compelled to do a certain act under the remedy of Injunction.

(c) Specific Restitution of Property

A person may be asked to restore a property under the Specific Restitution of Property.

Extra Judicial Remedies

In certain cases it is lawful to redress one's injuries by means of self-help without recourse to the court. These remedies are:

(a) Self Defence

It is lawful for any person to use reasonable forces to protect himself, or any other person against any unlawful use of force.

(b) Prevention of Trespass

An occupier of land or any person with his authority may use reasonable force to prevent trespassers entering or to eject them but the force should be reasonable for the purpose.

(c) Re-entry on Land

A person wrongfully disposed of land may retake possession of land if he can do so in a peaceful and reasonable manner.

(d) Re-caption of Goods

It is neither a crime nor a tort for a person entitled to possession of a chattel to take it either peacefully or by the use of a reasonable force from one who has wrongly taken it or wrongfully detained it.

(e) Abatement of Nuisance

The occupier of land may lawfully abate (i.e. terminate by his own act), any nuisance injuriously affecting it. Thus, he may cut overhanging branches as spreading roots from his neighbour's trees, but (i) upon giving notice; (ii) by choosing the least mischievous method; (iii) avoiding unnecessary damage.

(f) Distress Damage Feasant

An occupier may lawfully seize any cattle or any chattel which are unlawfully on his land doing damage there and detain them until compensation is paid for the damage. The right is known as that of distress damage feasant-to distraint things which are doing damage.

LESSON 3

ELEMENTS OF COMPANY SECRETARIES LEGISLATION

THE INSTITUTE OF COMPANY SECRETARIES OF INDIA

The Institute of Company Secretaries of India (ICSI) is the only recognized professional body in India to develop and regulate the profession of Company Secretaries in India. It is a premier national professional body set up under an act of Parliament, the Company Secretaries Act, 1980. ICSI functions under the jurisdiction of the Ministry of Corporate Affairs, Government of India. The Institute provides top-quality education to the students of Company Secretaries (CS) Course and best quality set standards to CS Members.

ICSI has been contributing to the initiatives of Government of India that have potential to excel the social- economic growth of India.

THE MOTTO, VISION, MISSION AND CORE VALUE OF THE INSTITUTE

MOTTO

सत्यं वद। धर्मं चर। – Speak the Truth, Abide by the Law

VISION

To be a global leader in promoting Good Corporate Governance

MISSION

To develop high calibre professionals facilitating good Corporate Governance

CORE VALUES

Core values are the expression of beliefs, followed by an individual, group or community in their personal or professional behavior, individually or collectively. The ICSI identifies for itself and its members the following core values:

- Integrity
- Ethics
- Reliability
- Ownership
- Being 'stakeholder-centric'

Integrity

The ICSI's vision to be a global leader in promoting Good Corporate Governance is a promise to the nation. It casts upon the ICSI and the profession of Company Secretaries a huge responsibility to deliver upon this promise, with objectivity and integrity as core values. There is no middle path to integrity.

Etymologically, the word 'integrity' derives from the Latin word 'integer' which means whole or complete. In this context, integrity may comprise the personal inner sense of wholeness deriving from character, courage and consistency. As integrity conveys a sense of wholeness and strength, members shall be guided by a set of core principles that will empower them to remain consistent with high standards, viz compassion, dependability, generosity, honesty, openness, transparency, loyalty, maturity, objectivity, trust, and wisdom.

Ethics

The term 'ethics' has its origin from a Greek word "ethos", which means character or custom – the distinguishing character, moral nature or guiding beliefs of a person, institution or a group.

'Ethics' in its simplest form means possessing a sense of right and wrong. Whatever is conscientiously right is ethical; whatever is not, is unethical. In other words, ethics is the sense of right and wrong, coupled with a desire to do good in some measure for someone.

The ICSI has been built on the principle of ethics and its members continuously strive to promote ethical practices, and hold the profession in high esteem, which is integral to maintaining quality and reputation of both, the ICSI and its members.

Being 'stakeholder-centric'

The ICSI, its members and the Team ICSI pledge to uphold the established principles of professional ethics, values and standards and will always promote honesty and transparency in their behaviour, practices and processes.

Reliability

Reliability is an assurance of quality of service and commitment. At the ICSI, reliability is a core value reinforced by stringent processes specially focusing on quality of service, predictability and reliability. The values are an intrinsic component of work culture and sustainable growth. Quality and predictability through commitment and value-added services is what would be the strongest USP of the ICSI and its members. We shall continuously build on reliability as our core value for it is the sum total of quality service to our stakeholders.

Ownership

Ownership is synonymous with responsibility, accountability and empowerment. The idea of ownership is much more than simply a willingness to accept own criticism, deficiency or oversight. It is more about setting one's priorities, placing rightful obligations on others as high as obligations to self. To be responsible is to always do the right things in the eyes of valued stakeholders and the public at large. It is to value the trust and confidence stakeholders put in them. It is about commitment to keep a promise or make right some unintentional wrong, even when it is inconvenient to do so. "Ownership being one of our core values, we believe that it will reduce risk, increase efficiency and contribute to goodwill, reputation and brand image of the Institute and the profession. We shall uphold this at all times."

Being Stakeholder-Centric

Stakeholder is our most valued constituency when it comes to being able to achieve our goals. We believe in constant stakeholder consultation and in translating their aspirations into achievable goals. We take pride in having a transparent and stakeholder focused approach in having a trustworthy and collaborative relationship with them.

It will be our endeavor to constantly activate new channels and pathways to not only meet but beat the expectations of our stakeholders. This window into the future will help us to achieve sustained performance and growth.

COMPANY SECRETARY

According to Section 2(1)(c) of the Company Secretaries Act, 1980 "Company Secretary" means a person who is a member of the Institute of Company Secretaries of India. The role of the Company secretary is defined in various other legal enactments.

Under the Companies Act, 2013 Company Secretary has been defined under section 2(24) as: 'Company Secretary' or 'Secretary' means a Company Secretary as defined in Section 2(1)(c) of the Company Secretaries Act, 1980 who is appointed by a company to perform the functions of the Company Secretary under the Companies Act, 2013.

Company Secretary is recognized as one of the **Key Managerial Personnel (KMP)** of a company under the Companies Act, 2013. Section 203 of Companies Act, 2013 read with Rule 8 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that every listed company and every other public company having a paid-up share capital of ten crore rupees or more shall have the following whole-time key managerial personnel:

- (i) Managing Director, or Chief Executive Officer or Manager and in their absence, a Whole-Time Director;
- (ii) Company Secretary; and
- (iii) Chief Financial Officer:

According to Rule 8A of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, every Private company which has a paid up share capital of 10 crore rupees or more shall have a whole-time company secretary.

Functions of a Company Secretary

The functions of the company secretary shall include,-

- (a) to report to the Board about compliance with the provisions of this Act, the rules made thereunder and other laws applicable to the company;
- (b) to ensure that the company complies with the applicable secretarial standards;
- (c) to discharge such other prescribed duties .

Duties of Company Secretary

The duties of Company Secretary shall also discharge, the following duties, namely:-

- (1) to report to the Board about compliance with the provisions of the Companies Act, 2013 and the rules made thereunder and other laws applicable to the company;
- (2) to ensure that the company complies with the applicable secretarial standards;
- (3) to provide to the directors of the company, collectively and individually, such guidance as they may require, with regard to their duties, responsibilities and powers;
- (4) to facilitate the convening of meetings and attend Board, committee and general meetings and maintain the minutes of these meetings;
- (5) to obtain approvals from the Board, general meeting, the government and such other authorities as required under the provisions of the Act;

- (6) to represent before various regulators, and other authorities under the Act in connection with discharge of various duties under the Act;
- (7) to assist the Board in the conduct of the affairs of the company;
- (8) to assist and advise the Board in ensuring good corporate governance and in complying with the corporate governance requirements and best practices; and
- (9) to discharge such other duties as have been specified under the Act or rules; and
- (10) such other duties as may be assigned by the Board from time to time.

Company Secretary in Practice

As per Section 2(25) the Companies Act, 2013 “Company Secretary in Practice” means a company secretary who is deemed to be in practice under section 2(2) of the Company Secretaries Act, 1980.

A member of the Institute shall be deemed “to be in practice” when, individually or in partnership with one or more members of the Institute in practice or in partnership with members of such other recognised professions as may be prescribed, he, in consideration of remuneration received or to be received,—

- (a) Engages himself in the practice of the profession of Company Secretaries to, or in relation to, any company; or
- (b) offers to perform or performs services in relation to the promotion, forming, incorporation, amalgamation, reconstruction, reorganisation or winding up of companies; or
- (c) offers to perform or performs such services as may be performed by—
 - (i) an authorised representative of a company with respect to filing, registering, presenting, attesting or verifying any documents (including forms, applications and returns) by or on behalf of the company
 - (ii) a share transfer agent,
 - (iii) an issue house,
 - (iv) a share and stock broker,
 - (v) a secretarial auditor or consultant,
 - (vi) an adviser to a company on management, including any legal or procedural matters
 - (vii) issuing certificates on behalf of, or for the purposes of, a company; or
- (d) holds himself out to the public as a Company Secretary in practice; or
- (e) renders professional services or assistance with respect to matters of principle or detail relating to the practice of the profession of Company Secretaries; or
- (f) renders such other services as, in the opinion of the Council, are or may be rendered by a Company

Company Secretary in Practice have been authorised by Government as well as Regulatory Bodies including Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), NCLT & NCLAT, Insurance Regulatory Authority of India ((IRDA), Competition Commission of India (CCI), Real Estate

Regulatory Authority of India (RERA) and Stock Exchanges (SE) to act as authorised representative and issue various certifications and undertake Secretarial Audit of Bigger Companies.

A Company Secretary being multidisciplinary professional renders services in following areas:



CORPORATE GOVERNANCE AND SECRETARIAL SERVICES

Corporate Governance Services

Advising on good governance practices and compliance of Corporate Governance norms as prescribed under various Corporate, Securities and Other Business Laws and regulations and guidelines made thereunder.

Corporate Secretarial Services

1. Promotion, formation and incorporation of companies and matters related therewith
2. Filing, registering any document including forms, returns and applications by and on behalf of the company as an authorized representative
3. Maintenance of secretarial records, statutory books and registers
4. Arranging board/general meetings and preparing minutes thereof
5. All work relating to shares and their transfer and transmission

SECRETARIAL AUDIT

According to Section 204 of the Companies Act, 2013 every listed company and every public company having a paid-up share capital of fifty crore rupees or more or every public company having a turnover of two hundred fifty crore rupees or more or every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more shall annex with its Board's report made in terms of section 134(3), a secretarial audit report, given by a company secretary in practice, in prescribed form. The format of the Secretarial Audit Report Prescribed in Form No. MR.3.

It shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.

The Board of Directors, in their report made in terms of section 134(3) of the Companies Act, 2013, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report.

If a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be liable to a penalty of two lakh rupees.

CORPORATE LAWS ADVISORY AND REPRESENTATION

Advising companies on Compliance of legal and procedural aspects, particularly under

1. SEBI Act, SCRA and Rules and Regulations made thereunder
2. Insolvency and Bankruptcy Code
3. Foreign Exchange Management Act
4. Consumer Protection Act
5. Depositories Act
6. Environment and Pollution Control Laws
7. Labour and Industrial Laws
8. Co-operative Societies Act
9. Mergers and Amalgamations and Strategic Alliances
10. Foreign Collaborations and Joint Ventures
11. Setting up subsidiaries abroad
12. Competition Laws
13. IPR Protection, Management, Valuation and Audit
14. Real Estate(Regulation and Development) Act
15. Arbitration and Conciliation Act
16. Drafting of Legal documents.

Representing on behalf of a company and other persons before-

1. Registrar of Companies(RoC)/Regional Director(RD)
2. National Company Law Tribunal
3. Competition Commission of India
4. Securities Appellate Tribunal
5. National Company Law Appellate Tribunal
6. Consumer Forums
7. Telecom Disputes Settlement and Appellate Tribunal
8. Trade Marks Authority
9. Special Economic Zones Authorities
10. Tax Authorities
11. Other quasi-judicial bodies and Tribunals

Arbitration and Conciliation Services

Acting as Arbitrator/Conciliator in domestic and international commercial disputes. Advising on arbitration, negotiation and conciliation in commercial disputes between the parties and Drafting Arbitration/Conciliation Agreement/Clause.

FINANCIAL MARKETS SERVICES

Public Issue, Listing and Securities Management

1. Advisor/consultant in issue of shares and other securities
2. Preparation of Projects Reports and Feasibility Studies
3. Syndication of Loans from banks & financial institutions
4. Drafting of prospectus/offer for sale/letter of offer/other documents related to issue of securities and obtaining various approvals in association with lead managers
5. Loan Documentation, registration of charges, status and search reports
6. Listing of securities/delisting of securities with recognized stock exchange
7. Private placement of shares and other securities
8. Buy-back of shares and other securities
9. Raising of funds from international markets ADR/GDR/ECB

Takeover Code and Insider Trading

1. Ensuring compliance of the Takeover Regulations and any other laws or rules as may be applicable in this regard.
2. Acting as Compliance Officer and ensuring compliance with SEBI (Prohibition of insider Trading) Regulations including maintenance of various documents.

Securities Compliance and Certification Services

Compliance with rules and regulations in the securities market particularly:

1. Internal Audit of Depository Participants
2. Certification under SEBI LODR/ICDR Regulations
3. Audit in relation to Reconciliation of shares
4. Certificate in respect of compliance of Private Limited and Unlisted Public Company (Buy Back Securities) Rules
5. Certifications of Annual Return
6. Quarterly Share Capital Reconciliation certificates under SEBI(Depositoy Participants) Regulations, 2018
7. Certifications under IFSCA Regulations
8. Due Diligence Report and Certification under SEBI (Delisting of Equity Shares) Regulations, 2021.

FINANCE AND ACCOUNTING SERVICES

1. Internal Audit
2. Secretary to Audit Committee
3. Working capital and liquidity management
4. Determination of an appropriate capital structure
5. Analysis of capital investment proposals
6. Business valuations prior to mergers and/or acquisitions
7. Loan syndication
8. Budgetary controls
9. Accounting and compilation of financial statements

TAXATION SERVICES

1. Advisory services to companies on tax management and tax planning under Income Tax, GST and Customs Laws
2. Preparing/reviewing various returns and reports required for compliance with the tax laws and regulations
3. Representing companies and other persons before the tax authorities and tribunals

INTERNATIONAL TRADE AND WTO SERVICES

1. Advising on all matters related to IPRs and TRIPs Agreement of WTO
2. Advising on matters relating to antidumping, subsidies and countervailing duties
3. International Commercial Arbitration

4. Advising on and issuing certificates on Foreign Trade Policy and Procedures
5. Advising on Intellectual Property licensing and drafting of Agreement
6. Acting as registered Trade Mark Agent

MANAGEMENT SERVICES

General/Strategic Management

1. Advising on Legal Structure of the organization
2. Business policy strategy and planning
3. Formulation of the organizational structure
4. Acting as management representative to obtain ISO Certification

Corporate Communications and Public Relations

1. Communication with shareholders, stakeholders, Government and Regulators, Authorities, etc.
2. Advisory services for Brand equity and image building

Human Resources Management

1. Manpower planning and development
2. Audit of the HR function
3. Performance appraisal
4. Motivation and remuneration strategies
5. Industrial relations
6. Office management, work studies and performance standards
7. Advising on industrial and labour laws

Information Technology

1. Compliance with cyber laws
2. Conducting Board Meetings through video-conferencing and teleconferencing
3. Advising on software copyright and licensing
4. Development of management reports and controls
5. Maintenance of statutory records in electronic form
6. Sending notices to shareholders by electronic mode
7. Filing of forms/documents in electronic form with Registrar of Companies and other statutory authorities.

LESSON 4

ELEMENTS OF COMPANY LAW

MEANING OF COMPANY

The word 'company' is derived from the Latin word (Com=with or together; panis =bread), and it originally referred to an association of persons who took their meals together. In the leisurely past, merchants took advantage of festive gatherings, to discuss business matters. Now a days, the business matters have become more complicated and cannot be discussed at length at festive gatherings. Therefore, the word company has assumed greater importance. It denotes a joint stock enterprise in which the capital is contributed by a large number of people. Thus, in popular parlance, a company denotes an association of like-minded persons formed for the purpose of carrying on some business or undertaking. A company is a corporate body and a legal person having status and personality distinct and separate from that of the members constituting it.

It is called a body corporate because the persons composing it are made into one body by incorporating it according to the law and clothing it with legal personality. The word 'corporation' is derived from the Latin term 'corpus' which means 'body'. Accordingly, 'corporation' is a legal person created by the process other than natural birth. It is, for this reason, sometimes called artificial legal person. As a legal person, a corporate is capable of enjoying many of the rights and incurring many of the liabilities of a natural person.

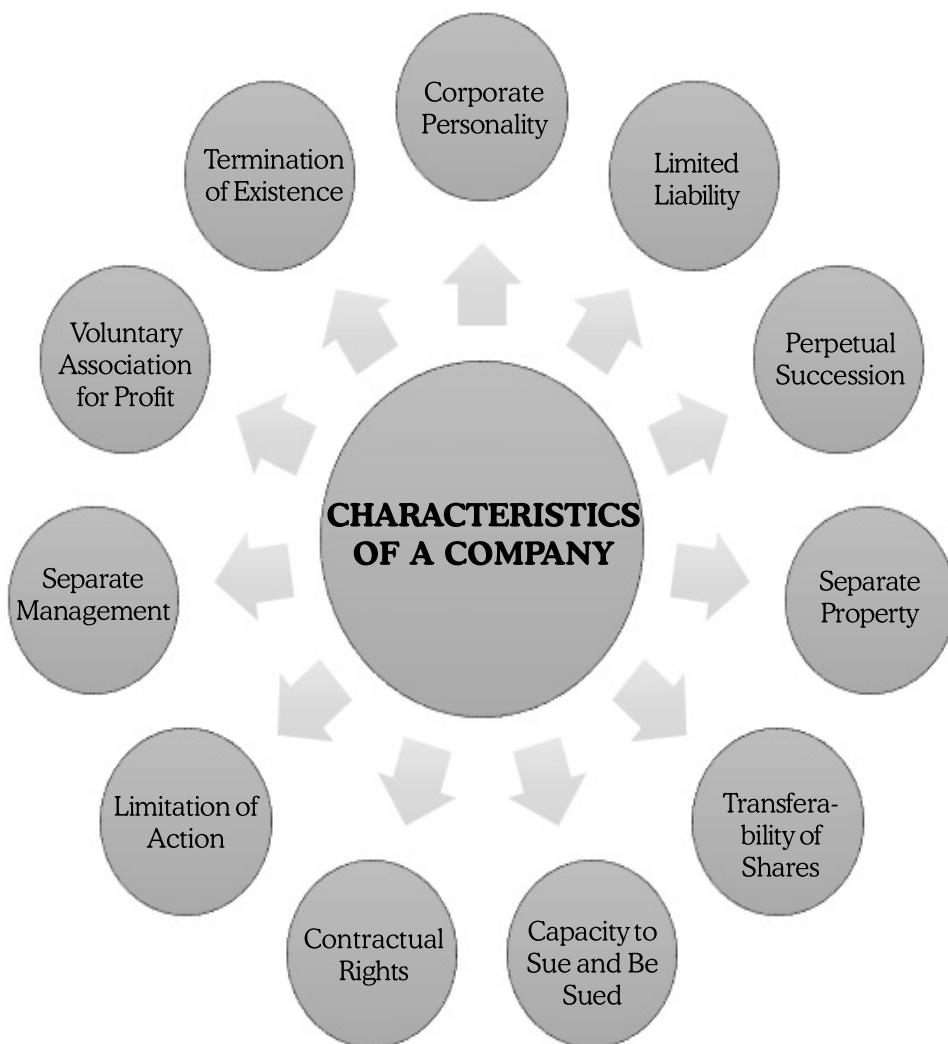
In the legal sense, a company is an association of both natural and artificial persons incorporated under the existing law of a country. In terms of the Section 2(20) of the Companies Act, 2013, Company means a company incorporated under this Act or under any previous company law. In common law, a company is a "legal person" or "legal entity" separate from, and capable of surviving beyond the lives of its members. However, an association formed not for profit acquires a corporate life and falls within the meaning of a company by reason of a licence under Section 8 of the Act.

But a company is not merely a legal institution. It is rather a legal device for the attainment of any social or economic end. It is, therefore, a combined political, social, economic and legal institution. Thus, the term company has been described in many ways. "It is a means of cooperation and organisation in the conduct of an enterprise". It is "an intricate, centralised, economic and administrative structure run by professional managers who hire capital from the investor(s)". Lord Justice James has defined a company as "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising therefrom. The common stock so contributed is denoted in money and is the capital of the company. The persons who form it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is his "share".

From the foregoing discussion it is clear that a company has its own corporate and legal personality distinct and separate from that of its members. A brief description of the various attributes is given here to explain the nature and characteristics of the company as a corporate body.

NATURE AND CHARACTERISTICS OF A COMPANY

Since a corporate body (i.e. a company) is the creation of law, it is not a human being, it is an artificial person (i.e. created by law); it is clothed with many rights, obligations, powers and duties prescribed by law; it is called a 'person'. Being the creation of law, it possesses only the properties conferred upon it by its Memorandum of Association. Within the limits of powers conferred by the charter, it can do all acts as a natural person may do.



The most striking characteristics of a company are:

(i) Corporate Personality

By incorporation under the Act, the company is vested with a corporate personality quite distinct from individuals who are its members. Being a separate legal entity it bears its own name and acts under a corporate name. It has a seal of its own. Its assets are separate and distinct from those of its members. It is also a different 'person' from the members who compose it. As such it is capable of owning property, incurring debts, borrowing money, having a bank account, employing people, entering into contracts and suing or being sued in the same manner as an individual. Its members are its owners but they can be its creditors simultaneously as it has a separate legal entity. A shareholder cannot be held liable for the acts of the company even if he holds virtually the entire share capital. The shareholders are not the agents of the company and so they cannot bind it by their acts. The company does not hold its property as an agent or trustee for its members and they cannot sue to enforce its rights, nor can they be sued in respect of its liabilities. Thus, 'incorporation' is the act of forming a legal corporation as a juristic

person. A juristic person is in law also conferred with rights and obligations and is dealt with in accordance with law. In other words, the entity acts like a natural person but only through a designated person, whose acts are processed within the ambit of law [*Shiromani Gurdwara Prabandhak Committee v. Shri Sam Nath Dass AIR 2000 SCW 139*].

The case of *Salomon v. Salomon and Co. Ltd.*, (1897) A.C. 22 has clearly established the principle that once a company has been validly constituted under Companies Act, it becomes a legal person distinct from its members and for this purpose it is immaterial whether any member has a large or small proportion of the shares, and whether he holds those shares beneficially or as a mere trustee.

In the case, Salomon had, for some years, carried on a prosperous business as a leather merchant and boot manufacturer. He formed a limited company consisting of himself, his wife, his daughter and his four sons as the shareholders, all of whom subscribed for 1 share each so that the actual cash paid as capital was £ 7. Salomon sold his business (which was perfectly solvent at that time), to the Company for the sum of £ 38,782. The company's nominal capital was £ 40,000 in £ 1 shares. In part payment of the purchase money for the business sold to the company, debentures of the amount of £10,000 secured by a floating charge on the company's assets were issued to Salomon, who also applied for and received an allotment of 20,000 £ 1 fully paid shares. The remaining amount of £8,782 was paid to Salomon in cash. Salomon was the managing director and two of his sons were other directors.

The company soon ran into difficulties and the debenture holders appointed a receiver and the company went into liquidation. The total assets of the company amounted to £6050, its liabilities were £10,000 secured by debentures, £8,000 owing to unsecured trade creditors, who claimed the whole of the company's assets, viz., £6,050, on the ground that, as the company was a mere 'alias' or agent for Salomon, they were entitled to payment of their debts in priority to debentures. They further pleaded that Salomon, as principal beneficiary, was ultimately responsible for the debts incurred by his agent or trustee on his behalf.

Their Lordships of the House of Lords observed:

"When the memorandum is duly signed and registered, though there be only seven shares taken, the subscribers are a body corporate capable forthwith of exercising all the functions of an incorporated company. It is difficult to understand how a body corporate thus created by statute can lose its individuality by issuing the bulk of its capital to one person. The company is at law a different person altogether from the subscribers of the memorandum; and though it may be that after incorporation the business is precisely the same as before, the same persons are managers, and the same hands receive the profits, the company is not in law their agent or trustee. The statute enacts nothing as to the extent or degree of interest which may be held by each of the seven or as to the proportion of interest, or influence possessed by one or majority of the shareholders over others. There is nothing in the Act requiring that the subscribers to the memorandum should be independent or unconnected, or that they or any of them should take a substantial interest in the undertakings, or that they should have a mind or will of their own, or that there should be anything like a balance of power in the constitution of company."

The case of *Lee v. Lee's Air Farming Ltd.* (1961) A.C. 12 (P.C.) illustrates the application of the principles established in Salomon's case (*supra*). In this case, a company was formed for the purpose of aerial top-dressing. Lee, a qualified pilot, held all but one of the shares in the company.

He voted himself the managing director and got himself appointed by the articles as chief pilot at a salary. He was killed in an air crash while working for the company. His widow claimed compensation for the death of her husband in the course of his employment. The company opposed the claim on the ground that Lee was not a worker as the same person could not be the employer and the employee. The Privy Council held that Lee and his company were distinct legal persons which had entered into contractual relationships under which he became, the chief pilot, a servant of the company. In his capacity of managing director he could, on behalf of the company, give himself orders in his other capacity of pilot, and the relationship between himself, as pilot and the company, was that of servant and master. Lee was a separate person from the company he formed and his widow was held entitled to get the compensation. In effect the magic of corporate personality enabled him (Lee) to be the master and servant at the same time and enjoy the advantages of both.

The decision of the Calcutta High Court in *Re. Kondoli Tea Co. Ltd.*, (1886) ILR 13 Cal. 43, recognised the principle of separate legal entity even much earlier than the decision in *Salomon v. Salomon & Co. Ltd.* case. Certain persons transferred a Tea Estate to a company and claimed exemptions from ad valorem duty on the ground that since they themselves were also the shareholders in the company and, therefore, it was nothing but a transfer from them in one name to themselves under another name. While rejecting this Calcutta High Court observed: "The company was a separate person, a separate body altogether from the shareholders and the transfer was as much a conveyance, a transfer of the property, as if the shareholders had been totally different persons.

(ii) Limited Liability

"The privilege of limited liability for business debts is one of the principal advantages of doing business under the corporate form of organisation." The company, being a separate person, is the owner of its assets and bound by its liabilities. The liability of a member as shareholder, extends to contribution to the assets of the company up to the nominal value of the shares held and not paid by him. Members, even as a whole, are neither the owners of the company's undertakings, nor liable for its debts. In other words, a shareholder is liable to pay the balance, if any, due on the shares held by him, when called upon to pay and nothing more, even if the liabilities of the company far exceed its assets. This means that the liability of a member is limited. For example, if A holds shares of the total nominal value of Rs. 1,000 and has already paid Rs. 500/- (or 50% of the value) as part payment at the time of allotment, he cannot be called upon to pay more than Rs. 500/-, the amount remaining unpaid on his shares. If he holds fully-paid shares, he has no further liability to pay even if the company is declared insolvent. In the case of a company limited by guarantee, the liability of members is limited to a specified amount mentioned in the memorandum.

Buckley, J. in *Re. London and Globe Finance Corporation*, (1903) 1 Ch.D. 728 at 731, has observed: 'The statutes relating to limited liability have probably done more than any legislation of the last fifty years to further the commercial prosperity of the country. They have, to the advantage of the investor as well as of the public, allowed and encouraged aggregation of small sums into large capitals which have been employed in undertakings of "great public utility largely increasing the wealth of the country".

There are, however, some statutory exceptions to the principle of limited liability. As the Companies Act, 2013 the members become personally liable if the membership falls below prescribed minimum and the business is carried on for more than six months thereafter.

(iii) Perpetual Succession

An incorporated company never dies except when it is wound up as per law. A company, being a separate legal person is unaffected by death or departure of any member and remains the same entity, despite total change in the membership. A company's life is determined by the terms of its

Memorandum of Association. It may be perpetual or it may continue for a specified time to carry on a task or object as laid down in the Memorandum of Association. Perpetual succession, therefore, means that the membership of a company may keep changing from time to time, but that does not affect its continuity.

The membership of an incorporated company may change either because one shareholder has transferred his shares to another or his shares devolve on his legal representatives on his death or he ceases to be a member under some other provisions of the Companies Act. Thus, perpetual succession denotes the ability of a company to maintain its existence by the constant succession of new individuals who step into the shoes of those who cease to be members of the company. Professor L.C.B. Gower rightly mentions, "Members may come and go, but the company can go on for ever. During the war all the members of one private company, while in general meeting, were killed by a bomb, but the company survived – not even a hydrogen bomb could have destroyed it".

(iv) Separate Property

A company being a legal person and entirely distinct from its members, is capable of owning, enjoying and disposing of property in its own name. The company is the real person in which all its property is vested, and by which it is controlled, managed and disposed off. Their Lordships of the Madras High Court in *R.F. Perumal v. H. John Deavin*, A.I.R. 1960 Mad. 43 held that "no member can claim himself to be the owner of the company's property during its existence or in its winding-up". A member does not even have an insurable interest in the property of the company.

(v) Transferability of Shares

The capital of a company is divided into parts, called shares. The shares are said to be movable property and, subject to certain conditions, freely transferable, so that no shareholder is permanently or necessarily wedded to a company. When the joint stock companies were established, the object was that their shares should be capable of being easily transferred, [In *Re. Balia and San Francisco Rly.*, (1968) L.R. 3 Q.B. 588]. Companies Act, 2013 enunciates the principle by providing that the shares held by the members are movable property and can be transferred from one person to another in the manner provided by the articles.

A member may sell his shares in the open market and realise the money invested by him. This provides liquidity to a member (as he can freely sell his shares) and ensures stability to the company (as the member is not withdrawing his money from the company). The Stock Exchanges provide adequate facilities for the sale and purchase of shares.

Further, as of now, in most of the listed companies, the shares are also transferable through Electronic mode i.e. through Depository Participants instead of physical transfers.

(vi) Capacity to Sue and Be Sued

A company being a body corporate, can sue and be sued in its own name. To sue, means

to institute legal proceedings against (a person) or to bring a suit in a court of law. All legal proceedings against the company are to be instituted in its own name. Similarly, the company may bring an action against anyone in its own name. A company's right to sue arises when some loss is caused to the company, i.e. to the property of the personality of the company. Hence, the company is entitled to sue for damages in libel or slander as the case may be [*Floating Services Ltd. v. MV San Fransceco Dipaloa* (2004) 52 SCL 762 (Guj)]. A company, as a person separate from its members, may even sue one of its own members for libel.

A company has a right to seek damages where a defamatory material published about it, affects its business. Where video cassettes were prepared by the workmen of a company showing, their struggle against the company's management, it was held to be not actionable unless shown that the cassette would be defamatory. The court did not restrain the exhibition of the cassette. [*TVS Employees Federation v. TVS and Sons Ltd.*, (1996) 87 Com Cases 37]. The company is not held liable for contempt committed by its officer. [*Lalit Surajmal Kanodia v. Office Tiger Database Systems India (P) Ltd.*, (2006) 129 Comp Cas 192 Mad].

(vii) Contractual Rights

A company, being a separate legal entity different from its members, can enter into contracts for the conduct of the business in its own name. A shareholder cannot enforce a contract made by his company; he is neither a party to the contract nor entitled to the benefit of it, as a company is not a trustee for its shareholders. Likewise, a shareholder cannot be sued on contracts made by his company. The distinction between a company and its members is not confined to the rules of privity, however, it permeates the whole law of contract. Thus, if a director fails to disclose a breach of his duties to his company, and in consequence a shareholder is induced to enter into a contract with the director which he would not have entered into had there been disclosure, the shareholder cannot rescind the contract.

Similarly, a member of a company cannot sue in respect of torts committed against the company, nor can he be sued for torts committed by the company. [*British Thomson-Houston Company v. Sterling Accessories Ltd.*, (1924) 2 Ch. 33]. Therefore, the company as a legal person can take action to enforce its legal rights or be sued for breach of its legal duties. Its rights and duties are distinct from those of its constituent members.

(viii) Limitation of Action

A company cannot go beyond the power stated in the Memorandum of Association. The Memorandum of Association of the company regulates the powers and fixes the objects of the company and provides the edifice upon which the entire structure of the company rests. The actions and objects of the company are limited within the scope of its Memorandum of Association. In order to enable it to carry out its actions without such restrictions and limitations in most cases, sufficient powers are granted in the Memorandum of Association. But once the powers have been laid down, it cannot go beyond these powers unless the Memorandum of Association is itself altered prior to doing so.

(ix) Separate Management

As already noted, the members may derive profits without being burdened with the management of the company. They do not have effective and intimate control over its working and elect their representatives to conduct corporate functioning. In other words, the company is administered and managed by its managerial personnel.

(x) Voluntary Association for Profit

A company is a voluntary association for profit. It is formed for the accomplishment of some public goals and whatsoever profit is gained is divided among its shareholders or restored for the future expansion of the company. Only a Section 8 company can be formed with no profit motive.

(xi) Termination of Existence

A company, being an abstract and artificial person, does not die a natural death. It is created by law, carries on its affairs according to law throughout its life and ultimately is effaced by law. Generally, the existence of a company is terminated by means of winding up. However, to avoid winding up sometimes companies change their form by means of reorganisation, reconstruction and amalgamation.

To sum up, "a company is a voluntary association for profit with capital divisible into transferable shares with limited liability, having corporate entity and a common seal with perpetual succession".

NATIONALITY AND RESIDENCE OF A COMPANY

Though it is established through judicial decisions that a company cannot be a citizen, yet it has nationality, domicile and residence. In *Gasque v. Inland Revenue Commissioners*, (1940) 2 K.B. 88, Macnaghten, J. held that a limited company is capable of having a domicile and its domicile is the place of its registration and that domicile clings to it throughout its existence. He observed in this case:

"It was suggested that a body corporate has no domicile. It is quite true that a body corporate cannot have a domicile in the same sense as an individual. But by analogy with a natural person the attributes of residence, domicile and nationality can be given to a body corporate."

In *Tulika v. Parry and Co.*, (1903) I.L.R. 27 Mad. 315, Kelly C.B. observed:

"A joint stock company resides where its place of incorporation is, where the meetings of the whole company or those who represent it are held and where its governing body meets in bodily presence for the purposes of the company and exercises the powers conferred upon it by statute and by the Articles of Association."

The company, though a legal person, is not a citizen under the Citizenship Act, 1955 or the Constitution of India. In *State Trading Corporation of India Ltd. v. C.T.O., A.I.R. 1963 S.C. 1811*, the Supreme Court held that the State Trading Corporation though a legal person, was not a citizen and can act only through natural persons. Nevertheless, it is to be noted that certain fundamental rights enshrined in the Constitution for protection of "person", e.g., right to equality (Article 14) etc. are available to company.

CONCEPT OF CORPORATE PERSONALITY

By the provision of law, a corporation is clothed with a distinct personality, yet in reality it is an association of persons who are in fact, in a way, the beneficial owners of the property of the body corporate. A company, being an artificial person, cannot act on its own, it can only act through natural persons.

Lifting of or piercing through the corporate veil

It means the company has a separate legal entity from the persons constituting its members. Indeed, the theory of corporate entity is still the basic principle on which the whole law of corporations is based.

But as the separate personality of the company is a statutory privilege, it must be used for legitimate business purposes only. Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality. The Court will break through the corporate shell and apply the principle of what is known as "lifting of or piercing through the corporate veil". The Court will look behind the corporate entity and take action as though no entity separate from the members existed and make the members or the controlling persons liable for debts and obligations of the company.

The corporate veil is lifted when in defence proceedings, such as for the evasion of tax, an entity relies on its corporate personality as a shield to cover its wrong doings. [BSN (UK) Ltd. v. Janardan Mohandas Rajan Pillai [1996] 86 Comp. Cas. 371 (Bom).].

However, the shareholders cannot ask for lifting veil for their purposes. This was upheld in *Premlata Bhatia v. Union of India* (2004) 58 CL 217 (Delhi) wherein the premises of a shop were allotted on a licence to the individual licence. She set up a wholly owned private company and transferred the premises to that company with the Government consent. She could not remove the illegality by saying that she and her company were virtually the same person.

Ever since the decision in the *Salomon v. Salomon & Co. Ltd.*, (1897) A.C. 22 normally Courts are reluctant or at least very cautious to lift the veil of corporate personality to see the real persons behind it. Nevertheless, Courts have found it necessary to disregard the separate personality of a company in the following situations:

- (a) Where the corporate veil has been used for commission of fraud or improper conduct. In such a situation, Courts have lifted the veil and looked at the realities of the situation.
- (b) Where a corporate facade is really only an agency instrumentality.
- (c) Where the doctrine conflicts with public policy, courts lifted the corporate veil for protecting the public policy.
- (d) Further, In *Daimler Co. Ltd. v. Continental Tyre & Rubber Co.*, (1916) 2 A.C. 307, it was held that a company will be regarded as having enemy character, if the persons having de facto control of its affairs are resident in an enemy country or , wherever they may be, are acting under instructions from or on behalf of the enemy.
- (e) Where it was found that the sole purpose for which the company was formed was to evade taxes the Court will ignore the concept of separate entity, and make the individuals liable to pay the taxes which they would have paid but for the formation of the company.
- (f) Avoidance of welfare legislation is as common as avoidance of taxation and the approach in considering problems arising out of such avoidance has necessarily to be the same and, therefore, where it was found that the sole purpose for the formation of the new company was to use it as a device to reduce the amount to be paid by way of bonus to workmen, the Supreme Court upheld the piercing of the veil to look at the real transaction.
- (g) Where it is found that a company has abused its corporate personality for an unjust and inequitable purpose, the court would not hesitate to lift the corporate veil. Further, the corporate veil could be lifted when acts of a corporation are allegedly opposed to justice, convenience and interests of revenue or workman or are against public interest.

Thus, in appropriate cases, the Courts disregard the separate corporate personality and look behind the legal person or lift the corporate veil.

COMPANY AS DISTINGUISHED FROM OTHER BUSINESS ENTERPRISES

Though there are a number of similarities between a limited company and other forms of associations, there are a great number of dissimilarities as well. In both the cases individuals are the subjects, and trading is generally the object. In the following paragraphs, a limited company is distinguished from a partnership firm, a Hindu Joint family business and a registered society.

Distinction between Company and Partnership

The principal points of distinction between a company and a partnership firm, are as follows:

- (1) A company is a distinct legal person. A partnership firm is not distinct from the several persons who compose it.
- (2) In a partnership, the property of the firm is the property of the individuals comprising it. In a company, it belongs to the company and not to the individuals comprising it.
- (3) Creditors of a partnership firm are creditors of individual partners and a decree against the firm can be executed against the partners jointly and severally. The creditors of a company can proceed only against the company and not against its members.
- (4) Partners are the agents of the firm, but members of a company are not its agents. A partner can dispose of the property and incur liabilities as long as he acts in the course of the firm's business. A member of a company has no such power.
- (5) A partner cannot contract with his firm, whereas a member of a company can.
- (6) A partner cannot transfer his share and make the transferee a member of the firm without the consent of the other partners, whereas a company's share can ordinarily be transferred.
- (7) Restrictions on a partner's authority contained in the partnership contract do not bind outsiders; whereas such restrictions incorporated in the Articles are effective, because the public are bound to acquaint themselves with them.
- (8) A partner's liability is always unlimited whereas that of shareholder may be limited either by shares or a guarantee.
- (9) A company has perpetual succession, i.e. the death or insolvency of a shareholder or all of them does not affect the life of the company, whereas the death or insolvency of a partner dissolves the firm, unless otherwise provided.
- (10) A company is legally required to have its accounts audited annually by a chartered accountant, whereas the accounts of a firm are audited at the discretion of the partners.
- (11) A company, being a creation of law, can only be dissolved as laid down by law. A partnership firm, on the other hand, is the result of an agreement and can be dissolved at any time by agreement.

Distinction between Company and Hindu Joint Family Business

1. A company consists of heterogeneous (varied or diverse) members, whereas a Hindu Undivided Family Business consists of homogenous (unvarying) members since it consists of members of the joint family itself.

2. In a Hindu Joint Family business the Karta (manager) has the sole authority to contract debts for the purpose of the business, other coparceners cannot do so. There is no such system in a company.
3. A person becomes a member of Joint Hindu Family business by virtue of birth. There is no provision to that effect in the company.
4. No registration is compulsory for carrying on business for gain by a Hindu Joint Family even if the number of members exceeds twenty [Shyamal Roy v. Madhusudan Roy, AIR 1959 Cal. 380 (385)]. Registration of a company is compulsory.

Distinction between company and Limited Liability Partnership (LLP)

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name. LLP is a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.

Further, no partner is liable on account of the independent or un-authorized actions of other partners, thus individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct.

Mutual rights and duties of the partners within a LLP are governed by an agreement between the partners or between the partners and the LLP as the case may be. The LLP, however, is not relieved of the liability for its other obligations as a separate entity.

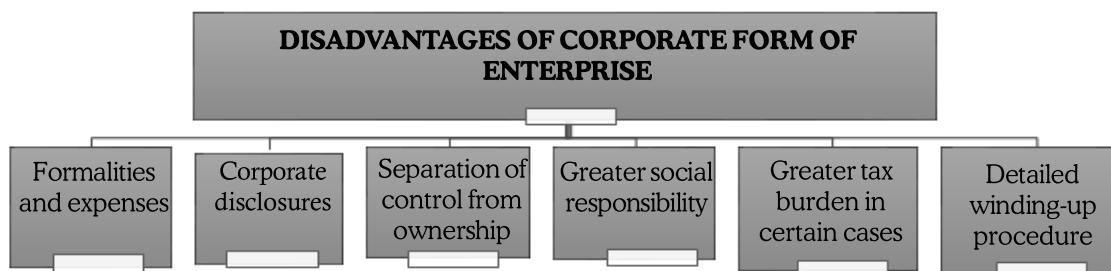
Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.

LLP is a body corporate and a legal entity separate from its partners, having perpetual succession. LLP form is a form of business model which : (i) is organized and operates on the basis of an agreement. (ii) provides flexibility without imposing detailed legal and procedural requirements (iii) enables professional/ technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner

A basic difference between an LLP and a company lies in that the internal governance structure of a company is regulated by statute (i.e. Companies Act) whereas for an LLP it would be by a contractual agreement between partners.

The management-ownership divide inherent in a company is not there in a limited liability partnership. LLP have more flexibility as compared to a company. LLP have lesser compliance requirements as compared to a company.

DISADVANTAGES OF CORPORATE FORM OF ENTERPRISE



There are, however, certain disadvantages and inconveniences in Incorporation. Some of these disadvantages are:

1. *Expenses of Incorporation and Floatation* : Incorporation of a company is coupled with complex, cumbersome and detailed legal formalities and procedures, involving considerable amount of time and money. Even after the company is incorporated, its affairs and working must be conducted strictly in accordance with legal provisions. Thus various returns and documents are required to be filed with the Registrar of Companies, some periodically and some on the happening of an event. Certain books and registers are compulsorily required to be maintained by a company. Approval and sanction of the Company Law Board, the Government, the Court, the Registrar of Companies or other appropriate authority, as the case may be, is necessarily required to be obtained for certain corporate activities.
2. *Corporate disclosures* : Notwithstanding the elaborate legal framework designed to ensure maximum disclosure of corporate information, the members of a company comparatively have restricted accessibility to its internal management and day-to-day administration of corporate working.
3. *Separation of control from ownership* : Members of a company do not have an effective and intimate control over its working as one can have in other forms of business organisation, say, a partnership firm. This is particularly so in big companies in which the number of members is too large to exercise any effective control over its day-to-day affairs.
4. *Greater social responsibility* : Having regard to the enormous powers wielded by the companies and the impact they have on the society, the companies are called upon to show greater social responsibility in their working and, for that purpose, are subject to greater control and regulation than that by which other forms of business organisation are governed and regulated.
5. *Greater tax burden in certain cases* : In certain circumstances, the tax burden on a company is more than that on other forms of business organization including partnership firms.
6. *Detailed winding-up procedure* : The Act provides elaborate and detailed procedure for winding- up of companies which is more expensive and time consuming than that which is applicable to other forms of business organisation.

JOURNEY OF INDIAN COMPANY LAW

Company Law in India, as indicated earlier, is the cherished child of the English parents. Our various Companies Acts have been modelled on the English Acts. Following the enactment of the Joint Stock Companies Act, 1844 in England, the first Companies Act was passed in India in 1850. It provided for the registration of the companies and transferability of shares. The Amending Act of 1857 conferred the right of registration with or without limited liability. Subsequently this right was granted to banking and insurance companies by an Act of 1860 following the similar principle in Britain. The Companies Act of 1856 repealed all the previous Acts. That Act provided *inter alia* for incorporation, regulation and winding up of companies and other associations. This Act was recast in 1882, embodying the amendments which were made in the Company Law in England upto that time. In 1913 a consolidating Act was passed, and major amendments were made to the consolidated Act in 1936. In the meantime England passed a comprehensive Companies Act in 1948. In 1951, the Indian Government promulgated the Indian Companies (Amendment) Ordinance under which the Central Government and the Court assumed extensive powers to intervene directly in the affairs of the company and to take necessary action in the interest of the company. The ordinance was replaced by an Amending Act of 1951.

The Companies Act, 1956 was enacted with a view to consolidate and amend the earlier laws relating to companies and certain other associations. The Act came into force on 1st April, 1956. The present Companies Act is based largely on the recommendations of the Company Law Committee (Bhabha Committee) which submitted its report in March, 1952. This Act is the longest piece of legislation ever passed by our Parliament. Amendments have been made in this Act periodically. The Companies Act consists of 658 Sections and 15 Schedules.

Full and fair disclosure of various matters in prospectus; detailed information of the financial affairs of company to be disclosed in its account; provision for intervention and investigation by the Government into the affairs of a company; restrictions on the powers of managerial personnel; enforcement of proper performance of their duties by company management; and protection of minority shareholders were some of the main features of the Companies Act, 1956.

The Companies Act, 1956 has undergone changes by amendments in 1960, 1962, 1963, 1964, 1965, 1966, 1967, 1969, 1971, 1977, 1985, 1988, 1996, 1999, 2000, 2002 (Amendment), 2002 (Second Amendment), and 2006.

CONCEPT PAPER ON COMPANY LAW, 2004 AND J.J. IRANI REPORT

To frame a law that enables companies to achieve global competitiveness in a fast changing economy, the Government had taken up a fresh exercise for a comprehensive revision of the Companies Act, 1956, albeit through a consultative process. As the first step in this direction, a Concept Paper on Company Law drawn up in the legislative format was exposed for public viewing on the electronic media so that all interested parties may not only express their opinions on the concepts involved but may also suggest formulations on various aspects of Company Law.

The response to the concept paper on Company Law was tremendous. The Government, therefore, felt it appropriate that the proposals contained in the Concept Paper and suggestions received thereon be put to merited evaluation by an independent Expert Committee. A Committee was constituted on 2nd December, 2004 under the Chairmanship of Dr. J.J. Irani, the then Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956 with the objective to have a simplified compact law that will be able to address the changes taking place in the national and international scenario, enable the adoption of internationally accepted best practices as well as provide adequate flexibility for timely evolution of new arrangements in response to the requirements of ever-changing business models. The Committee submitted its report to the Government on 31st May 2005.

Dr. J.J. Irani Expert Committee on Company Law had submitted its report charting out the road map for a flexible, dynamic and user-friendly new company law. The Committee had taken a pragmatic approach keeping in view the ground realities, and had sought to address the concerns of all the stakeholders to enable adoption of internationally accepted best practices. As one wades through the report, one finds an arduous zeal to ensure that flexibility is coupled with accountability and transparency. Be it the role of directors in the management of the company or the role of promoters at the time of incorporation or the responsibility of professionals in ensuring better governance, the report had made very dynamic and balanced recommendations. The Report of the Committee had also sought to bring in multifarious progressive and visionary concepts and endeavored to recommend a significant shift from the "Government Approval Regime" to a "Shareholder Approval and Disclosure Regime".

The Expert Committee had recommended that private and small companies need to be given flexibilities

and freedom of operations and compliance at a low cost. Companies with higher public interest should be subject to a stricter regime of Corporate Governance. Further, Government companies and public financial institutions should be subject to similar parameters with respect to disclosures and Corporate Governance as other companies are subjected to.

To attune the Indian Company Law with the global reforms taking place in the arena, the Report of the Committee had sought to bring in multifarious visionary concepts, which if accepted and acted upon would really simplify the voluminous and cumbersome Companies Act in the country.

Important Committees recommending changes to the Companies Act

1952 Bhabha Committee - The Government of India appointed a Committee of twelve members representing various interests under the chairmanship of Shri C.H. Bhabha, to go into the entire question of the revision of the Companies Act, 1913.

1957 Sastri Committee - The Government of India appointed a Committee of six members under the chairmanship of Shri A.V. Visvanatha Sastri to overcome such practical difficulties in its working as may have been encountered since it came into force, to remove such drafting defects and obscurities as may have interfered with the working of the Companies Act, to ensure the better fulfilment of the purposes underlying the Act and to consider what changes in the form or structure of the Act, if any.

1978 Sachar Committee - This Committee was constituted by Government under the Chairmanship of Shri Rajinder Sachar to consider and report on what changes are necessary in the Companies Act, 1956, with particular reference to the modifications which are required to be made in the form and structure of the Companies Act, 1956, so, as to simplify them and to make them more effective, wherever necessary.

1997 Chandrate Committee - Chandrate Committee was formed under the chairmanship of Dr. K.R. Chandrate. The main objective of the Group was to re-write the Companies Act, 1956 to facilitate a healthy growth of the Indian corporate sector under a liberalised, fast changing and highly competitive environment.

2000 Eradi Committee - The Eradi Committee was setup under the Chairmanship of Shri Justice V. Balakrishna Eradi consisting of experts to examine the existing law relating to winding up proceedings of companies in order to remodel it in line with the latest developments and innovations in the corporate law and governance.

2002 Joshi Committee - The Committee was constituted under the Chairmanship of Shri R.D. Joshi to examine the remnants of the Companies Bill, 1997.

2003 Naresh Chandra Committee - This Committee was constituted by Government under the Chairmanship of Shri. Naresh Chandra, to Regulate Private Companies and Partnerships.

2005 Irani Committee - The Irani Committee was constituted under the chairmanship of Dr. J J Irani, Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956.

2005 Vaish Committee - The Government of India appointed a Committee under the Chairmanship of O.P. Vaish to streamline the prosecution mechanism under the Companies Act, 1956 to make it more effective.

Company Law Committee - The government of India has constituted a Company Law Committee for examining and making recommendations to the Government on various provisions and issues pertaining to implementation of the Companies Act, 2013 and the Limited Liability Partnership Act, 2008.

Companies Bill, 2012

The Government considered the recommendations of Irani Committee and also had detailed discussions and liberations with various stakeholders viz Industry Chambers, Professional Institutes, Government Departments, Legal Experts and Professionals etc. Thereafter, the Companies Bill, 2009 was introduced in the Lok Sabha on 3rd August, 2009. The Bill laid greater emphasis on self-regulation and minimization of regulatory approvals in managing the affairs of the company. The Bill promised greater shareholder democracy, vesting the shareholders with greater powers, containing stricter corporate governance norms and requiring greater disclosures. The Companies Bill, 2009 after introduction in Parliament was referred to the Parliamentary Standing Committee on Finance for examination which submitted its report to Parliament on 31st August, 2010. Certain amendments were introduced in the Bill in the light of the report of the Committee and a revised Companies Bill, 2011 was introduced. This version was also referred to the Hon'ble Committee, which suggested certain further amendments. The amended Bill was passed by the Lok Sabha on 18th December, 2012 and by the Rajya Sabha on 8th August, 2013. The Bill was retitled as Companies Bill, 2012.

COMPANIES ACT, 2013

The Companies Bill, 2012 finally became the Companies Act, 2013. It received the assent of the President on August 29, 2013 and was notified in the Gazette of India on 30.08.2013. Companies Act, 2013 has undergone various amendments aimed at enhancing efficiency and promoting ease of doing business. The Act was also amended by The Insolvency and Bankruptcy Code, 2016 and Finance Act, 2017. The Insolvency and Bankruptcy Code, 2016 led to omission of various sections i.e. section 253 to section 269, section 289, section 304 to section 323 and section 325. The Companies (Amendment) Act, 2019 and Companies Amendment Act, 2020 have decriminalised the Companies Act, 2013 significantly. The Finance Act, 2017 amended section 182 with regard to prohibitions and restrictions regarding political contributions. So far Ministry has come out with several circulars, notifications, Orders and various amendment rules to facilitate better and smooth implementation of the Act.

The Companies Act 2013 introduced new concepts supporting enhanced disclosure, accountability, better board governance, and better facilitation of business and so on. It includes associate company, one Person Company, small company, dormant company, independent director, women director, resident director, special court, secretarial standards, secretarial audit, class action, registered valuers, rotation of auditors, vigil mechanism, corporate social responsibility, E-voting etc.

Applicability of Companies Act, 2013

According to section 1 of the Companies Act, 2013, the Act extends to whole of India and the provisions of the Act shall apply to the following:-

- (a) Companies incorporated under this Act or under any previous company law;
- (b) Insurance companies, except in so far as the said provisions are inconsistent with the provisions of the Insurance Act, 1938 (4 of 1938) or the Insurance Regulatory and Development Authority Act, 1999;

- (c) Banking companies, except in so far as the said provisions are inconsistent with the provisions of the Banking Regulation Act, 1949;
- (d) companies engaged in the generation or supply of electricity, except in so far as the said provisions are inconsistent with the provisions of the Electricity Act, 2003;
- (e) any other company governed by any special Act for the time being in force, except in so far as the said provisions are inconsistent with the provisions of such special Act; and
- (f) such body corporate, incorporated by any Act for the time being in force, as the Central Government may, by notification, specify in this behalf, subject to such exceptions, modifications or adaptation, as may be specified in the notification.

Companies Act, 2013 is not applicable to unincorporated companies. An unincorporated company, association or partnership consisting of large number of persons has been declared illegal.

By virtue of section 464 of the Companies Act, 2013, no association or partnership consisting of more than such number of persons as may be prescribed shall be formed for the purpose of carrying on any business that has for its object the acquisition of gain by the association or partnership or by the individual members thereof, unless it is registered as a company under this Act or is formed under any other law for the time being in force. Rule 10 of Companies (Miscellaneous) Rules, 2014 prescribes 50 persons in this regard. The maximum number of persons which may be prescribed under this section shall not exceed 100.

Section 464 of the Act does not apply to the case of a Hindu undivided family carrying on any business whatever may be the number of its members. However, this section is also not applicable to an association or partnership, if it is formed by professionals who are governed by special Acts.

TYPES OF COMPANIES

Companies may be classified on the basis of their incorporation, number of members, size, basis of control and motive. On the basis of incorporation of the companies, it may be classified into Charter Companies, Statutory Companies and Registered Companies. On the basis of liability, it may be Companies limited by shares/guarantee and unlimited liability companies. Further, on the basis of number of members, they may be classified into One Person Company, private company and public company. On the basis of size, they may be divided into small companies and other companies. On the basis of control, they may be classified into holding company, subsidiary company and associate company. Besides, companies may be nonprofit companies licensed under Section 8, Government companies, foreign companies, holding/subsidiary companies, investment companies, producer companies etc.

The Companies Act, 2013 provides for the kinds of companies that can be promoted and registered under the Act. The three basic types of companies which may be registered under the Act are:

- Private Companies;
- Public Companies;
- One Person Company.

Private Company

Private company means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,-

- (i) restricts the right to transfer its shares;
- (ii) except in case of One Person Company, limits the number of its members to two hundred:

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member:

Provided further that–

- (A) persons who are in the employment of the company; and
- (B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and
- (iii) prohibits any invitation to the public to subscribe for any securities of the company.

Public Company

Public company means a company which–

- (a) is not a private company and;
- (b) has a minimum paid-up share capital as may be prescribed:

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

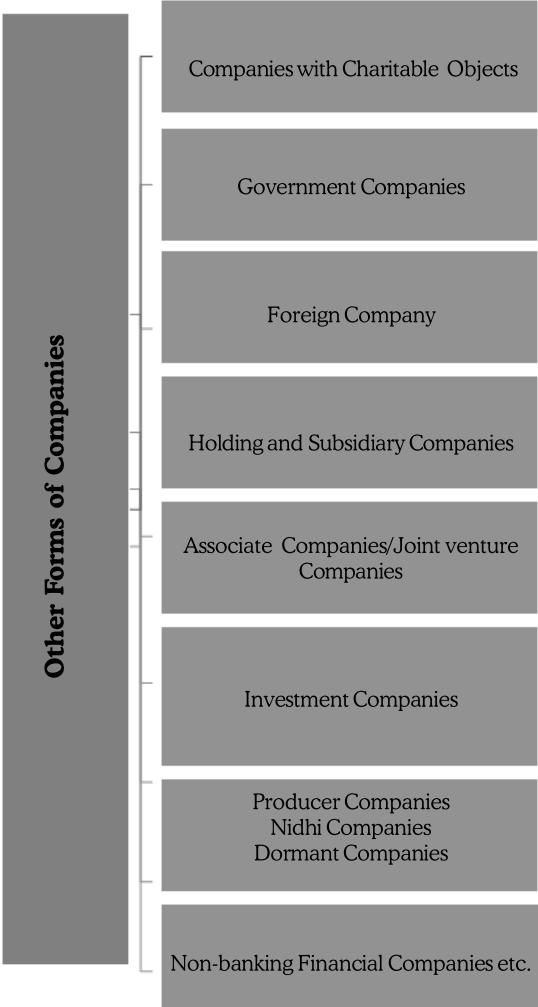
One Person Company

One Person Company means a company which has only one person as a member.

Companies with Charitable Objects

A person or an association of persons registered and licensed under Section 8 of the Companies Act, 2013 as a limited company–

- (a) has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;
- (b) intends to apply its profits, if any, or other income in promoting its objects; and



- (c) intends to prohibit the payment of any dividend to its members.

Government Company

Government company means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Foreign Company

Foreign company means any company or body corporate incorporated outside India which,-

- (a) Has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) Conducts any business activity in India in any other manner.

Associate Company

Associate Company in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation:

- (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;
- (b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Holding Company

Holding company in relation to one or more other companies, means a company of which such companies are subsidiary companies. It may be noted that here "company" includes anybody corporate.

Subsidiary Company or Subsidiary

Subsidiary company or "subsidiary, in relation to any other company (that is to say the holding company), means a company in which the holding company-

- (i) Controls the composition of the Board of Directors; or
- (ii) Exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation.-For the purposes of this clause,-

- (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

- (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression "company" includes anybody corporate;
- (d) "Layer" in relation to a holding company means its subsidiary or subsidiaries;

Small Company

Small company means a company, other than a public company,-

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees;

Provided that nothing in this clause shall apply to-

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act;

Dormant Company

- Where a company is formed and registered for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar for obtaining the status of a dormant company.
- "inactive company" means a company which has not been carrying on any business or operation, or has not made any significant accounting transaction during the last two financial years, or has not filed financial statements and annual returns during the last two financial years;
- In case of a company which has not filed financial statements or annual returns for two financial years consecutively, the Registrar shall issue a notice to that company and enter the name of such company in the register maintained for dormant companies.
- A dormant company shall have a minimum number of three directors in case of a public company, two directors in case of a private company and one director in case of a One Person Company.
- The Registrar shall strike off the name of a dormant company from the register of dormant companies, which has failed to comply with the requirements.

Nidhi Company

Nidhi means a company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, and which complies with such rules as are prescribed by the Central Government for regulation of such class of companies.

Producer Companies

According to section 378A(l) of the Companies Act, 2013, "Producer Company" means a body corporate having objects or activities specified in section 378B and registered as Producer Company under Companies Act, 2013 or under the Companies Act, 1956;

In terms of Section 378B (1) of the Companies Act, 2013, the objects of the Producer Company shall relate to all or any of the following matters, namely:

- (a) production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit: Provided that the Producer Company may carry on any of the activities specified in this clause either by itself or through other institution;
- (b) processing including preserving, drying, distilling, brewing, vinting, canning and packaging of produce of its Members;
- (c) manufacture, sale or supply of machinery, equipment or consumables mainly to its Members;
- (d) providing education on the mutual assistance principles to its Members and others;
- (e) rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members;
- (f) generation, transmission and distribution of power, revitalisation of land and water resources, their use, conservation and communications relatable to primary produce;
- (g) insurance of producers or their primary produce;
- (h) promoting techniques of mutuality and mutual assistance;
- (i) welfare measures or facilities for the benefit of Members as may be decided by the Board;
- (j) any other activity, ancillary or incidental to any of the activities referred to in clauses (a) to (i) or other activities which may promote the principles of mutuality and mutual assistance amongst the Members in any other manner;
- (k) financing of procurement, processing, marketing or other activities specified in clauses (a) to (j) which include extending of credit facilities or any other financial services to its Members.

Non-Banking Financial Company (NBFC)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

Formation of Company

According to Companies Act 2013, a company may be formed for any lawful purpose by–

- (a) Seven or more persons, where the company to be formed is a public company;
- (b) Two or more persons, where the company to be formed is a private company; or
- (c) one person, where the company to be formed is a One Person Company that is to say, a private company.

A company formed above may be either–

- (a) a company limited by shares; or
- (b) a company limited by guarantee; or
- (c) an unlimited company.

Company Limited by Shares means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them;

Company Limited by Guarantee means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up;

Unlimited Company means a company not having any limit on the liability of its members.

SHARE CAPITAL

The term 'Capital' has a variety of meanings. It may mean one thing to an economist, another to an accountant, while another to a businessman or a lawyer. A layman views capital as the money, which a company has raised by issue of its shares. It uses this money to meet its requirements by way of acquiring business premises and stock-in-trade, which are called the fixed capital and the circulating capital respectively.

Share is a share in the share capital of the company, and includes stock except where a distinction between stock and shares is expressed or implied. Share capital refers to the funds that a company raises in exchange for issuing an ownership interest in the company in the form of shares. Share capital may also describe the number and types of shares that compose a company's share structure.

In Company Law, Capital is the share capital of a company, which is classified as:

Nominal, Authorized or Registered Capital : Such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.

Issued Capital : Such capital as the company issues from time to time for subscription. It is that part of the authorised or nominal capital which the company issues for the time being for public subscription and allotment. This is computed at the face or nominal value.

Subscribed Capital : Such part of the capital which is for the time being subscribed by the members of a company. It is that portion of the issued capital at face value which has been subscribed for or taken up by the subscribers of shares in the company. It is clear that the entire issued capital may or may not be subscribed.

Called-up Capital : Such part of the capital, which has been called for payment. It is that portion of the subscribed capital which has been called up or demanded on the shares by the company.

Paid-up Share Capital : Such aggregate amount of money credited as paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called.

Equity Share Capital : equity share capital with reference to any company limited by shares, means all share capital which is not preference share capital.

Preference Share Capital : preference share capital with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to—

- (a) payment of dividend, either as a fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income-tax; and
- (b) repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid-up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company.

BOARD OF DIRECTORS

The company is an artificial person and is managed by the human beings. The people who run it are known as Board of Directors. Directors acting collectively are known as Board. The directors play a very important role in the day to day functioning of the company. It is the board, who is responsible for the company's overall performance.

Section 2(10) of the Companies Act, 2013 defines that "Board of Directors" or "Board", in relation to a company, means the collective body of the directors of the company. The term 'Board of Directors' means a body duly constituted to direct, control and supervise the affairs of a company.

As per Section 149 of the Companies Act, 2013, the Board of Directors of every company shall consist of individual only. Thus, no body corporate, association or firm shall be appointed as director.

Section 149(1) of the Companies Act, 2013 requires that every company shall have a minimum number of 3 directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One Person Company. A company can appoint maximum 15 fifteen directors. However, a company may appoint more than fifteen directors after passing a special resolution in general meeting. The restriction of maximum number of directors shall not apply to section 8 companies.

Section 149(3) provides that every company shall have at least one director who has stayed in India for a total period of not less than one hundred and eighty-two days in the previous calendar year.

The proviso to Section 149(1) requires that a certain class of prescribed companies shall have at least one woman director.

Appointment of Directors

Section 152 of the Companies Act, 2013 provides that where there is no provision made in Articles of Association of the company for appointment of first directors then the subscribers to the memorandum who are individuals shall be deemed to be the first directors of the company until the directors are duly appointed by the member. Every director shall be appointed by the company in general meeting.

A person shall not be appointed as a director of a company unless he has been allotted the Director Identification Number or any other number. Every person proposed to be appointed as a director by the company in general meeting or otherwise, shall furnish his Director Identification Number or such other number as may be prescribed and a declaration that he is not disqualified to become a director under the Act.

A person appointed as a director shall not act as a director unless he gives his consent to hold the office as director and such consent has been filed with the Registrar within thirty days of his appointment.

- (a) Unless the articles provide for the retirement of all directors at every annual general meeting, not less than two-thirds of the total number of directors of a public company shall-
 - (i) be persons whose period of office is liable to determination by retirement of directors by rotation; and
 - (ii) save as otherwise expressly provided in the Act, be appointed by the company in general meeting.
- (b) The remaining directors in the case of any such company shall, in default of, and subject to any regulations in the articles of the company, also be appointed by the company in general meeting.
- (c) At the first annual general meeting of a public company held next after the date of the general meeting at which the first directors are appointed in accordance with clauses (a) and (b) and at every subsequent annual general meeting, one-third of such of the directors for the time being as are liable to retire by rotation, or if their number is neither three nor a multiple of three, then, the number nearest to one-third, shall retire from office.
- (d) The directors to retire by rotation at every annual general meeting shall be those who have been longest in office since their last appointment, but as between persons who became directors on the same day, those who are to retire shall, in default of and subject to any agreement among themselves, be determined by lot.
- (e) At the annual general meeting at which a director retires as aforesaid, the company may fill up the vacancy by appointing the retiring director or some other person thereto.

The articles of a company may confer on its Board of Directors the power to appoint any person, other than a person who fails to get appointed as a director in a general meeting, as an additional director at any time who shall hold office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier.

Companies Act empowers the Board, if so authorized by its articles or by a resolution passed by the company in general meeting, to appoint a director (termed as 'alternate director') to act in the absence of a original director during his absence for a period of not less than three months from India.

Removal of Directors

A company may, by ordinary resolution, remove a director, not being a director appointed by the National Company Law Tribunal, before the expiry of the period of his office after giving him a reasonable opportunity of being heard.

An independent director re-appointed for second term shall be removed by the company only by passing a special resolution and after giving him a reasonable opportunity of being heard.

A special notice shall be required of any resolution, to remove a director under this section, or to appoint somebody in place of a director so removed, at the meeting at which he is removed.

A vacancy created by the removal of a director may, if he had been appointed by the company in general meeting or by the Board, be filled by the appointment of another director in his place at the meeting at which he is removed.

A director so appointed shall hold office till the date up to which his predecessor would have held office if he had not been removed.

MEETINGS OF THE BOARD

Meetings of the Board are significant in the light of running of the company more efficiently and effectively. Companies Act, 2013, mandates a company to hold minimal number of meetings of the Board for its proper functioning. Board meetings are crucial for a company's development as the because of the reason that in these formal meetings are held to devise policies, drive the management, strategize and evaluate the expectations of the stakeholders.

Companies Act provides that the first Board meeting should be held within thirty days of the date of incorporation. Thereafter there shall be minimum of four Board meetings every year and not more one hundred and twenty days shall intervene between two consecutive Board meetings.

In case of One Person Company (OPC), small company, dormant company at least one Board meeting should be conducted in each half of the calendar year and the gap between two meetings should not be less than Ninety days. However, this provision would not apply to a one person company in which there is only one director on its Board. Board of Directors of Section 8 Company shall hold at least one meeting within every six calendar months.

Directors may participate in the meeting either in person or through video conferencing or other audio visual means. One third of total strength or two directors, whichever is higher, shall be the quorum for a meeting.

SHAREHOLDERS MEETINGS

A meeting may be generally defined as a gathering or assembly or getting together of a number of persons for transacting any lawful business. There must be at least two persons to constitute a meeting. Therefore, one shareholder usually cannot constitute a company meeting even if he holds proxies for other shareholders. However, in certain exceptional circumstances, even one person may constitute a meeting.

It is to be noted that every gathering or assembly does not constitute a meeting. Company meetings must be convened and held in perfect compliance with the various provisions of the Companies Act, 2013 and the rules framed thereunder. A general meeting is a meeting of the members of the company. The decision making powers of a company are vested in the members and the directors. They exercise their respective powers through Resolutions passed by them. General meetings of the members provide a platform to express their will in regard to the management of the affairs of the company.

Annual general meeting (AGM) is an important annual event where members get an opportunity to discuss the activities of the company. Convening of one such meeting every year is compulsory. Annual general meeting should be held once in each calendar year. Subsequent annual general meeting of

the company should be held within 6 months from the date of closing of the relevant financial year. The gap between two annual general meetings shall not exceed 15 months.

An annual general meeting can be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday. It should be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated. However, annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance. The Central Government is empowered to exempt any company from these provisions, subject to such conditions as it may impose.

According to Section 102(2)(a) in the case of an annual general meeting, all business to be transacted thereat shall be deemed special, other than—

- (i) The consideration of financial statements and the reports of the Board of Directors and auditors;
- (ii) The declaration of any dividend;
- (iii) The appointment of directors in place of those retiring;
- (iv) The appointment of, and the fixing of the remuneration of, the auditors; and

Further, Section 102(2) (b) provides that in the case of any other meeting, all business shall be deemed to be special.

Section 99 of the Companies Act provides that if any default is made in complying or holding a meeting of the company, the company and every officer of the company who is in default shall be punishable with fine which may extend to one lakh rupees and in case of continuing default, with a further fine which may extend to five thousand rupees for each day during which such default continues.

CORPORATE SOCIAL RESPONSIBILITY

- According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director.

However, where a company is not required to appoint an independent director under section 149(4), it shall have in its Corporate Social Responsibility Committee two or more Directors.

- The Board's report shall disclose the composition of the Corporate Social Responsibility Committee.
- The Corporate Social Responsibility Committee shall (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII; (b) recommend the amount of expenditure to be incurred on the activities; and (c) monitor the Corporate Social Responsibility Policy of the company from time to time.
- The Board of every company referred to in section 135(1) of the Companies Act, 2013 shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial

years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

- The company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.
- if the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount and, unless the unspent amount relates to any ongoing project referred to in the next paragraph, transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year. Also if the company spends an amount in excess of the requirements, such company may set off such excess amount against the requirement to spend for such number of succeeding financial years and in such manner, as may be prescribed.
- Any amount remaining unspent , pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.
- If a company is in default in complying with the provisions of section 135(5) or section 135(6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.
- The Central Government may give such general or special directions to a company or class of companies as it considers necessary to ensure compliance of provisions of section 135 and such company or class of companies shall comply with such directions.
- Where the amount to be spent by a company under section 135(5) does not exceed fifty lakh rupees, the requirement under section 135(1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under section 135 shall, in such cases, be discharged by the Board of Directors of such company.

BUSINESS ETHICS

Business ethics is nothing but the application of ethics in business. Business ethics is the application of general ethical ideas to business behaviour. Ethical business behaviour facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity. The concept of business ethics has come to mean various things to various people, but generally it's coming to know what

is right or wrong in the workplace and doing what's right - this is in regard to effects of products/ services and in relationships with stakeholders. Business ethics is concerned with the behaviour of a businessman in doing a business. Unethical practices are creating problems to businessman and business units. The life and growth of a business unit depends upon the ethics practiced by a businessman. Business ethics are developed over the passage of time and custom. A custom differs from one business to another. If a custom is adopted and accepted by businessman and public, that custom will become an ethic. Business ethics is applicable to every type of business. The social responsibility of a business requires the observing of business ethics. A business man should not ignore the business ethics while assuming social responsibility. Business ethics means the behaviour of a businessman while conducting a business, by observing morality in his business activities. According to Wheeler, Business Ethics is an art and science for maintaining harmonious relationship with society, its various groups and institutions as well as reorganizing the moral responsibility for the rightness and wrongness of business conduct. According to Rogene. A. Buchholz, Business ethics refers to right or wrong behaviour in business decisions.

Business Ethics or Ethical standards are the principles, practices and philosophies that guide the business people in the day to day business decisions. It relates to the behaviour of a businessman in a business situation. They are concerned primarily with the impacts of decisions on the society within and outside the business organizations or other groups who keep interest in the business activities. Business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. - School of Distance Education.

The Principles of business ethics developed by well-known authorities like Cantt, J. S.Mill, Herbert Spencer, Plato, Thomas Garret, Woodrad, Wilson etc are as follows:

1. *Sacredness of means and ends* : The first and most important principle of business ethics emphasizes that the means and techniques adopted to serve the business ends must be sacred and pure. It means that a good end cannot be attained with wrong means, even if it is beneficial to the society.
2. *Not to do any evil* : It is unethical to do a major evil to another or to oneself, whether this evil is a means or an end.
3. *Principle of proportionality* : This principle suggests that one should make proper judgment before doing anything so that there is a fair view taken & others do not suffer from any loss or risk of evils by the conduct of business.
4. *Non-co-operation in evils* : It clearly pints out that a business should not co-operate with any one for doing any evil acts.
5. *Co-operation with others* : This principles state that business should help others only in that condition when others deserve help.
6. *Publicity* : According to W. Wilson, anything that is being done or to be done, should be brought to the knowledge of everyone. If everyone knows, none gets opportunity to do an unethical act.
7. *Equivalent price* : According to W. Wilson, the people are entitled to get goods equivalent to the value of money that they will pay.
8. *Universal value* : According to this principle the conduct of business should be done on the basis of universal values.

9. *Human dignity* : As per this principle, man should not be treated as a factor of production and human dignity should be maintained.
10. *Non-violence* : If businessman hurts the interests and rights of the society and exploits the consumer by overlooking their interests this is equivalent to violence and unethical act.

ETHICAL DILEMMA

Dilemma is a situation that requires a choice between options that are or seem equally unfavorable or mutually exclusive. By definition, an ethical dilemma involves the need to choose from among two or more morally acceptable courses of action, when one choice prevents selecting the other; or, the need to choose between equally unacceptable alternatives (Hamric, Spross, and Hanson, 2000).

A dilemma could be a *right vs. wrong situation* in which the right would be more difficult to pursue and wrong would be more convenient. A right versus wrong dilemma is not so easy to resolve. It often involves an apparent conflict between moral imperatives, in which to obey one would result in transgressing the other. This is also called an ethical paradox.

An ethical dilemma involves a situation that makes a person question what is the 'right' or 'wrong' thing to do. They make individuals think about their obligations, duties or responsibilities. These dilemmas can be highly complex and difficult to resolve. Easier dilemmas involve a 'right' versus 'wrong' answer; whereas, complex ethical dilemmas involve a decision between a right and another right choice. However, any dilemma needs to be resolved.

Addressing Ethical Dilemmas

The ethical dilemma consideration takes us into the grey zone of business and professional life, where things are no longer black or white and where ethics has its vital role today. A dilemma is a situation that requires a choice between equally balanced arguments or a predicament that seemingly defies a satisfactory solution. An ethical dilemma is a moral situation in which a choice has to be made between two equally undesirable alternatives. Dilemmas may arise out of various sources of behaviour or attitude, as for instance, it may arise out of failure of personal character, conflict of personal values and organizational goals, organizational goals versus social values, etc.

A business dilemma exists when an organizational decision maker faces a choice between two or more options that will have various impacts on:

- (i) The organization's profitability and competitiveness; and
- (ii) Its stakeholders.

In situations of this kind, one must act out of prudence to take a better decision.

LESSON 5

LEGAL REASONING

LEGAL TERMINOLOGY AND MAXIMS

A priori : From the antecedent to the consequent.

Ab initio : From the beginning.

Absolute sententia expositore non-indigent : Plain words require no explanation.

Actio mixta : Mixed action.

Actio personalis moritur cum persona : A personal right of action dies with the person.

Actionable per se : The very act is punishable and no proof of damage is required.

Actus Curiae Neminem Gravabit : Act of the Court shall prejudice no one.

Actus non facit reum nisi mens sit rea : An act does not make a man guilty unless there be guilty intention.

Actus reus : Wrongful act.

Ad hoc : For the particular end or case at hand.

Ad idem : At the same point.

Ad valorem : According to value.

Aliunde : From another source.

Amicus Curiae : A friend of court member of the bar who is appointed to assist the Court.

Animus possidendi : Intention to possess *Audi alteram partem* : Hear the other side. *Benami* : Nameless.

Bona fide : Good faith; genuine.

Caveat : A caution registered with the public court to indicate to the officials that they are not to act in the matter mentioned in the caveat without first giving notice to the caveator.

Caveat emptor : Let the buyer beware.

Caveat actor : Let the doer beware.

Caveat venditor : Let the seller beware.

Certiorari : A writ by which records of proceeding are removed from inferior courts to High Court and to quash decision that goes beyond its jurisdiction.

Cestui que trust : The person who has the equitable right to property in India he is known as beneficiaries.

Consensus ad idem : Common consent necessary for a binding contract.

Contemporanea expositio est optima et fortissima lege : A contemporaneous exposition or language is the best and strongest in Law.

Corpus delicti : Body/gist of the offence.

Cy pres : As nearly as may be practicable. *Damnum sine injuria* : Damage without injury. *De facto* : In fact.

De jure : By right (opposed to de facto) in Law

Dehors : Outside; foreign to (French term).

De novo : To make something new; To alter. *Dies non* : Day on which work is not performed. *Deceit* : Anything intended to mislead another.

Del credre agent : is a mercantile agent who in consideration of extra remuneration called a del credre commission undertakes to indemnify his employer against loss arising from the failure of persons with whom he contracts to carry out their contracts.

Delegate potestas non-potest delegari : A delegated power cannot be delegated further.

Delegatus non potest delegare : A delegate cannot delegate.

Dictum : Statement of law made by judge in the course of the decision but not necessary to the decision itself.

Dispono : Convey legally.

Eiusdem generis : Where there are general words following particular and specific words, the general words must be confined to things of the same kind as those specified.

Estoppel : Stopped from denying.

Ex parte : Proceedings in the absence of the other party.

Expressio unius est exclusio alterius : Express mention of one thing implies the exclusion of another or which is shortly put.

Ex turpi causa non oritur actio : No action arises from an illegal or immoral cause.

Fatum : Beyond human foresight.

Fait accompli : Things done and no longer worth arguing against; an accomplished act.

Factum probandum : Fact in issue which is to be proved.

Factum probans : Relevant fact.

Ferae natureae : Dangerous by nature.

Force majeure : Circumstance beyond one's control, irresistible force or compulsion

Generalia specialibus non derogant : General things do not derogate from special.

Habeas corpus : A writ to have the body to be brought up before the judge.

Ignorantia legis neminem excusat : Ignorance of law excuses no one.

Injuria sine damno : Injury without damage.

Interest reipublicae ut sit finis litium : State or public interest requires that there should be a limit to litigation.

Ispo facto : By the very nature of the case.

In promptu : In readiness.

In posse : In a state of possibility.

In limine : Initial stage; at the outset.

In lieu of : Instead of.

Inter alia : Among other things.

Inter se : Among themselves.

In specie : In kind.

Inter vivos : Between living persons.

Intra vires : Within the powers.

In personam : A proceeding in which relief is sought against a specific person.

Indicia : A symbol; token; mark.

Innuendo : Allusive remark.

Jus in personam : Right against a person.

Jus in rem : Right against the world at large.

Jus non scriptum: Unwritten law; Customary Law.

Jus scriptum : Written Law.

Lex Mercatoria : The law merchant, is a body of legal principles founded on the customs of merchants in their dealings with each other, and though at first distinct from the common law, afterwards became incorporated into it.

Lex fori : The law of the forum of court.

Lis : A suit cause of action.

Lis pendens : A pending suit.

Locus standi : Right of a party to an action to appear and be heard on the question before any tribunal.

Mala fide : In bad faith.

Mandamus : A writ of command issued by a Higher Court to a Lower Court/Government/Public Authority.

Mens rea : Guilty mind.

Manesuetae natureae : Harmless by nature.

Mesne profits : The rents and profits which a trespasser has received/made during his occupation of premises.

Misnomer : A wrong name.

Mutatis-mutandis : With necessary changes in points of detail.

Noscitur a sociis : A word is known by its associated, one is known by his companions.

Obiter dictum : An incidental opinion by a judge which is not binding.

Onus Probandi : Burden of proof.

Pari passu : On equal footing or proportionately.

Per se : By itself taken alone.

Persona non-grata : Person not wanted.

Per incuriam : Through want of care; through inadvertance.

Prima facie: At first sight; on the face of it.

Profit à prendre : A right for a man in respect of his tenement.

Pro bono publico : For the public good.

Pro forma : As a matter of form.

Pro rata : In proportion.

Posteriori : From the consequences to the antecedent.

Puisne mortgage : Second mortgage.

Pari causa : Similar circumstances, with equal right.

Pari materia : Relating to same person or thing.

Qui facit per alium facit per se : He who acts through another is acting by himself.

Quo warranto : A writ calling upon one to show under what authority he holds or claims an office.

Quia timet : Protective justice for fear. It is an action brought to prevent a wrong that is apprehended.

Quid pro quo : Something for something.

Ratio decidendi : Principle or reason underlying a decision.

Res judicata : A decision once rendered by a competent court on a matter in issue between the parties after a full enquiry should not be permitted to be agitated again.

Res ipsa loquitur : The things speak for itself. *Respondent superior* : Let the principal be liable. *Res sub judice* : Matter under consideration.

Res gestae : Facts relevant to a case and admissible in evidence.

Rule nisi : A rule which will become imperative and final unless cause to be shown against it.

Scire facias : Your cause to know.

Status quo : The existing state of things at any given date.

Scienter volenti non-fit injuria : Injury is not done to one who knows and wills it.

Spes successionis : Chance of a person to succeed as heir on the death of another.

Supra : Above; this word occurring by itself in a book refers the reader to a previous part of the book.

Suppressio veri : Suppression of previous knowledge.

Sui juris : Of his own right.

Simpliciter : Simply; without any addition.

Scienter : Being aware of circumstances, the knowledge of which is necessary to make one liable, as applied to the keeper of a vicious dog, means no more than reasonable cause to apprehend that he might commit the injury complained of.

Sine qua non : An indispensable condition.

Situs : Position; situation; location.

Suo motu : On its own motion.

Stare decisis : Precedent. Literally let the decision stand

Sine die : Without a day being appointed. *Travaux préparatoires* : Preparatory records. *Tortum* : Civil wrong actionable without contract. *Uberrimae fide* : Of utmost good faith.

Ubi jus ibi remedium : Where there is a right there is remedy.

Ultra vires : Beyond the scope, power or authority.

Ut lite pendente nihil innovertur : Nothing new to be introduced during litigation.

Usufructuary : One who has the use and reaps the profits of property, but not ownership.

Ut res magis valeat quam pereat : The words of a statue must be construed so as to give a sensible or reasonable meaning to them.

Vis major : Act of God.

Vigilantibus, non dormientibus, jura subveniunt : The laws help those who are vigilant and not those who are slumber or lazy.

Vice versa : The order being reversed; other way round.

Volenti non-fit injuria : Damage suffered by consent gives no cause of action.

LEGAL REASONING

Legal reasoning is the method that a person uses to apply laws to facts in order to answer legal questions. Good legal reasoning requires logical argument. In legal reasoning, legal principles have to be applied to the given factual situations to arrive at the most reasonable conclusion. The meaning of a legal rule and how it should be applied are often subject to multiple interpretations. When the meaning of a legal rule is ambiguous, a person uses legal reasoning to argue for the interpretation that they find most convincing or that is most favorable to him. Derive a conclusion from given statements provided in question, and no deviation from it is allowed.

Questions in the Legal Reasoning may be asked mainly from the following areas:-

- (A) Indian Constitution
- (B) Indian Contract Act
- (C) Law of Torts
- (D) Element of Company Law

1. **Legal Principle** : All citizens shall have the right to freedom of speech and expression under Article 19 of the Constitution of India and it is a Fundamental Right.

Factual Situation : Mr. Sinha a famous English writer and orator criticized another novelist, Mr. Rahul stating that: "The novel of Mr. Rahul is irrational and indecent, his mind is impure, he is a loose character, he should write decent and good novel."

Decide

Can Mr. Rahul be sued for defamation?

- (a) He is not liable because he has just expressed his personal views

- (b) He is liable to be sued for defamation if his statement, was not true or said in mala fide intention
- (c) He cannot be liable because he has fundamental right to freedom of speech and expression
- (d) He cannot be sued, because both are writer and novelists and both can criticize each other.

Answer : (c)

2. **Legal Principle :** A contract is an agreement which the law will enforce. All agreements are contracts if they are made with free consent by parties competent to contract for a lawful consideration and with a lawful object.

Factual Situation : Mr. Raja offered to buy Mr. Ram's Car for Rs. 5 lakhs but Mr. Ram refused. Subsequently, Mr. Raja threatened to kill Mr. Ram and Mr. Ram agreed to the sale. Mr. Ram subsequently rescinded from the contract.

Mr. Raja suit to enforce the contract-

Decide

- (a) Will succeed because Mr. Raja was offering lawful consideration for the car
- (b) Will succeed because buying and selling of car is lawful
- (c) Will succeed because both parties have capacity to contract
- (d) Will fail because Mr. Ram was forced to agree to the contract.

Answer : (d)

3. **Legal Principle :** A contract is an agreement which the law will enforce. All agreements are contracts if they are made with free consent by parties competent to contract for a lawful consideration and with a lawful object.

Factual Situation : Mr. Joy a young boy of 27 years without any consideration agrees to give Ms. Jooly Rs. 10, 000/- . Mr. Joy fails to fulfil his promise. Ms. Jooly sues Mr. Joy for the amount.

Decide

- (a) Ms. Jooly will succeed as Mr. Joy made the promise of his own free will
- (b) Ms. Jooly will fail as the agreement is without consideration
- (c) Ms. Jooly will succeed as Mr. Joy has the capacity to make the contract
- (d) Ms. Jooly will succeed as the money is not being paid for any illegal object.

Answer : (b)

4. **Legal Principle :** Constitution of India empowers the President of India to appoint the Judge of the High Courts and Supreme Court.

Factual Situation : There is a deadlock between the Council of Minister including Prime Minister of India and the President of India. President of India appointed Mr. Adarsh as the Justice of Supreme Court of India and Mr. Garg appointed as Judge of Delhi High Court by the Prime Minister of India.

Decide

- (a) Appointment of Mr. Garg is valid in the eyes of law
- (b) Appointment of Mr. Adarsh is valid as per the Constitution of India
- (c) Appointment of Mr. Adarsh and Mr. Garg void ab initio
- (d) None of the above.

Answer : (b)

5. **Legal Principle :** A violation of a legal Right, with or without damage, gives rise to a tort.

Factual Situation : Mr. Ketan establishes a coaching class for Company Secretary Students of Executive Programme and charges Rs.10, 000/- per year as tuition fees. Mr. Ketan's neighbor Mr. Kalia establishes another coaching class for Company Secretary Students of Executive Programme thereby creating a competition between them. This forces Mr. Ketan to reduce his tuition fees to Rs. 7000/- per year.

Decide

Can Mr. Ketan claim damages from Mr. Kalia for the loss caused to him?

- (a) Yes, he can as Mr. Kalia has violated his Legal Right
- (b) No, Mr. Ketan has reduced the fees on his own
- (c) No, because though, there was damage there was no legal injury
- (d) None of the above.

Answer : (c)

6. **Legal Principle :** Company means a company incorporated under the Companies Act, 2013, or under any previous company law.

Factual Situation : (i) ABC Limited is incorporated under the Companies Act, 1956; (ii) ABC LLP incorporated under Limited Liability Partnership Act, 2008;(iii) ABC & Co registered under Partnership Act, 1932 and (iv) ABC Charitable Trust established under Trust Act, 1882.

Decide

Which of the above entity as mentioned in factual situation is a company?

- (a) ABC Limited
- (b) ABC LLP
- (c) ABC & Co
- (d) ABC Charitable Trust

Answer : (a)

7. **Legal Principle :** A master shall be responsible for the wrongful acts of his servants in the course of his employment.

Factual Situation : ABC Limited is a Non-Banking Financial Company (NBFC) is registered with Reserve Bank of India to accept deposit from public. Mr. Shyam appointed as authorised agent by ABC Limited to collect deposit money from several people on daily basis. Mr. Shyam, collecting deposits from people on daily basis. One day he disappeared. One Ms. Shyamlee , who had

been handing over her deposit money to Mr. Shyam found that nearly for a month before his disappearance, he was not depositing her money at all. Ms. Shyamlee when approached the ABC Limited, the NBFC took the stand that Mr. Shyam was not its employee, he is his agent and therefore, ABC Limited is not responsible for his misconduct. Ms. Shyamlee files a suit against the ABC Limited.

Decide

Who is liable?

- (a) ABC Limited
- (b) Mr. Shyam
- (c) Ms. Shyamlee
- (d) None of the above.

Answer : (a)

- 8. Legal Principle :** The members of both Lok Sabha and Rajya Sabha are eligible to be Ministers of the Union Government.

Factual Situation : Mr. Ram Singh is sitting member of Upper House of Parliament and as Recommendations of Prime Minister of India, President of India appointed Mr. Ram Singh as Minister for the Ministry of Education.

Decide

Appointment of Mr. Ram Singh as Minister for the Ministry of Education is valid?

- (a) Yes
- (b) No
- (c) President of India cannot be appointed
- (d) Prime Minister of India cannot be recommended

Answer : (a)

- 9. Legal Principle :** Tort is a civil wrong for which the remedy is a common law action for unliquidated damages and which is not exclusively the breach of a contract or the breach of a trust or other merely equitable obligation.

Factual Situation : Mr. Sunil has six pet dogs which are very ferocious and bark a lot. Mr. Surendra is his next door neighbor and feels that he is not able to enjoy his property due to the presence of a large number of dogs in the adjacent house. He is contemplating initiating a legal action against Mr. Sunil. Mr. Surendra can:

Decide

- (a) Initiate action for breach of contract against Mr. Sunil as there is an implied contract between the neighbours.
- (b) Initiate action for unliquidated damages under torts because there is no contract between the neighbours.

- (c) Initiate criminal action against Mr. Sunil because having a large number of ferocious dogs is a criminal act.
- (d) Not be successful as Mr. Sunil has an unrestricted right to enjoy his personal property and has no duty towards Mr. Surendra.

Answer : (b)

10. **Legal Principle :** Causing damage, however substantial to another person is not actionable in law unless there is also a violation of a legal right of the plaintiff.

Factual Situation : Mr. Nandan opened a petrol pump next to earlier existing petrol pump of Mr. Chandan as a result of which Mr. Chandan suffered huge losses.

Mr. Chandan wants to initiate action against Mr. Nandan for the losses suffered. He will

Decide

- (a) Succeed because he has suffered losses because of Mr. Nandan.
- (b) Fail because no legal right of Mr. Chandan was infringed.
- (c) Succeed because Mr. Nandan was wrong in opening a petrol pump next to already existing one.
- (d) Succeed because Mr. Chandan is entitled to earn reasonable profit on his investments.

Answer : (b)

11. **Legal Principle :** Even where there is infringement of a legal right which does not result in harm, plaintiff can still sue in tort.

Factual Situation : Cattle owned by Mr. Vinay entered the fields of Mr. Vipin and roamed around freely for considerable time without causing any kind of loss to Mr. Vinay. Mr. Vipin did not like Mr. Vinay and thought of initiating legal action against him using this opportunity. Mr. Vipin will:

Decide

- (a) Fail because he did not suffer any monetary loss.
- (b) Fail because he did not suffer any infringement of his legal right.
- (c) Succeed because his legal right was infringed.
- (d) Fail because he initiated the legal action because of his dislike for the defendant.

Answer : (c)

12. **Legal Principle :** Normally, the tort-feasor is liable for his tort but in some cases a person may be held liable for the tort committed by another.

Factual situation : Mr. Rahul's car was being driven by his driver when it hit a pedestrian as a result of which the pedestrian suffered heavy injuries. He brought a legal action against Mr. Rahul because the car belonged to him and the driver was employed by him. The legal action of the pedestrian against Mr. Rahul will:

Decide

- (a) Fail because Mr. Rahul had nothing to do with the accident.

- (b) Succeed because responsibility in such cases is imputed by law on grounds of social policy or expediency.
- (c) Succeed because a master is always liable for the acts of his or her servant.
- (d) Fail because it was the duty of the driver to be careful while driving.

Answer : (c)

13. **Legal Principle :** The defendant is liable if he makes a non-natural use of land.

Factual Situation : Mr. Kundan had stored chemicals on his land which escaped and caused damage to the adjacent properties one of which belonged to Mr. Ankit. Mr. Ankit will

Decide

- (a) Fail because Mr. Kundan had stored chemicals on his own property.
- (b) Succeed because storing chemicals is a non-natural use of land.
- (c) Fail because storing chemicals is a natural use of land.
- (d) Fail because Mr. Ankit should have taken adequate precautions against the chemicals.

Answer : (b)

14. **Legal Principle :** Absolute or strict liability are exceptions to the requirement of mens rea.

Factual Situation : B, a mill owner employed independent contractors, who were apparently competent to construct a reservoir on his land to provide water for his mill. There were old disused mining shafts under the site of the reservoir which the contractors failed to observe because they were filled with earth. The contractors therefore, did not block them. When the water was filled in the reservoir, it bursts through the shafts and flooded the plaintiff's coal mines on the adjoining land. It was found as a fact that B did not know of the shafts and had not been negligent.

Decide

- (a) Even though the independent contractors had been negligent, B will be held liable for the losses suffered by the plaintiff.
- (b) B will be held liable for the losses suffered by the plaintiff only if B was negligent and not otherwise.
- (c) Independent contractors would be liable to the plaintiff as there is privity of contract between them.
- (d) Neither B nor the independent contractors would be held liable as there was no guilty mind at work.

Answer : (a)

15. **Legal Principle :** For the tort committed by a partner in the ordinary course of the business of the firm, all the other partners are liable to the same extent as the guilty partner.

Factual Situation : A, B and C ran a Chartered Accountancy firm in partnership. In order to solicit work from a big bank, A, one of the three partners bribed the Bank's senior manager and induced him to hand over the audit work to their firm.

Decide

- (a) All the partners are liable for the tort committed by only one of them.
- (b) Only the partner who paid the bribe is liable.
- (c) Whether or not all partners are liable would depend on the fact whether B and C had knowledge of bribe or not.
- (d) The liability of B and C would be established only if they had given there written consent to A to bribe the bank official.

Answer : (a)

16. **Legal Principle :** The State can claim immunity from the tortious liability only in the cases of sovereign function, otherwise not.

Factual Position : Chandra and his father Gopal were lodged in a jail, wherein one day bombs were hurled at them by their rivals, causing the death of Gopal and injuries Chandra. The victims were having previous knowledge of the impending attack, which they conveyed to the authorities, but no additional security was provided to them. On the contrary, there was gross negligence since there was a great relaxation in the number of police men who were to guard the jail on that fateful day. Thus, on the grounds of negligence a suit was filed Chandra against the Government. The suit will

Decide

- (a) Succeed because there was gross negligence on part of the State.
- (b) Fail because maintain jail facilities is part of the sovereign function of the State.
- (c) Succeed because securing law and order is not a sovereign function of the State.
- (d) Fail because the State cannot be held responsible in any way if people lose life because of their personal rivalries even in facilities maintained and operated by the State.

Answer : (b)

17. **Legal Principle :** Under Article 12, unless the context otherwise requires, "the State" includes-

- (a) the Government and Parliament of India;
- (b) the Government and Legislature of each of the States; and
- (c) all local or other authorities: (i) within the territory of India; or (ii) under the control of the Government of India.

Factual Situation : Mr. Arvind is employed with Oil and Natural Gas Corporation (ONGC). He faces discrimination at work at the hands of the Management and thinks that his right to equality is violated. He contemplates moving a writ petition against ONGC but his colleague suggests that Mr. Arvind will not succeed because ONGC is not 'State'.

Decide

- (a) ONCG is 'State' as per Article 12 of the Constitution.
- (b) ONGC is not 'State' as per Article 12 of the Constitution.

- (c) Mr. Arvind will not succeed because a writ cannot be brought against a Company.
- (d) ONGC is not 'State' because its shares are listed in the stock market.

Answer : (a)

18. **Legal Principle :** No person shall be convicted of any offence except for violation of a law in force at the time of the commission of the act charged as an offence.

Factual Situation : Ms. Chandni had an altercation with her classmate in her college and in the heat of the moment she hurled a racist abuse at her classmate and her classmate was deeply offended by it. Ms. Chandni had later apologized for it. In the next few months, a law was passed which made racist abuse punishable. Aware of the fact that the law of limitation does not apply to criminal acts, she moved an application to the court to initiate criminal action against Ms. Chandni for the racist abuse. The classmate's application will:

Decide

- (a) Fail because racist abuse was not punishable when it was hurled.
- (b) Succeed because the law made racist abuse punishable with imprisonment and it is undeniable that Ms. Chandni has hurled that abuse.
- (c) Succeed because law of limitation does not apply to criminal acts.
- (d) Fail because it was not a serious offence and Ms. Chandni had already apologized for it.

Answer : (a)

19. **Legal Principle :** No person shall be subjected to a penalty greater than that which might have been inflicted under the law in force at the time of the commission of the offence.

Factual Situation : A person was accused of cheating and before he was arrested and committed to trial for it, the law relating to cheating was changed and the punishment for it was increased to life imprisonment. The person was found guilty and sentenced to life imprisonment. He decides to challenge his sentence of life imprisonment. He will

Decide

- (a) Fail because the punishment for cheating was increased to life imprisonment before his trial began.
- (b) Succeed because the punishment for cheating was not life imprisonment when he committed it.
- (c) Fail because the law does not provide for such leniency to guilty persons.
- (d) Succeed only if he is able to prove his innocence.

Answer : (b)

20. **Legal Principle :** The State shall not make any law which takes away or abridges the rights conferred by Part III and if such a law is made, it shall be void to the extent to which it curtails any such right.

Factual Situation : Right to Property was a Fundamental Right but was abolished as such by a Constitutional amendment. Mr. Gautam decides to challenge the constitutional validity of the amendment. He will

Decide

- (a) Succeed because the State cannot make any law which takes away or abridges the rights conferred by Part III.
- (b) Fail because 'law' referred to in the above statement does not apply to Constitutional amendment Acts.
- (c) Succeed because even constitutional amendments cannot take away Part III rights.
- (d) Fail because Right to Property was not conferred by Part III.

Answer : (b)

21. **Legal Principle :** A person who is usually of unsound mind, but occasionally of sound mind, may make a contract when he is of sound mind.

Factual Situation : Mr. Jamal is a patient in a lunatic asylum who experiences intervals of sound mind. Jamal entered into a contract during such interval of sound mind. On having suffered losses, he challenged the validity of the contract on the ground that he not only was mentally unsound but also lived in lunatic asylum.

Decide

- (a) The contract is valid.
- (b) The contract is invalid.
- (c) The contract is voidable at the option of Mr. Jamal.
- (d) The contract is voidable at the option of the opposite party.

Answer : (a)

B : LOGICAL REASONING

LESSON 6

LOGICAL REASONING

"Logic takes care of itself; all we have to do is to look and see how it does it." - Ludwig Wittgenstein

INTRODUCTION

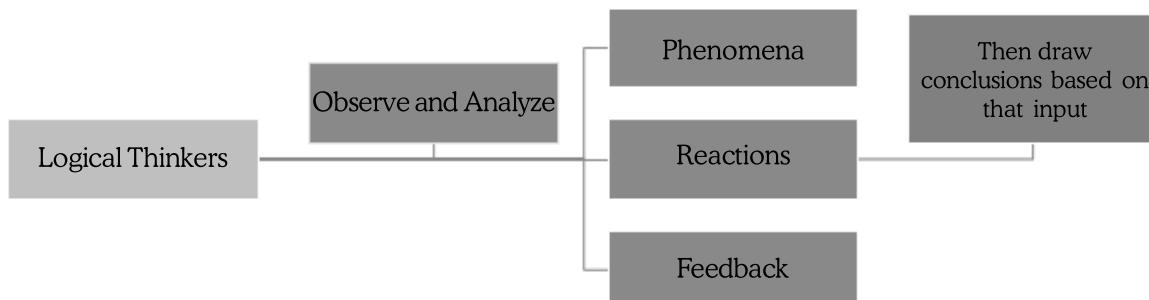
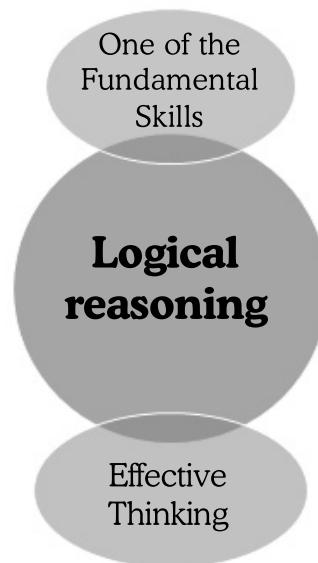
Logical reasoning (or just "logic" for short) is one of the fundamental skills of effective thinking.

It works by raising questions like:

- If this is true, what else must be true?
- If this is true, what else is probably true?
- If this isn't true, what else can't be true?

In the contemporary perspective, Doyle Alison (2019), in his article 'The Importance of Logical Thinking in the Workplace'¹ stated that Logical thinkers observe and analyze phenomena, reactions, and feedback and then draw conclusions based on that input. They can justify their strategies, actions, and decisions based on the facts they gather.

These are all inferences: they're connections between a given sentence (the "premise") and some other sentence (the "conclusion"). Inferences are the basic building blocks of logical reasoning, and there are strict rules governing what counts as a valid inference and what doesn't – it's a lot like math, but applied to sentences rather than numbers.



Example - 1:

If there is someone at the door, the dog will bark.

Assuming this sentence holds true, there are some other sentences that must also be true.

- If the dog didn't bark, there is no one at the door.
- Just because the dog barked doesn't mean there's someone at the door. There are also a few sentences that are probably true, such as:
 - The dog can sense (hear or smell) when someone is at the door.
 - The dog belongs to the people who live in the house where the door is located.

Example - 2

A sales representative modifies a presentation about a product to highlight its user-friendly qualities after receiving feedback from customers indicating that ease of use was the primary reason that they had purchased the product.

Logical Reasoning: History and Significance

The word 'Logical Reasoning' is made up of two words – Logical and Reasoning. So let us understand, analyses and brief out the history of Logical Reasoning with the help of these two words separately as well as in conjunction.

Logic: Milieu

Logic is a universal part of the human experience. Even agriculture would be impossible without inductive reasoning about weather and sunlight, and construction would be impossible without mathematics and deductive reasoning about what makes a structure sturdy.

Logic (from the Greek "logos", which has a variety of meanings including word, thought, idea, argument, account, reason or principle) is the study of reasoning, or the study of the principles and criteria of valid inference and demonstration. It attempts to distinguish good reasoning from bad reasoning.

Formalized logic has appeared in several places with more or less similar results. The Greek philosopher Aristotle is credited with being the first to develop a formal system of logical reasoning, but there were already people in India and China working on formal logic long before Aristotle was born.³

History of Logic: A Snapshot from Vedas to Contemporary Era⁴

In Ancient India, the "Nasadiya Sukta" of the Rig Veda contains various logical divisions that were later recast formally as the four circles of catuskoti: "A", "not A", "A and not A" and "not A and not not A". The Nyaya school of Indian philosophical speculation is based on texts known as the "Nyaya Sutras" of Aksapada Gautama from around the 2nd Century B.C., and its methodology of inference is based on a system of logic (involving a combination of induction and deduction by moving from particular to particular via generality) that subsequently has been adopted by the majority of the other Indian schools.

But **modern logic** descends mainly from the Ancient Greek tradition. Both Plato and Aristotle conceived of logic as the study of argument and from a concern with the correctness of argumentation. Aristotle produced six works on logic, known collectively as the "Organon", the first of these, the "Prior Analytics", being the first explicit work in formal logic.

Aristotle espoused two principles of great importance in logic, the Law of Excluded Middle (that every statement is either true or false) and the Law of Non-Contradiction (confusingly, also known as the Law of Contradiction, that no statement is both true and false).

He is perhaps most famous for introducing the syllogism (or term logic) (see the section on Deductive Logic below). His followers, known as the Peripatetics, further refined his work on logic.

In medieval times, Aristotelian logic (or dialectics) was studied, along with grammar and rhetoric, as one of the three main strands of the trivium, the foundation of a medieval liberal arts education.

Logic in Islamic philosophy also contributed to the development of modern logic, especially the development of Avicennian logic (which was responsible for the introduction of the hypothetical syllogism, temporal logic, modal logic and inductive logic) as an alternative to Aristotelian logic.

In the 18th Century, Immanuel Kant argued that logic should be conceived as the science of judgment, so that the valid inferences of logic follow from the structural features of judgments, although he still maintained that Aristotle had essentially said everything there was to say about logic as a discipline.

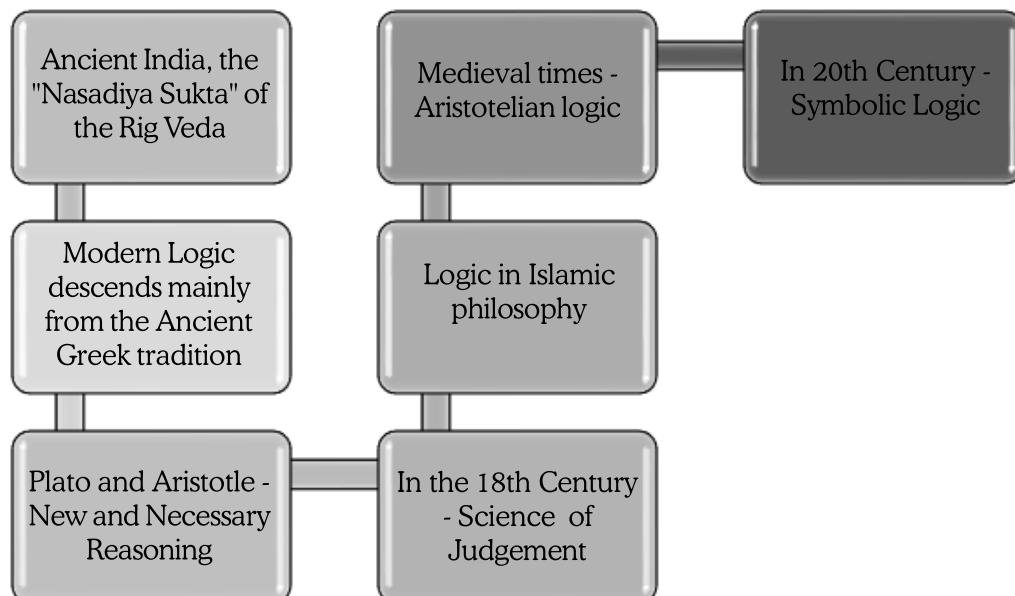
In the 20th Century, however, the work of Gottlob Frege, Alfred North Whitehead and Bertrand Russell on Symbolic Logic, turned Kant's assertion on its head. This new logic, expounded in their joint work

"Principia Mathematica", is much broader in scope than Aristotelian logic, and even contains classical logic within it, albeit as a minor part. It resembles a mathematical calculus and deals with the relations of symbols to each other.

Aristotle defined logic as "new and necessary reasoning", "new" because it allows us to learn what we do not know, and "necessary" because its conclusions are inescapable. It asks questions like "What is correct reasoning?", "What distinguishes a good argument from a bad one?", "How can we detect a fallacy in reasoning?"

The Indian, Chinese, and Greek systems were all remarkably similar in their rules, which suggests that there may have been some mutual influence despite the distance. Traders and travelling scholars may have brought ideas about logical reasoning with them all over the world, allowing for rapid development of new ideas.

Logic may seem like a stuffy, abstract discipline used only by philosophers and lawyers, but it has had a profound influence on the history of science and technology as well. Alan Turing, the inventor of the modern computer, was a logician rather than a thinker or engineer, and his famous "Turing Machine" was a product of his rigorous training in formal logical reasoning.



Need and Significance of Logic

Logic investigates and classifies the structure of statements and arguments, both through the study of formal systems of inference and through the study of arguments in natural language. It deals only with propositions (declarative sentences, used to make an assertion, as opposed to questions, commands or sentences expressing wishes) that are capable of being true and false. It is not concerned with the psychological processes connected with thought, or with emotions, images and the like. It covers core topics such as the study of fallacies and paradoxes, as well as specialized analysis of reasoning using probability and arguments involving causality and argumentation theory.

Reasoning: Milieu

As per Merriam Webster Dictionary, Reasoning means the use of reason especially, the drawing of inferences or conclusions through the use of reason.

Reshma S in her writings on 'Reasoning: Meaning, Definition and Types', stated that reasoning is one of the best forms of controlled thinking consciously towards the solution of a problem. It is realistic in the sense that the solution is sought always in reference to the reality of the situation. We can solve many problems in our day-dreams, dreams and imaginations but they are unrealistic solutions.

Sherman defined, "reasoning is a process of thinking during which the individual is aware of a problem identifies, evaluates, and decides upon a solution".

Reasoning is used not only when we want to solve an immediate problem but also when we anticipate future problems.

Reasoning plays a significant role in one's adjustment to the environment. It not only determines one's cognitive activities but also influences the behavior and personality.

Other Definitions of Reasoning:

1. "Reasoning is a stepwise thinking with a purpose or goal in mind" – Garrett.
2. "Reasoning is the term applied to highly purposeful, controlled and selective thinking" – Gates.
3. "Reasoning is the word used to describe the mental recognition of cause and effect relationships, it may be the prediction of an event from an observed cause or the inference of a cause from an observed event" – Skinner.

Thus reasoning is a highly specialized thinking which helps an individual to explore mentally the cause and effect relationship of an event or solution of a problem by adopting some well-organized systematic steps based on previous experience combined with present observation.

Content of Logic/Logic Systems/Logical Reasoning

Logical systems should have three things: consistency (which means that none of the theorems of the system contradict one another); soundness (which means that the system's rules of proof will never allow a false inference from a true premise); and completeness (which means that there are no true sentences in the system that cannot, at least in principle, be proved in the system).

Popular Use or Culture of Logical Reasoning: An Example

On Sherlock, the great detective Sherlock Holmes has a website called "The Art of Deduction," in which he explains his methods for solving crimes. However, the website has the wrong name – nearly all of Sherlock's inferences are inductive rather than deductive. That is, they bring together bits and pieces of evidence to develop a theory about what probably happened in a particular crime. They're not based on the kind of logical certainty that we saw in section 1, but rather on reasoning about likelihoods and

probabilities. It's always logically possible that Sherlock could have it wrong, even though that rarely seems to happen.

Types of Logical Reasoning

There are two basic types of logic, each defined by its own type of inference. They correspond to the two categories in the example from section 1.

1. **Deductive Reasoning** : It is the ability to draw some logical conclusions from known statements (premises) or evidences. Here one starts with already known or established generalized statement or principle and applies it to specific cases.

For example, all human beings are mortal you are a human being, therefore, you are mortal.

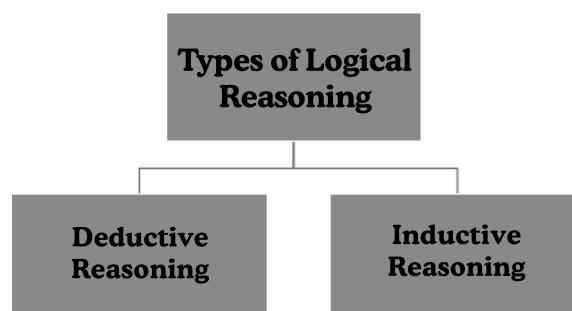
Deductive Reasoning is based on Deduction or Deductive Logic. Deduction is when the conclusion, based on the premises, must be true.

- For example, if it's true that the dog always barks when someone is at the door and it's true that there's someone at the door, then it must be true that the dog will bark. Of course, the real world is messy and doesn't always conform to the strictures of deductive reasoning (there are probably no actual dogs who always bark when someone's at the door), but deductive reasoning is still important in fields like law, engineering, and science, where strict truths still hold. All math is deductive.
- Another example of Deduction states that - An organization may work with a core belief that employees are more productive if they have control over the ways they carry out their responsibilities. A manager could demonstrate logical thinking using deductive reasoning by meeting with subordinates, communicating department goals, and structuring a brainstorming session for staff to decide methods for reaching those objectives.

2. **Inductive Reasoning** : It is a specialized thinking aimed at the discovery or construction of a generalized principle by making use of particular cases, special examples and identifying of elements or relations.

- For example, Mohan is mortal, Radha is mortal, Karim is mortal; therefore, all human beings are mortal.

Inductive Reasoning is based on Inductive logic. Inductive logic is when the conclusion, based on the premises, is probably the answers are less definitive than they are in deductive reasoning, but they are often more useful. Induction is our only way of predicting what will happen in the future: we look at the way things are, and the way they have been in the past, and we make an educated guess about what will probably happen. But all predictions are based on probability, not certainty: for example, it's extremely probable that the sun will rise tomorrow morning. But it's not certain, since there are all sorts of catastrophes that could happen in between now and then.



Logical Reasoning vs. Critical Thinking

Logic is one of the main pillars of critical thinking. And there's no question that critical thinking would be impossible without some understanding of logical reasoning. However, there are many other skills involved in critical thinking, such as:

- *Empathy*, or the ability to imagine what someone else is feeling or experiencing. This is a crucial skill for critical thinking, since it allows you to broaden your perspective and reflect on your actions and beliefs. Empathy also makes you a better student of philosophy because it enables you to put yourself in the author's shoes and understand the argument from within.
- *Analogy*, or noticing similarities and thinking them through. Analogies allow us to draw conclusions about, for example, the similarity between our own time and some moment in history, and thus try to make better decisions in the future. This skill is closely related to inductive logic.
- *Creativity*. Critical thinking is all about innovative problem-solving and coming up with new ideas, so it's heavily dependent on creativity. Just like a creative art, critical thinking depends on assembling old parts in new ways, working inventively within constraints, and matching moments of inspiration with hours of rigorous craft.

Logic assists in establishing correlation between two variables, i.e., independent and dependent variables pertaining to corporate activities.

For instance, through Karl Pearson's Correlation Coefficient and Co-efficient of determination the correlation between two variables, i.e. CSR Expenditure and Goodwill may be observed

Significance of Logical Reasoning for Company Secretaries : Key Points

- From the perspective of Logic leads to conclusion by correlating different facts and statements.
- This correlation is done through the arguments.
- As a Company Secretaries, one has to resolve various issues in the day to day affair and also ensure compliances and governance in true letter and spirit. This requires the professionals to argue or to support in favour of some conclusion with the help of certain facts and some assumptions.
- A Company Secretary does all these things throughout his life in imparting his professional excellence.
- Therefore, Logical Reasoning is becoming more important day by day in the entrance test of professional as well as academic bodies.

Logical Reasoning: A Summarized Guidance to CSEET Candidates

- Logic only ensures a valid conclusion.
- This conclusion may or may not be consistent with our usual experience. But the questions based on logic are to be solved only as per information provided, without using one's own conscience.
- Therefore, conclusion should follow directly from the statements provided in question, and no deviation from it is allowed.

- Questions on Logical Reasoning are of different types. You may be asked to derive an inference or a conclusion from given statements. Sometimes, you have to consider a statement and decide from among given assumptions, which one is more implicit in the statement and which is not.
- You may have to weigh pros and cons of some arguments given for a statement.
- You will have to decide whether the argument is a strong argument or a weak argument.

The key to have a command over this Chapter is to practise as many questions as you can.

Contents

Considering the vision and mission of the Institute along with aims and objectives of CSSET under the perspectives of global requirement, the contents of Logical Reasoning are divided under three heads, which includes:

1. Logical Reasoning,
2. Verbal Reasoning, and
3. Non-Verbal Reasoning.

These heads are well facilitated with various topics and subtopics under them. The detailed contents covered under this Part of the study are described as below:

Logical Reasoning

- Calendars
- Cause and Effect Reasoning
- Clocks
- Coding and Decoding
- Deriving Conclusion from Passages
- Drawing Inference
- Number Test
- Sequence and Series
- Statement and Assumptions

Verbal Reasoning

- Alphabet Test
- Alpha Numeric Sequence Puzzle
- Analogy
- Assertion and Reason
- Blood Relations
- Decision Making

- Inserting Missing Characters
- Logical Sequence Test
- Logical Venn Diagram
- Number, Ranking and Time Sequence Test
- Syllogism
- Truth Tellers and Liars

Non-Verbal Reasoning

- Analytical Reasoning
- Classification
- Completion of Incomplete Pattern
- Figure Matrix
- Grouping of Identical Figures
- Mirror Image
- Rule Detection
- Numeric and Alphabet Series

To have a clear understanding of all the topics and sub-topics of this part, let us analyse them one by one.

Topic – 1 and 3: Clocks and Calendars (Under Logical Reasoning)

Clocks and Calendars : Concepts

Clock Concepts

- The dial of the clock is circular in shape and was divided into 60 equal minute spaces
- 60 minute spaces traces an angle of 3600° . Therefore, 1 minute space traverses an angle of 60°
- In 1 hour, Minute hand traverses 60 minute space or 3600° , Hour hand traverses 5 minute space or 300°
- The hands of the clock are perpendicular in 15 minute spaces apart
- The hands of the clock are in straight line and opposite to each other in 30 minute spaces apart.
- The hands of the clock are in straight line when they coincide or opposite to each other.
- The hands of the clock are perpendicular to each other for 22 times in 12 hours and for 44 times in a day.
- The hands of the clock are opposite to each other for 11 times in 12 hours and 22 times in a day.
- The hands of the clock coincides with each other for 11 times in 12 hours and 22 times per day
- The hands of the clock are 44 times in a straight line per day
- The minute hand gain 55 minutes over hour hand per hour.

- Hence x minute space to be gained by minute hand over hour hand can be calculated as $x \cdot (60/55)$ or $x \cdot (12/11)$

For Example

At what time between 2'O clock and 3'O clock the hands of the clock are opposite to each other.

1. $34(6/11)$ past 2'Oclock
2. $43(7/11)$ past 2'Oclock
3. $56(8/11)$ past 2'Oclock
4. $64(9/11)$ past 2'Oclock

Solution

At 2'O clock the minute hand will be at 12 as shown:

- The minutes hand to coincide with the hour hand it should trace at first 10 minute spaces;
- And then the hands of the clocks to be opposite to each other minute hand should trace 30 minute spaces i.e. totally it should gain $10+30=40$ minute spaces to be opposite to that of hour hand

We know that,

- Minute hand gains 55 minute spaces over hour hand in 1 hour

Therefore, Minute hand gain 40 minute spaces over hour hand in $40 \times (60/55) = 43(7/11)$ Hence the hand of the clock will minutes be opposite to each at $43(7/11)$ past 2'Oclock

Therefore, correct option is 2'

When clock is too fast, too slow

- If a clock or watch indicates 6 hr 10 min when the correct time is 6, it is said that the clock is 10 min too fast
- If it indicates 6. 40 when the correct time is 7, it is said to be 20 min too slow. Now let us have an example based on this concept.

For Example

My watch, which gains uniformly, is 2 minutes. I have to attend a show at noon on Sunday, and is 4 min 48 seconds fast at 2 PM on the following Sunday. Find out when was it correct ?

Solution

From Sunday noon to the following Sunday at 2 PM, there are 7 days 2 hours or 170 hours. The watch gains $2 + 4\frac{4}{5}$ min in 170 hrs.

Therefore, the watch gains 2 min in 2 (divided by) $6\frac{4}{5}$ (multiply by) 170 hrs i.e., 50 hours. Now 50 hours = 2 Days 2 Hrs.

Therefore, 2 days 2 hours from Sunday noon = 2 PM on Tuesday.

Calendar Concept

- The time in which the earth travels round the sun is a solar year and is equal to 365 days 5 hrs. 48 minutes and 47 1/2 seconds
- Year is 365.2422 days approximately.
- The common year consists of 365 days.
- The difference between a common year and a solar year is therefore 0.2422 of a day and we consider it by adding a whole day to every fourth year.
- Consequently in every 4th year there are 366 days.
- The years which have the extra day are called leap years. The day is inserted at the end of February, The difference between 4 common years and 4 solar years is 0.969 of a day.
- If therefore, we add a whole day to every 4th year, we add too much by 0.0312 of a day. To take account of this, we omit the extra day three times every 400 years,
- The thing is to ensure that each season may fall at the same time of the year in all years.
- In course of time, without these corrections, we should have winter in July and summer in January also.

With the very small variation, the present divisions of the year are those given in B.C 46 by Julius Caesar. The omission of the extra day three times in 400 years is called the Gregorian Correction. This correction was adopted at once in 1582 in Roman Catholic Countries. But not in England until, 1752.

The Gregorian mode* of reckoning is called the New Style, the former, the Old Style.¹

The New Style has not yet been adopted in Russia, so that they are now 13 days behind us. For example

- ‘What we call October 26th, they call that 13th October. They have Christmas day on 7th of January and we have on 25th December every year.
 - In an ordinary year there are 365 days i.e., 52 weeks + 1 day
 - Therefore an ordinary year contains 1 odd day.

A leap year contains 2 odd days.

100 year = 76 ordinary years + 24 leap years.

= 76 odd days + 48 odd days

= 124 odd days = 17 weeks + 5 days. (in the consideration of weeks) Therefore, 100 years contain 5 odd days.

200 years contains 3 odd days.

300 years contain 1 odd days

- Since there are 5 odd days in 100 years, there will be 20 days in 400 years. But every 4th century is a leap year.
- Therefore, 400 years contain 21 days. Here 400 years contain no odd days.

* We have 1 possible answer for the clue as per the Mode of Reckoning dates according to Gregorian Calendar which appears 1 time in our database.

- As First January 1 AD was Monday. One must count days from Sunday i.e. Sunday for 0 odd days, Monday for 1 odd day, and Tuesday for 2 odd days and so on.
- Last day of a century cannot be either Tuesday, Thursday or Saturday.
- The first day of a century must either be Monday, Tuesday, Thursday or Saturday.

Calendar: Examples

We can clarify the concept of Calendars with following Examples

Example - 1

How many times does the 29th days of the month occur in 400 consecutive years

- 97 Times
- 4400 times
- 4497 times
- None

Solution:

In 400 consecutive years there are 97 leap years. Hence in 400 consecutive years, February has the 29th Days - 97 times, and the remaining 11 months have the 29th Day 400×11 or 4400 times.

Therefore, 29th Day of the month occurs $(4400 + 97)$ or 4497 times.

Example – 2

Given that on 10th November 1981 is Tuesday, what was the day on 10th November 1581

- Monday
- Thursday
- Sunday
- Tuesday

Solution

After every 400 years, the same day comes.

Thus if 10th November, 1981 was Tuesday, before 400 years i.e. on 10th November 1581, it has to be Tuesday.

Important Formula and Equations

Some important formulas and equations may help the candidates to solve the questions related to Clocks and Calendars are listed as below

- Minute Spaces :** The face or dial of watch is a circle whose circumference is divided into 60 equal parts, called minute spaces.
- Hour Hand and Minute Hand :** A clock has two hands, the smaller one is called the hour hand or short hand while the larger one is called minute hand or long hand.

In 60 minutes, the minute hand gains 55 minutes on the hour hand on the hour hand. In every hour, both the hands coincide once.

The hands are in the same straight line when they are coincident or opposite to each other.

When the two hands are at right angles, they are 15 minute spaces apart. When the hands are in opposite directions, they are 30 minute spaces apart. Angle traced by hour hand in 12 hrs = 360°

Angle traced by minute hand in 60 min. = 360° .

If a watch or a clock indicates 8.15, when the correct time is 8, it is said to be 15 minutes too fast.

On the other hand, if it indicates 7.45, when the correct time is 8, it is said to be 15 minutes too slow.

3. **Odd Days** : We are supposed to find the day of the week on a given date. For this, we use the concept of 'odd days'. In a given period, the number of days more than the complete weeks are called odd days.
4. **Leap Year**: (i) Every year divisible by 4 is a leap year, if it is not a century. (ii) Every 4th century is a leap year and no other century is a leap year.
5. **Ordinary Year** : The year which is not a leap year is called an ordinary years. An ordinary year has 365 days.
6. **Counting of Odd Days** : 1 ordinary year = 365 days = $(52 \text{ weeks} + 1 \text{ day})$. 1 ordinary year has 1 odd day.

1 leap year = 366 days = $(52 \text{ weeks} + 2 \text{ days})$ 1 leap year has 2 odd days. 100 years = 76 ordinary years + 24 leap years

= $(76 \times 1 + 24 \times 2)$ odd days = 124 odd days.

= (17 weeks) = 5 odd days.

Important Facts/Points to Remember:

Number of odd days in 100 years = 5

Number of odd days in 200 years = (5×2) = 3 odd days. Number of odd days in 300 years = (5×3) = 1 odd day. Number of odd days in 400 years = $(5 \times 4 + 1)$ = 0 odd day.

Similarly, each one of 800 years, 1200 years, 1600 years, 2000 years etc. has 0 odd days. Day of the Week Related to Odd Days (Assuming that 1AD January 1st is a Sunday):

No. of days:	0	1	2	3	4	5	6
Day:	Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.

SAMPLE QUESTION

1. What is the angle between the two hands of a clock when the time shown by the clock is 6.30 PM?
- 00
 - 50
 - 30
 - 150**

Explanation : $q = 11/2 m - 30h$

$$\begin{aligned} &= 11/2 * 30 - 30 * 6 \\ &= /165-180/ = 150 \end{aligned}$$

2. At what time between 3 and 4 o'clock will the minute hand and the hour hand are on the same straight line but facing opposite directions.
- 3:49
 - 3:15
 - 3:39 1/11
 - 3:49 1/11**

Explanation : On straight line means 180 degree angle.

$$\begin{aligned} 180 &= 11/2m - 30h \\ 180 &= 11/2 m - 30*3 \\ 180 &= 11/2m - 90 \\ (180+90)2 &= 11m \\ m &= 540/11 = 49 \frac{1}{11} \end{aligned}$$

3. By how many degrees does the minute hand move in the same time, in which the hour hand move by 280?
- 168
 - 336**
 - 196
 - 376

Explanation : $28*2*6 = 336$

4. At what time, between 3 o'clock and 4 o'clock, both the hour hand and minute hand coincide each other?
- 3:30
 - 3:16 4/11

(c) 3:1611/4

(d) 3:16 7/11

Explanation : Coincide means 00 angle.

$$0 = 11/2m - 30*3$$

$$11m = 90*2 = 180 \text{ m} = 180/11 = 16 \frac{4}{11}$$

So time = 3 : 16 4/11

5. How many degrees will the minute hand move, in the same time in which the second hand move 4800?

(a) 60

(b) 90

(c) 40

(d) 80

Explanation : Minute hand covers $480/60 = 80$

6. How many years have 29 days in February from 2001 to 2100?

(a) 26

(b) 25

(c) 23

(d) 24

Explanation : 100th year is not a leap year. So 24 February's has 29 days

7. 2012 January 1st is Sunday, then which day is the Indian Independence Day of the same year.

(a) Saturday

(b) Wednesday

(c) Thursday

(d) Friday

Explanation : $30 + 29 + 31 + 30 + 31 + 30 + 31 + 15 = 227/7 = \text{remainder} = 3$ So Independence Day is Wednesday

8. Which year has the same calendar as 1700?

(a) 1705

(b) 1706

(c) 1707

(d) 1708

Explanation

Year :	1700	1701	1702	1703	1704	1705
O d d Days :	1	1	1	1	2	1

9. If Arun's birthday is on May 25 which is Monday and his sister's birthday is on July 13. Which day of the week is his sister's birthday?

(a) **Monday**

- (b) Wednesday
(c) Thursday
(d) Friday

Explanation : Reference Day: May 25th is Monday

Days from May 25 to July 13 = $6 + 30 + 13 = 49$ No of Odd Days: $49/7 = 0$

10. March 1 is Wednesday. Which month of the same year starts with the same day?

(a) October

- (b) **November**
(c) December
(d) None of these

Explanation

Month:	Mar	April	May	June	July	August	September	October
Odd Days:	3	2	3	2	3	3	2	3

Total 21 odd days. $21/7 = 0$. So November has start with the same day.

Topic – 2

Cause and Effect Reasoning

Introduction

In this type of reasoning, each question contains two statements and the students have to find out relationship between the two statements. Here the students have to test whether the statements are related to each other or not. Read them and choose the best option that describes the relationship between them. These types of problems judge the reasoning and analytical power of the students. Therefore, Candidates are advised to read the statements very well to arrive at a particular conclusion.

Example

Statement

- I. Everybody should work hard.
- II. The only way to achieve success is to work hard.
 - A - Statement I is the reason and statement II is the response.
 - B - Statement II is the reason and statement I is the response.
 - C - Both the statements I and II are the not depended reasons.
 - D - Both the statements I and II are the response of not depended reasons.
 - E - Both the statements I and II are the response of some common reasons.

Herein the Answer is Option A

Explanation -

In the statement I, it told about a generic statement. Working hard can be taken as a reason but to describe it as a reason there should be some response. The response is shown in statement II that tells that through hard work one can achieve success. Hence it shows that, statement I is the reason and statement II is the response.

Types of Statement

Type - I

These kinds of Statements are about those cases where there will be a direct reason and response type of statement will be present in the question. The last example that we have discussed goes under this category. Now let's discuss another problem of the same kind.

Statement

- I. Apple has vitamin D that helps in boosting immunity.
- II. Doctors advice to eat an apple every day.
 - A - Statement I is the reason and statement II is the response.
 - B - Statement II is the reason and statement I is the response.
 - C - Both the statements I and II are the not depended reasons.

D - Both the statements I and II are the response of not depended reasons.

E - Both the statements I and II are the response of some common reasons.

Answer - Option B

Explanation - Here we can clearly see the reason is statement II. This is a reason to describe its response, which is statement I that tells the necessity of consuming an apple every day.

Type - II

Here we will discuss about those cases in which both the statements will be the response of some common reason. Let's analyze it with an example.

Statement

I. There has been a curfew in the city.

II. 24 hours police patrolling is going on in the city.

A - Statement I is the reason and statement II is the response.

B - Statement II is the reason and statement I is the response.

C - Both the statements I and II are the not depended reasons.

D - Both the statements I and II are the response of not depended reasons.

E - Both the statements I and II are the response of some common reasons.

Answer - Option E

Explanation

Clearly both the statements are directing towards a common reason. To simply our thought process we can assume that for some common reason like Hindu –Muslim riot must have been reason this type of situation.

Types - III

Sometimes the two statements are the response of some not depended reasons. Let's try to analyze this with an example.

Statement

I. There has been a curfew in the city.

II. Doctors advice to eat an apple every day.

A - Statement I is the reason and statement II is the response.

B - Statement II is the reason and statement I is the response.

C - Both the statements I and II are the not depended reasons.

D - Both the statements I and II are the response of not depended reasons. E - Both the statements I and II are the response of some common reasons.

Answer - Option D

Explanation

We can clearly analyze one thing that, eating apple and curfew are nowhere related to each other. Hence, they must be the response of not depended reasons.

Types of Causes

There can be different causes in following categories:

1. **Immediate Cause** : This is the cause that has occurred most recently. Consider the example of snowfall. Water is heated by the sun and it evaporates into the atmosphere. Once in the atmosphere, it cools down to a very low temperature and precipitates as snow. There are a few causes that have led to snowfall. The most immediate being the fact that the raindrops freeze in the low temperatures of the atmosphere.
2. **Principal Cause** : This is the main cause responsible for an event. The immediate cause may or may not be the Principal cause.
3. **Independent Cause** : This is the cause that is independent of the events. In other words, the effect and the cause may not have a direct relationship or any relationship at all.

Cause and Effect Reasoning: Possibilities

The question on cause and effect reasoning are mainly designed to decide on a candidate's ability to analyze a pair of given statements and to correlate them in terms of cause and effect. Five possibilities may arise:

1. The fact in the first statement is the effect of that mentioned in the second statement i.e. the second statement expresses the cause that leads to the condition mentioned in the first;
2. The contents of the first statement form the direct cause of the result discussed in the second statement;
3. Both the statements express generalized results that may not be backed by any specific cause but may influence certain other factors;
4. Both the statements are independent and may be explained as effects of different independent causes;
5. The effects in both the given statements may be caused or triggered by a third unmentioned event which may thus be called the common cause of the given events.

Directions or Tips

In each of the following questions, two statements numbered I and II are given. There may be cause and effect relationship between the two statements. These two statements may be the effect of the same cause or independent causes. These statements may be independent causes without having any relationship. Read both the statements in each question and mark your answer accordingly.

Give answer (a) if statement I is the cause and statement II is its effect Give answer (b) if statement II is the cause and statement I is its effect Give answer (c) if both the statements I and II are independent causes

Give answer (d) if both the statements I and II are effects of independent causes

Give answer (e) if both the statements I and II are effects of some common cause.

Example - 1

- I. The local traders' association urged all its members to close down their shops for a day to protest against the government's new tax policy.
- II. Many shopkeepers decided to close down their shops for the day and gave a day off to their employees.

Solution

Clearly, the association's decision to go for a 'bandh' on a massive scale to protest against the government's new policy would have instigated the shopkeepers to keep their shops closed. Thus, I mentions the direct cause of the effect in II. Hence the answer is (a).

SAMPLE QUESTIONS

Directions : In each of the following questions, two statements numbered I and II are given. There may be cause and effect relationship between the two statements. These two statements may be the effect of the same cause or independent causes. These statements may be independent causes without having any relationship. Read both the statements in each question and mark your answer accordingly.

Give answer (a) if statement I is the cause and statement II is its effect; Give answer (b) if statement II is the cause and statement I is its effect; Give answer (c) if both the statements I and II are independent causes;

Give answer (d) if both the statements I and II are effects of independent causes; Give answer (e) if both the statements I and II are effects of some common cause.

Q.1.

- I. The prices of vegetables have been increased considerably during this summer.
- II. There is tremendous increase in the temperature during this summer thereby damaging crops greatly.

Answer B

Solution

Clearly, damage to crops due to high temperature may have resulted in a short supply of vegetables and hence an increase in their prices

Q.2

- I. Police resorted to lathi to disperse the unlawful gathering of large number of people.
- II. The citizens' forum called a general strike in protest against the police atrocities.

Answer A

Solution

Clearly, the people's mass protest against the police might have instigated the latter to indulge in lathi-charge to disperse the mob.

Q.3

- I. It is the aim of the city's civic authority to get air pollution reduced by 20% in the next two months.
- II. The number of asthma cases in the city is constantly increasing.

Answer B

Solution

The increase in number of asthma cases must have alerted the authorities to take action to control air pollution that triggers the disease.

Q.4

- I. The police authority has recently caught a group of house breakers.

- II. The citizens group in the locality have started night vigil in the area.

Answer E

Solution

Both the statements are clearly backed by a common cause, which is clearly an increase in the number of thefts in the locality.

Q.5

- I. The university authority has instructed all the colleges under its jurisdiction to ban use of all phones inside the college premises.
- II. Majority of the teachers of the colleges signed a joint petition to the university complaining the disturbances caused by cell phone ring-tones inside the classroom.

Answer B

Solution

Clearly, the university's decision came as a sequel to the complaint received by it from the college teachers against use of mobile phones in the college premises.

Q.6

- I. The government has recently fixed the fees for professional courses offered by the unaided institutions which are much lower than the fees charged last year.
- II. The parents of the aspiring students launched a severe agitation last year protesting against the high fees charged by the unaided institutions.

Answer B

Solution

The parents' protest against high fees being charged by the institutional led the government to interfere and fix the fees at a more affordable level.

Q.7.

- I. Large number of people living in the low-lying areas have been evacuated during the last few days to safer places.
- II. The Government has rushed in relief supplies to the people living in the areas.

Answer E

Solution

Evacuating low-lying areas and rushing in relief to the affected areas clearly indicates that floods have occurred in the area.

Q.8.

- I. The performance of most of the students in final exam of class X in the by the Government was excellent.
- II. Many teachers of the Government schools left the school and joined private school.

Answer D

Solution

The students of government schools performing well in the examinations and the teacher of government schools leaving their jobs to join private school are two separate situations that must have been triggered by independent causes.

Q.9.

- I. Majority of the citizens in the locality belong to higher income group.
- II. The sales in the local supermarket are comparatively much higher than in other localities.

Answer B

Solution

The comparatively higher sales in a particular locality are indicative of the high paying capacity of the residents of that locality.

Q.10.

- I. There is considerable reduction in the number of people affected by water-borne disease in City A during this rainy season.
- II. The government has opened four new civil hospitals in City A in the beginning of the year.

Answer C

Solution

The given statements are self-sufficient and depict independent events.

Topic 4**Coding and Decoding**

Coding is a system of signals. This is a method of transmitting information in the form of codes or signals without it being known by a third person.

The person who transmits the code or signal, is called the sender and the person who receives it, is called the receiver. Transmitted codes or signals are decoded on the other side by the receiver—this is known as decoding.

In questions on coding-decoding, a word (basic word) is coded in a particular way and the candidates are asked to code other word in the same way. The coding and decoding tests are set up to judge the candidate's ability to decipher the rule that has been followed to code a particular word/message and break the code to decipher the message.

Order of the English Alphabet

Forward order position	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
Alphabets	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
Backward order position	26	25	24	23	22	21	20	19	18	17	16	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1

Approach

- (1) Observe alphabets or numbers given in the code keenly.
- (2) Find the sequence it follows whether it is ascending or descending.
- (3) Detect the rule in which the alphabets/numbers/words follow.
- (4) Fill the appropriate letter/number/word in the blank given.

Letter coding : Alphabets in a word are replaced by other alphabets according to a specific rule to know its code. So the common rule should be detected first. Some examples are given below:

- (1) 'ZYXW' as coded as 'ABCD' then 'STUV' is coded as.....

Answer : Z – A, Y– B, X – C, W – D

V – E, U – F, T – G, S – H STUV = HGFE

Answer = HGFE

Rule= front alphabet= back alphabet.

- (2) ' bcd' is coded as 'def' then 'True' is coded as.....

Answer : b – d (+2) c – e (+2)

d – f (+2)

+2 letters are considered in this code.

True – Vtwg

Answer = Vtwg.

- (3) 'Hyderabad' is coded as 'Ixedszcze' then 'Chennai' is coded as.....

Answer : H – I (+1) Y – X (1–)

D – E (1+)

E – D (1–)

R – S (1+)

A – Z (1–)

B – C (1+)

A – Z (1–)

D – E (1+)

Here if we observe alternatively the letter increasing and one letter decreasing.

Chennai = dgfmozj

Answer = dgfmozj

Number coding : In this each alphabets or words are assigned to the numeric values we should observe the given letters and the assigned values and use the same rule to find the value to of given code. Some examples are given below:

- (1) Apple is coded as 25563, Rung is coded as 7148. Then purple is coded as

Answer

PURPLE – 517563

Answer = 517563.

- (2) In a language A is coded as 1, B is coded as 2, then FACE is coded as

Answer

Then FACE = 6135

Answer = 6135.

- (3) PUSH is coded as 1234, ROUGH is coded as 65274. Then SOUP is coded as

Answer

SOUP = 3521

Answer = 3521.

Substitution : In this section an object names are substituted with different object names. We should carefully trace the substitution and answer given question. Some examples are given below:

- (1) 'book' is coded as 'pencil', 'pencil' is coded as 'mirror', 'mirror' is coded as 'book'. Then what is useful to write on a paper?

Answer : Pencil is coded as mirror

Answer = mirror.

- (2) 'man is coded as 'woman', woman is coded as 'girl', 'girl' is coded as 'boy', 'boy' is coded as 'worker' then 6 years female is known as?

Answer : 6 years female = girl, but 'girl' is coded as 'boy'.

Answer = boy.

- (3) 'Reds' are 'blues', 'blues' are 'whites', 'whites' are 'yellows', 'yellows' are 'oranges', 'oranges' are 'pinks', then what is the colour of the sky?

Answer : Sky is blue, but blues are whites

Answer = white.

SAMPLE QUESTIONS

1. In a certain code, COMPUTER is written as RFUVQNPC. How is MEDICINE written in the same code?
 - (a) MFEDJJOE
 - (b) EOJDEJFM
 - (c) MFEJDJOE
 - (d) EOJDJEFM

Answer : Option D

The letters of the word are written in reverse order and except the first and the last letter all other letters are move one step forward

2. In a code language, A is written as B, B is written as C, C is written as D and so on, then how will SMART be written in that code language?
 - (a) TLBSU
 - (b) SHBSU
 - (c) TNBSU
 - (d) SNBRU

Answer : Option C

The letters are coded by moving them 1 step forward.

3. In a certain code, RIPPLE is written as 613382 and LIFE is written as 8192. How is PILLER written in that code?
 - (a) 318826
 - (b) 776655
 - (c) 786543
 - (d) 156724

Answer : Option A

Word : R I P P L E L I F E P I L L E R

Code : 6 1 3 3 8 2 8 1 9 2 3 1 8 8 2 6

4. In a certain code FLOWER is coded as 36 and SUNFLOWER is coded as 81, then how to code FOLLOWS?
 - (a) 42
 - (b) 49
 - (c) 63
 - (d) 36

Answer : Option B

The word FLOWER has 6 letters. 62 is 36

The word SUNFLOWER has 9 letters. 92 is 81

Like FOLLOWs has 7 letters. So 72 is 49

5. In a certain code , 'il be pee' means 'roses are blue', 'sik hee' means 'red flowers' and 'pee mit hee' means 'flowers are vegetables', How is 'red' written in that code?
 - (a) hee
 - (b) sik
 - (c) be
 - (d) cannot be determined
 - (e) none

Answer : Option B

Code Sentence

Il be pee roses are blue Sik hee red flowers

Pee mit hee flowers are vegetables

In II and III code 'hee' stands for 'flowers'. So 'sik' stands for 'red'

6. In a certain code language : 'dugo hui mul zo' stands for 'work is very hard' 'hui dugo ba ki' for 'Bingo is very smart'; 'nano mul dugo' for 'cake is hard'; and 'mul ki gu' for 'smart and hard' Which of the following word stand for Bingo?
 - (a) Jalu
 - (b) Dugo
 - (c) Ki
 - (d) Ba

Answer : Option D

Code Sentence

1. dugo hui mul zo work is very hard
2. hui dugo ba ki bingo is very smart
3. nano mul dugo cake is hard
4. mul ki gu smart and hard

From second code and its sentence neither 'ba' is repeated nor is 'Bingo'.

7. If rain is called water, water is called air, air is called cloud, cloud is called sky, sky is called sea, sea is called road, where do the aeroplanes fly?
 - (a) Water

- (b) Road
- (c) Sea
- (d) Cloud

Answer : Option C

Aeroplanes fly in sky and as per given codes sky is sea

8. If Orange is called Lemon, Lemon is called Flower, Flower is called Fish, Fish is called Tail and Tail is called Pen, what is Rose?

- (a) Pen
- (b) Lemon
- (c) Flower
- (d) Fish

Answer : Option D

Rose is a flower and as per given codes flower is fish.

9. In a certain code language \$#* means 'Shirt is clean', @ D# means 'Clean and neat' and @? means 'neat boy', then what is the code for 'and' in that language

- (a) #
- (b) D
- (c) @

(d) Data inadequate **Answer : Option B** Code sentence

\$#* 'Shirt is clean',

@ D# 'Clean and neat' @? 'neat boy'

Here # stands for clean and @ stands for neat. D stands for 'and'

10. If A stands for +, B stands for -, C stands for x, what is the value of (10C4)(A) (4C4)B6?

- (a) 60
- (b) 50
- (c) 56
- (d) 46

Answer : Option B

$$(10C4)(A) (4C4) B6 = (10 * 4) + (4*4) -6 = 50$$

Topic 5**Deriving Conclusion from Passages**

In this section of logical deduction, the question consists of a brief passage (usually a report containing certain data regarding some social or economic problem), Followed by certain inferences based on it. The candidate is required to analyse the content (or data) of the passage and grasp the desirable facts from it.

Then, he has to consider each of the given inferences in the context of the given passage, decide upon its degree of truth or falsity and then choose the best alternative provided accordingly.

Directions : Read the following passage and examine each inference given below it in the context of this passage.

Mark your answer as:

- (a) if the inference is 'definitely true'
- (b) if the inference is 'probably true';
- (c) if the 'data provided is inadequate';
- (d) if the inference is 'probably false'; and
- (e) if the inference is 'definitely false'.

Example 1. The World Health Organization has called for improved surveillance to combat dengue and says the outbreak can be controlled in two weeks if all necessary steps are taken to stop the mosquitoes from breeding and break the transmission cycle.

Dengue is already the most widespread mosquito-borne disease among humans. In the past 15 years, outbreaks in South and South-East Asia have been rapidly rising mostly due to falling environmental and public health standards during urbanization. WHO, reports that severe forms of the disease such as hemorrhagic fever (DHF) and shock syndrome (DSS) are putting more 2.5 million people at risk worldwide each year. Importantly, 95 % of the DHF cases are among children less than 15 years. Therefore, the disease has major impacts on public health and future generations.

1. If rate of urbanization in South Asia is controlled, outbreaks of all disease are reduced.
2. World Health Organization has not collected data of outbreak of dengue in the past.
3. There was no outbreak of dengue in the European countries in the recent past.
4. Over the last decade, South Asian countries have not successfully stepped up mechanism to combat dengue.
5. DSS type dengue seems mostly to be affecting the adults.

Solution

1. It is mentioned in the passage that 'outbreaks in South and South East Asia have been rapidly rising mostly due to falling environmental and public health standards during urbanization'. Thus, the fact in the question is quite probable. So, the conclusion is probably true.
2. The passage talks of outbreak of dengue during the past 15 years. This contradicts give European countries. Hence, the data are inadequate

3. The passage mentions the outbreak of dengue during in Asian countries only and not the European countries. Hence the data are inadequate
4. It is mentioned in the passage that cases of outbreak of dengue are rapidly rising in South Asian countries since the last 15 years. This means that adequate steps to combat dengue have not been taken. Hence, the conclusion is definitely true.
5. Nothing about the effect of DSS type dengue is mentioned in the passage. Hence the data are inadequate.

SAMPLE QUESTIONS

Directions : Read the following passage and examine each inference given below it in the context of this passage.

Mark your answer as:

- (a) if the inference is 'definitely true'
- (b) if the inference is 'probably true';
- (c) if the 'data provided is inadequate';
- (d) if the inference is 'probably false'; and
- (e) if the inference is 'definitely false'.

Procurement of wheat is in full swing in the north-western states of India. By June end, public agencies are likely to end up with food grain stocks of about 40 to 42 million tonnes, the highest ever witnessed in the history of this country. This stock should be more than sufficient to ensure that the country's "food security" is not endangered even if India faces two consecutive droughts.

But strangely enough, while the granaries overflow, there is still widespread hunger in the country even without a drought. The estimates of poverty are being debated, but broadly one-third of India seems to remain underfed. And this coexistent of grain surpluses with large scale hunger should make any serious policy-maker think and examine the existing policy mix with a view to ensure faster economic growth and reduction in poverty.

Q.1 The policy-makers in India are unaware of prevalent hunger.

Answer B

Explanation

The statement 'while the granaries overflow, there is still widespread hunger in the country' in the passage, indicates a lackening on the part of the policy-makers. Hence, it is quite probable that they are unaware of the prevalent hunger. Thus, the given inference is probably true.

Q.2 India always maintains foodgrain stocks to withstand two consecutive droughts.

Answer D

Explanation

It is mentioned in the passage that the current foodgrain stock is the highest ever witnessed in the history of this country'. Thus, it is quite probable that such stocks are not always maintained. Hence, the given inference is probably false.

Q.3 The distribution of foodgrains to the masses has remained a problem area for India.

Answer A

Explanation

The phrase 'coexistence of grain surpluses with large scale hunger' in the passage clearly implies the given fact. Hence, the inference is definitely true.

- Q.4 India's foodgrains stock has been satisfactory over the past few years.

Answer C

Explanation

Nothing about the previous years' foodgrain stock of the country has been mentioned in the passage. Only the current situation has been discussed. Hence, the data are inadequate.

- Q.5 More than 30 percent of the population in India do not even get two times meals per day.

Answer A

Explanation

The given fact is clear from the sentence, "but broadly one-third of India seems to remain underfed". Hence, the inference is definitely true.

- Q.6 The policy of India needs to be revamped to reduce the extent of poverty in the country.

Answer A

Explanation

The last sentence of the passage clearly implies the given fact. Hence, the given inference is definitely true.

- Q.7 India, at present, is one of the countries in the world to have sufficient food for its people.

Answer A

Explanation

The statement "This stock should be more than sufficient to ensure that country's food security is not endangered" clearly supports the given inference. Hence, the given inference is definitely true.

Direction for [Question No: 8 To 10]: Economic liberalization and globalization have put pressures on Indian industry, particularly on the service sector, to offer quality products and services at low costs and with high speed. Organizations have to compete with unequal partners from abroad. It is well recognized that developing countries like India are already behind other countries technologically, in many areas, although some of them, particularly India, boast of huge scientific and technical manpower. In addition to this, if an entrepreneur or industrialist has to spend a lot of his time, money and energy in dealing with unpredictable services and in negotiating with the local bureaucracy, it can have a significant dampening effect on business.

- Q.8 Official formalities are less cumbersome in almost all the countries except India.

- A. If you think the inference is 'definitely true'.
- B. If you think the inference is 'probably true' though not definitely true in the light of the facts given.
- C. If the data given is inadequate i.e., from the fact given you cannot say whether the inference is likely to be true or false.
- D. If you think the inference is probably false though not definitely false in the light of the facts given.

Answer C

Explanation

The last sentence of the passage hints at cumbersome official formalities in India, but nothing can be deduced about its comparison to other countries.

Q.9 India at present is to some extent at par with the developed countries in terms of technological development.

- A. If you think the inference is 'definitely true'.
- B. If you think the inference is 'probably true' though not definitely true in the light of the facts given.
- C. If the data given is inadequate i.e., from the fact given you cannot say whether the inference is likely to be true or false.
- D. If you think the inference is probably false though not definitely false in the light of the facts given.

Answer D**Explanation**

It is mentioned in the passage that though India boasts of huge technical manpower, yet it lags behind other countries in technology. Thus, it is quite probable that India is in no way at par with the developed countries in terms of technological development.

Q.10 Foreign companies are more equipped than domestic companies to provide quality service in good time.

- A. If you think the inference is 'definitely true'.
- B. If you think the inference is 'probably true' though not definitely true in the light of the facts given.
- C. If the data given is inadequate i.e., from the fact given you cannot say whether the inference is likely to be true or false.
- D. If you think the inference is probably false though not definitely false in the light of the facts given.

Answer A**Explanation**

The fact clearly follows from the first two sentences of the passage.

Topic 6

Drawing Inference

An inference...is a statement about the unknown made on the basis of the known.

S. I. Hayakawa, *Language in Thought and Action* (2nd ed.) p. 41

Inferences are evidence-based guesses. They are the conclusions a reader draws about the unsaid based on what is actually said. Inferences drawn while reading are much like inferences drawn in everyday life. If your best friend comes in from a blind date and looks utterly miserable, you would probably infer the date was not a success. Drawing inferences while you read requires exactly the same willingness to look at the evidence and come to a conclusion that has not been expressed in words. Only in reading, the evidence for your inference consists solely of words rather than actual events, expressions, or gestures.

To pull meaning from the page, readers need to draw all kinds of inferences. They need to infer main ideas; figure out how sentences and paragraphs relate; connect supporting details to main ideas; match pronouns to antecedents (the words to which pronouns refer); understand the function of allusions (references to people and events that are used to make a point); and determine how visual aids contribute to the author's message (This is just a partial list). While it's commonly assumed that writers supply every word readers need to construct meaning, nothing could be further from the truth. Readers almost always help create the texts they read. Those readers who don't draw inferences to fill in gaps in the text are likely to miss or misunderstand the meaning intended by the author.

For an illustration of how important inferences are to communication between reader and writer, read the following sentence: "After reading that Paris Hilton told an interviewer how the beauty of her hit song 'Stars Are Blind' made her want to cry, I couldn't help thinking of a quotation from Mark Twain: 'Man is the only animal that blushes—or needs to.' " To understand that sentence, readers need to draw at least three essential inferences:

- a. The author thinks the song is just awful.
- b. Mark Twain thought that only humans blushed because they were the only ones who did things they needed to be ashamed of.
- c. The author makes a connection between Hilton and Twain because she thinks Paris Hilton is one of those humans who should blush from shame.

Note as well how the author expects readers to infer that the antecedent for the pronoun "her" is Paris Hilton. Linking pronouns to antecedents is one of the most common kinds of inferences readers are expected to draw on a consistent basis.

What You Need to Know About Inferences

1. There are logical and illogical inferences, inferences that "fit" the rest of the text and inferences that don't. Make sure your inference has the right fit by relying on the author's words more than on your own feelings and opinions. To give you an obvious example: If the writer uses glowing language to describe the presidency of Bill Clinton but never states an opinion of the Clinton years in office, you probably shouldn't infer that the writer is a Clinton critic just because you yourself thought Bill Clinton was a terrible president.
2. Think of inferring implied main ideas as a two-step process, moving from part to whole. Your first

step is to understand what each sentence contributes to your knowledge of the topic. Next ask yourself what the sentences combine as group to suggest. The answer to that question is the implied main idea of the paragraph.

3. If you draw an inference about the main idea, check to see if the your inference is contradicted by any statements in the paragraph. If it is, you have probably drawn an illogical inference, one that does not follow from the information given. With particularly difficult readings, see if you can actually identify the language or statements that led you to the main idea you inferred. This kind of close reading is a great inference check. It also gives you practice doing the kind of thoughtful reading that guarantees remembering.
4. Transitions such as “consequently,” “next,” and “in summary” definitely help readers make connections between sentences and paragraphs. Transitions are the considerate author’s way of saying, “This is the connection you need to make between what you just read and what’s coming up.” However, transitions are not as commonly used as readers might like. It’s often the reader’s job to supply sentence and paragraph connections. In other words, it’s the reader’s job to draw the right inference. If a sentence doesn’t open with a transition—and a good many won’t—make sure you know how the sentence you are reading connects to the ideas that came before.
5. Pay especially close attention to sentence openers. That’s where you will often get the clues you need to infer relationships between sentences and paragraphs.
6. Be on the look-out for key allusions or idioms (expressions that might seem completely out of place to those just learning the language, but which make sense to those who grew up hearing or reading these expressions), e.g., she loved her job; the money was “icing on the cake”). Allusions and idioms often suggest meanings that are central to the author’s message. For instance, if the writer says that “the shotgun marriage between the unions and management dissolved once the war was over” you can infer that the unions and management were working together because they were forced to by necessity. However, the writer doesn’t say anything about either side being forced by necessity. Instead, she uses an idiom and expects reader to draw the correct inference.
7. If the text includes visual aids, but neither the title nor caption tells you exactly how they relate to the author’s meaning, take the time to figure out the relationship between text and graphic. Inferring relationships between the author’s words and the visual aids will deepen your overall understanding of the point or points being made. You will also have two ways, one verbal, one visual, to anchor information in long-term memory.
8. To get you started thinking about inferences, here are a few warm-up exercises. If you sail through these, you can find more at Online Practice for Reading for Results.

Exercise 1

Directions : Each item in this exercise describes a famous person. It's your job to infer the name of the person described.

1. A small-town lawyer from Illinois, tall and lanky with an Adam's apple that could have gone down in the Guinness Book of Records had it existed in the nineteenth century. Nevertheless, he changed the face of American history, steering it through a civil war that left both sides bloody. Who knows what more he could have done had an assassin's bullet not cut him down.

The person described is .

In drawing the correct inference, which piece of information is more useful:

- a. He had a big Adam's apple.
- b. He steered the nation through a civil war.

Answer and Explanation:

1. Abraham Lincoln

Clue : He steered the country through civil war.

Explanation : Lots of people have big Adam's apples, but America has had only one civil war.

2. Glittering and shaking to the strains of "Proud Mary," this lady ruled the stage in the sixties, but Ike ruled the roost until she walked out the door. It took her almost a decade to get back on top but she still remains one of pop's great divas. Closing in on sixty, she can still belt out rock and roll with singers half her age, and "Simply the Best" just may qualify as her own personal theme song.

The person described is .

In drawing the appropriate inference, which piece of information is more useful.

- a. She ruled the stage but Ike ruled the roost.
- b. She was a popular singer in the sixties.

Answer and Explanation

Tina Turner

Clue : She ruled the stage but Ike ruled the roost.

Explanation : There were many popular women singers in the sixties but only one was linked to a domineering husband named Ike.

Exercise 2

Directions : For each situation, draw what you think is an appropriate inference.

1. You have just gotten a pit bull puppy from an animal shelter. He's lovable but nervous. If you raise your voice for any reason, he cowers and trembles. If you scold him, he hides. When you got him from the shelter, he had a slight limp and a deep scratch across his nose.

Inference :

2. You are a high school student sitting in class when a substitute teacher walks in and announces that your regular teacher is ill. Everyone in the class including you erupts in applause. The substitute raps his knuckles on the desk for order, but the students ignore him and talk louder.

Inference : Answers may vary.

1. Inference: The puppy may well have been abused by its former owners.
2. Inference: The students are going to take advantage of the substitute teacher.

Exercise 3

Directions : Each item in this exercise introduces a topic. Six specific statements about the topic follow. Read them carefully. Then choose the more appropriate inference.

1. Topic: Shakespeare in nineteenth-century America

Specific Statements :

- a. In the early nineteenth century, Shakespeare was the most widely performed playwright in both the North and Southeast.
- b. In the first half of the nineteenth century, English and American actors could always earn money by performing Shakespeare in towns both big and small.
- c. American audiences were famous for their participation in performances of Shakespeare's plays: They hurled eggs and tomatoes at the villains and cheered and whistled for the heroes.
- d. By the end of the nineteenth century, theater owners claimed that most ordinary people couldn't understand Shakespeare, and they were refusing to stage his plays.
- e. In the early 1800s, theater goers in big cities could often choose between three different productions of Macbeth or Romeo and Juliet; by the end of the nineteenth century, it was hard to find one production of a Shakespeare play, let alone several.

Answer B

Inference

- a. Early American audiences embraced Shakespeare's plays enthusiastically because they wanted to prove that they were as clever and sophisticated as their former British rulers.
- b. The role of Shakespeare in America changed dramatically as the nineteenth century drew to a close.

2. Topic : The medics in World War II

Specific Statements

- a. During training for combat, the medics were often despised because most of them had refused to take up arms.
- b. The medics had their own barracks and were separated from combat soldiers, who referred to them as "pill pushers" and laughed at their medical drills.
- c. In actual combat, it was often the medics who meant the difference between life and death for soldiers wounded in battle; they were the ones who braved gunfire to carry wounded soldiers to the hospital.
- d. In many divisions, soldiers who had lived through combat took up collections in order to provide bonuses for the medics.
- e. Interviewing veterans of World War II, author Stephen Ambrose consistently heard from men who believed they owed their lives to some member of the medical core.

Inference

- a. The combat experience profoundly changed the way soldiers felt about the medical core.
- b. Despite their bravery in the battles of World War II, medics never really received the respect that was due them.

Answer A

Exercise 4

Directions : Read each paragraph. Then choose the inference that could effectively sum up the main idea.

1. When World War II broke out in Europe in 1939, the United States was the only major power without a propaganda agency. More important, despite prodding from England and France, the

U.S. had no plans to create one. During World War I, a government-based group known as the Committee for Public Information had successfully stirred up public feeling against German-Americans because America was at war with Germany. As a result, many innocent German-

American citizens had been insulted, beaten, even lynched. In addition, a good portion of the American public still believed that the United States had been tricked into entering World War I because of British propaganda. Distrustful of propaganda in general, there was little widespread support for a government agency dispensing it when the Second World War broke out.

Inference

- a. Because of what had happened during World War I, the American public was suspicious of propaganda and not inclined to support its use when World War II first erupted.
- b. Aware of how the German government was using propaganda to spread hate and violence, the American public was reluctant to make use of it at the beginning of World War II.

Answer A

2. At his death in 1971, trumpeter Louis Armstrong was much loved as a celebrity. Yet as a musician, he no longer commanded wide respect among the general public. To most people, he was the man with the toothy smile who made occasional appearances in television and movies usually singing what had become his signature songs "Hello, Dolly" and "It's a Wonderful World." Jazz enthusiasts, however, had another take on the passing of Louis Armstrong. To them he was the New Orleans-born musician who had, along with Bix Beiderbecke, introduced the solo to jazz. With records like "Struttin' with Some Barbecue," "I'm not Rough," and "Potato Head Blues," Louis became the first great jazz influence. As music critic Terry Teachout has written, Louis Armstrong was "the player other players copied." Still, at his death, few really knew what Louis had accomplished. In his honor, radio and television broadcasts played "Hello Dolly," not "West-End Blues," his 1928 recording that starts off with what may be the most famous horn solo in jazz.

Inference

- a. A hero to much of the jazz community, Louis Armstrong was forgotten by the general public at the time he died.
- b. At his death, Louis Armstrong was a beloved celebrity whose spectacular achievements had been forgotten by all but devoted jazz fans.

Answer B**Exercise 5**

Directions : Read each paragraph. Then draw an inference that sums up the main idea.

1. In the movies, England's King Richard the First—he of the lion heart and Robin Hood fame—is a hero of spotless reputation. In Hollywood's many versions of the Robin Hood story, for example, Robin worships good King Richard and would willingly die for him. History, however, offers a different slant on Richard's supposed goodness. In 1189, the Pope called for yet another crusade to take back the holy land of Jerusalem from Moslem rule. Intent on following the Pope's order, Richard combined forces with King Philip the II of France. Together, they managed to take the town of Acre, a port on what is now Israel's Northwestern coast. Attempting to blackmail the Moslem ruler Saladin into giving up sacred lands, Richard took 2,500 civilians hostage, many of them women and children. When Saladin refused, Richard promptly slaughtered every last one of his hostages.

Inference :

2. When Bonnie Parker met Clyde Barrow, she was twenty years old. Although she had been a rebellious child and teenager, she had never broken a law in her life. The worst thing she had done in her mother's opinion was run off and get married to a shiftless womanizer who humiliated and neglected her. When Clyde came along, Bonnie was ripe for the attentions of a man who seemed to think she was both important and attractive. As long as he didn't desert her, Bonnie didn't much care about Clyde's two-year jail sentence. In jail at least, she knew where he was, and she could write him daily letters about how much she loved him. Bonnie, however, got nervous when she heard that Clyde was planning a jailbreak. To bind him more tightly to her, she smuggled him a gun and helped him escape. After he got caught and sent back to prison, Bonnie was even more determined to wait for the man she called her "one true love." Upon his release from jail, Bonnie took Clyde home to meet her folks and announced she was going to Houston, Texas to get a new job. The next time her mother heard from her, Bonnie Parker was sitting in jail and had formally started her career as one half of the most famous bandit duo in history.

Answers will vary.

1. Richard the Lionhearted was not as pure of heart as some movies suggest.
2. Her romantic attachment to Clyde Barrow led Bonnie Parker into a life of crime.

Topic 7

Number Test

Self – Exercise Questions

Directions to Solve

In each series, look for the degree and direction of change between the numbers. In other words, do the numbers increase or decrease, and by how much?

1. Look at this series: 2, 1, $(1/2)$, $(1/4)$... What number should come next?
 - A. $(1/3)$
 - B. $(1/8)$
 - C. $(2/8)$
 - D. $(1/16)$

Answer : Option B

Explanation

This is a simple division series; each number is one-half of the previous number.

In other terms to say, the number is divided by 2 successively to get the next result. $4/2 = 2$

$$2/2 = 1$$

$$1/2 = 1/2 \quad (1/2)/2 = 1/4$$

$(1/4)/2 = 1/8$ and so on.

2. Look at this series: 7, 10, 8, 11, 9, 12,... What number should come next?
 - A. 7
 - B. 10
 - C. 12
 - D. 13

Answer : Option B

Explanation

This is a simple alternating addition and subtraction series. In the first pattern, 3 is added; in the second, 2 is subtracted.

3. Look at this series: 36, 34, 30, 28, 24, ... What number should come next?
 - A. 20
 - B. 22
 - C. 23
 - D. 26

Answer: Option B

Explanation:

This is an alternating number subtraction series. First, 2 is subtracted, then 4, then 2, and so on.

4. Look at this series: 22, 21, 23, 22, 24, 23, ... What number should come next?
 - A. 22
 - B. 24
 - C. 25
 - D. 26

Answer: Option C

Explanation:

In this simple alternating subtraction and addition series; 1 is subtracted, then 2 is added, and so on.

5. Look at this series: 53, 53, 40, 40, 27, 27, ... What number should come next?
 - A. 12
 - B. 14
 - C. 27
 - D. 53

Answer: Option B

Explanation:

In this series, each number is repeated, then 13 is subtracted to arrive at the next number.

6. Look at this series: 21, 9, 21, 11, 21, 13, 21, ... What number should come next?
 - A. 14
 - B. 15
 - C. 21
 - D. 23

Answer: Option B

7. Look at this series: 58, 52, 46, 40, 34, ... What number should come next?
 - A. 26
 - B. 28
 - C. 30
 - D. 32

Answer: Option B

8. Look at this series: 3, 4, 7, 8, 11, 12,... What number should come next?

- A. 7
- B. 10
- C. 14
- D. 15

Answer: Option D

9. Look at this series: 8, 22, 8, 28, 8, ... What number should come next?

- A. 9
- B. 29
- C. 32
- D. 34

Answer: Option D

10. Look at this series: 31, 29, 24, 22, 17, ... What number should come next?

- A. 15
- B. 14
- C. 13
- D. 12

Answer: Option A

Topic 8**Sequence and Series**

Number series is important for various competitive examinations. In this category of questions, a series of various numbers is given with a blank. We are supposed to find out a pattern between every number and its predecessor and find out the answer using the same logic.

For the purpose of better understanding of the concept, we classify them into the following categories:

- Series with a constant difference
- Series with an increasing difference
- Series with a decreasing difference
- Squares/ Cubes series
- Combination of different operations
- Miscellaneous

The Best Approach

The best way of approaching number series questions is to observe the difference between various terms. If we see a constant difference, then it's a constant difference series. If the difference is decreasing or increasing by a constant number, then it is a series of type 2 or type 3. But if there is no such increase or decrease in the difference, then try dividing the 2nd term with the first, third with the second and so on. If you obtain the same number each time, then it is a product series.

Also, if none of these seem to work, then you can try writing each term as a product of two factors and try to see if there is any pattern. If you still observe no pattern and the difference is increasing or decreasing rapidly, then try to look for square/ cube series.

If the difference is increasing and decreasing in some fixed manner, then it is a type of combination series. Let us look at each type of series in greater depth:

1. Series with a constant difference

In this kind of series, any 2 consecutive numbers have the same difference between them.

For example : 1, 5, 9, 13,?

We can observe that we are adding 4 to the previous number to obtain the next number. So, answer here will be $13+4 = 17$.

2. Series with an increasing difference

In this type of series, the difference between two consecutive terms keep on increasing as we move forward in a series. Let us try to use this theory in a question.

1,2,4,7,11,16,?

We can clearly observe that the series is increasing with the difference: +1, +2, +3 ,+4 , +5. So, we will obtain our number by adding 6 to 16 which gives us 22.

3. Series with a decreasing difference

In this type of series, the difference between two consecutive terms keep on decreasing as we move forward in a series. Let us try to use this with some modification in the previous question that we did.

16, 11, 7, 4, 2, ?

We can clearly observe that the series is decreasing with the difference: -5, -4, -3, -2. So, we will obtain our number by subtracting 1 from 2 which gives us 1.

4. Squares/ Cubes series

We can have series where the terms are related to the squares/ cubes of numbers. We can have a lot of variations here. Let us look at some of the possibilities.

1, 9, 25, 49, ?

We can observe that the above series is square of odd numbers starting from one. So our answer will be $9^2 = 81$.

Let us look at another example:

1, 1, 2, 4, 3, 9, 4, ?

We observe here that the series is formed by writing numbers starting from 1 along with its square as the next number i.e. (1, 1x1), (2, 2x2) and so on. So we obtain our answer as 16 which is 4×2 .

Consider the following question:

9, 28, ?, 126.

The answer for above question will be 65, let us discuss how.

9, 28, ?, 126.

(23+1) (33+1) (53+1)

The blank should have $43+1$. Hence, the answer is 65.

5. Combination of different operations

This kind of series has more than 1 type of arithmetic operations which have been performed or it can also have 2 different series which have been combined to form a single series. This kind of series is the most asked and the most important among all the types of series that we have discussed so far.

Consider the series:

1, 3, 6, 2, 6, 9, 3, 9, ?

The first term 1 is multiplied by 3 to give the second term, 3 has been added to the second term to get the third term. The next term is 2 which is 1 more than the 1st term. It is multiplied with 3 to give next term and the process is continued. With this process, we obtain our answer as 12.

Consider the series:

6, 10, 7, 11, 8, 12, ?

We can see that the above series is a combination of 2 simple series:

1st, 3rd, 5th terms make an increasing series of 6, 7, 8. The 2nd, 4th and 7th term make a series of 10, 11, 12.... So, our answer will be 9 which is the 7th term of the original series.

6. Miscellaneous series

Some series do not come under any of the above mentioned categories but are very important and also asked in many examinations.

The series of prime numbers or any other related operation done on it comes under this category. Consider the example:

9, 25 , 49 , 121 ,?

The above series is the squares of prime numbers. So next term will be square of 13 which is 169.

Topic 9

Statement and Assumptions

Logical Reasoning (LR) is an integral part of Competitive Exams. It is designed to measure a person's ability to draw logical conclusions based on statements or arguments, and to identify the strengths and weaknesses of those arguments. It is important to keep in mind that the statements and assumptions in logical reasoning might defy your expectations rooted in the real world,

For instance, eating a lot makes you lose weight.

Rahul has lost weight. Rahul eats a lot.

This goes against the knowledge that eating a lot leads to obesity, but within the limits of logical reasoning, this is a valid argument.

Statements, Premises, Assumptions, Conclusion are some of the terms associated with logical reasoning and you will be tested on these in IIFT, CAT, XAT, NMAT and MAT Exams.

1. Statement

In logic, a statement is either a meaningful declarative sentence that is either true or false, or that which a true or false declarative sentence asserts. For instance,

'Socrates is a mortal', 'Delhi is the capital of India.'

A statement is different from a sentence. A sentence is one form of a statement, whereas there may be several ways of formulating the same statement. For instance,

'All men are mortal' 'Every man is mortal', are two different sentences that form the same statement.

2. Assumption

An assumption is an unstated premise that supports the conclusion. Both premise and assumption are unquestionable facts but the assumption, unlike the premise, is not explicitly stated and needs to be deciphered. Assumption is something that is taken for granted in the context of a statement. For instance, 'All kids are happy when they get new gadgets. Vicky will be thrilled when he gets the new mobile phone.' In this, the assumption is that Vicky is a kid. Without this assumption, the argument will make no sense.

3. Statement- Assumption

Questions with statements and assumptions are common in the logical reasoning section of entrance examinations such as, CAT, IIFT, XAT, MAT and NMAT. Most questions on Statement and Assumptions include a statement followed by further statements, which have to be tested for whether they are implied in the given statement or not. For instance:

Statement- A big retail store was attacked by vegetable vendors in Amritsar.

Assumptions - i. The store has affected the livelihood of local vegetable vendors.

ii. The store is built in thickly populated areas.

Consider the statement and decide which of the given assumption is implicit.

The answer to this will be the first assumption, because the store is affecting the vendors, which causes the attack.

Assumption ii is irrelevant because nothing is mentioned regarding the location of the store.

- b. Statement - "Please switch off the mobile phones while you are in the theatre", a notice outside a theatre.

Assumption - i. Every viewer who enters the theatre keeps mobile phones.

- ii. Switched on mobile phones might distract the performers. In this, assumption ii is implied by the given statement.

Statement and assumptions are crucial concepts to understand thoroughly, for doing well in the logical reasoning section.



Rules

- Assumption is always Indefinite & Positive.
- Some, to large extent, many, much , exist in the assumption.
- Some words like only, each, any, every, all, question indicating word (why, these, what), Answer indicating words (therefore), Definitely, But, Certainly exist in the assumption that assumption will always be explicit (False).
- Some words like some, to large extent, many, much, exist in the assumption that assumption will always be implicit (True).
- Any assumption that is conveying the message of advertisement, notice, appeal that assumption will always be implicit (True).
- Any assumption that is talking about the social welfare (positive), govt. policies that assumption will always be implicit (True).
- If any assumption is talking about past & future that assumption will always be explicit (False).
- If any assumption showing the word like suggestion, order, request that will always be implicit (True). Restatement is never implicit.
- Comparison always wrong.

Example:

#1 Statement:

Everybody loves reading adventure stories Assumption:

Adventures stories are the only reading material. Nobody loves Reading any other material.

#2

Statement: "If you want to study account join institute Y", A advice to B. Assumption:

Institute Y provides good account education. B listen to A advice.

#3

Statement: The college administration has instructed all the students to stop using cell phone within the college premises.

Assumption:

The student may stop using cell phone in the college premises

The student may continue to use cell phone in the college premises.

#4

Statement: Read the Notice before entering the club Assumption:

People are literate.

Club is not for blind person.

#5

Statement: ABC is the only magazine that provides good notes on Reasoning & Mathematics.

Assumption:

It will have some effect on those who read.

People always wait for latest Notes on reasoning & Mathematics.

#6

Statement: If you are a classical singer we have challenging job for you. Assumption:

We need a classical singer You are a classical singer.

#7

Statement: Like a mad man I decided to follow him. Assumption:

I am a mad man.

I am not a mad man.

#8

Statement: All the workers are here by instructed to reach the factory by 8:30 am. Assumption:

Some of the worker will not arrived at the factory in time. Worker will follow the strict warning in the notice.

#9

Statement: You can't solve syllogism question without constructing a diagram (Venn). Difficult question of syllogism need Venn diagram solving. A teacher tells his students.

Assumption:

The students are not intelligent. Problem cannot be solved.

SAMPLE QUESTIONS

Directions to Solve

In each question below is given a statement followed by two assumptions numbered I and II. You have to consider the statement and the following assumptions and decide which of the assumptions is implicit in the statement.

Give answer

- (A) If only assumption I is implicit
- (B) If only assumption II is implicit
- (C) If either I or II is implicit
- (D) If neither I nor II is implicit
- (E) If both I and II are implicit.

1. Statement : "You are hereby appointed as a programmer with a probation period of one year and your performance will be reviewed at the end of the period for confirmation." - A line in an appointment letter.

Assumptions

The performance of an individual generally is not known at the time of appointment offer. Generally an individual tries to prove his worth in the probation period.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option E

Explanation

The performance of the individual has to be tested over a span of time as the statement mentions. So, I is implicit. The statement mentions that the individual's worth shall be reviewed (during probation period) before confirmation. So, II is also implicit.

2. Statement

It is desirable to put the child in school at the age of 5 or so.

Assumptions

At that age the child reaches appropriate level of development and is ready to learn.

The schools do not admit children after six years of age.

- A. Only assumption I is implicit
- B. Only assumption II is implicit

- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer: Option A*Explanation*

Since the statement talks of putting the child in school at the age of 5, it means that the child is mentally prepared for the same at this age. So, I is implicit. But nothing about admission after 6 years of age is mentioned in the statement. So, II is not implicit.

3. *Statement :* “In order to bring punctuality in our office, we must provide conveyance allowance to our employees.” - In charge of a company tells Personnel Manager.

Assumptions

Conveyance allowance will not help in bringing punctuality. Discipline and reward should always go hand in hand.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer: Option B*Explanation*

Assumption I goes against the statement. So, it is not implicit. The allowance will serve as a reward to the employees and shall provoke them to come on time. So, II is implicit.

4. *Statement :* Unemployment allowance should be given to all unemployed Indian youth above 18 years of age.

Assumptions

There are unemployed youth in India who needs monetary support.

The government has sufficient funds to provide allowance to all unemployed youth.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation

I directly follow from the statement, so is implicit. Also, the statement is a suggestion and does not tell about a government policy or its position of funds. So, II is not implicit.

5. *Statement :* "If you trouble me, I will slap you." - A mother warns her child.

Assumptions

With the warning, the child may stop troubling her. All children are basically naughty.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation :

The mother warns her child with the expectation that he would stop troubling her. So, I is implicit. The general nature of children cannot be derived from the statement. So, II is not implicit.

6. *Statement :* The State government has decided to appoint four thousand primary school teachers during the next financial year.

Assumptions

There are enough schools in the state to accommodate four thousand additional primary school teachers.

The eligible candidates may not be interested to apply as the government may not finally appoint such a large number of primary school teachers.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation

Such decisions as given in the statement are taken only after taking the existing vacancies into consideration. So, I implicit while II isn't.

7. *Statement :* A warning in a train compartment - "To stop train, pull chain. Penalty for improper use Rs. 500."

Assumptions

Some people misuse the alarm chain.

On certain occasions, people may want to stop a running train.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option E

Explanation

Clearly, the penalty is imposed to prevent people from misusing the alarm chain. This means that some people misuse it. So, I is implicit. The alarm chain is provided to stop the running train in times of urgency. So, II is also implicit.

8. *Statement* : If it is easy to become an engineer, I don't want to be an engineer.

Assumptions

An individual aspires to be professional.

One desires to achieve a thing which is hard earned.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option B

Explanation

Clearly, nothing is mentioned about the professional nature of the job. So, I is not implicit. The statement hints that one rejects a thing that is easy to achieve. So, II is implicit.

9. *Statement* : The concession in rail fares for the journey to hill stations has been cancelled because it is not needed for people who can spend their holidays there.

Assumptions

Railways should give concession only to needy persons.

Railways should not encourage people to spend their holidays at hill stations.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit

- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation

The statement mentions that concessions should not be given to people who can afford to spend holidays in hill stations. This means they should be given only to needy persons. So, I is implicit. But, II does not follow from the statement and is not implicit.

10. *Statement* : "The bridge was built at the cost of Rs. 128 crore and even civil bus service is not utilizing it, what a pity to see it grossly underutilized." - A citizen's view on a new flyover linking east and west sides of a suburb.

Assumptions

The building of such bridges does not serve any public objective.

There has to be some accountability and utility of money spent on public projects.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option B *Explanation*

Clearly, the statement expresses grave concern over a newly-built flyover not being utilized by public. This implies that such projects need to be taken up only after working out their utility and that the huge expenditure incurred on building such structures is worthwhile only if they prove useful for the public. Thus, only II is implicit.

Foot Notes

1. Doyle Alison (2019), 'The Importance of Logical Thinking in the Workplace', The Balance Career, available at: <https://www.thebalancecareers.com/logical-thinking-definition-with-examples-2059690>
2. See, <https://philosophyterms.com/logical-reasoning/>
3. Source: https://www.philosophybasics.com/branch_logic.html
4. Source: https://www.philosophybasics.com/branch_logic.html

LESSON 7

VERBAL REASONING

INTRODUCTION

Reasoning means the action of thinking about something in a logical and sensible way. In our day to day work, we apply the reasoning and try to work with logical sense. The general mental ability of a person can be well tested with the approach of Verbal and Non-verbal reasoning developed in the mind. In short the mental ability is depicted through this technique.

We begin with the word "Analogy". As per New Concise Oxford Dictionary, "Analogy" means agreement, or similarity. Analogue is the process of reasoning from parallel cases. In simple way, we can say that, analogy means correspondence or relationships.

Following are to be noticed:

1. Measurements and Instruments :

When we say Temperature, we immediately think of Thermometer. When it comes to Blood Pressure, we think of BP measuring machine.

2. Quantity and unit:

If mass is to be measured, we say Kilograms.

However, if time is to be measured, we say minutes or seconds or hours etc. depends on the nature of counting the time.

3. Selection of Groups for individuals:

When we say "Man" it gets associated with "Crowd" When we say "Singer" it can get associated with "Chorus"

4. Male and Female:

We can have a logical flow as Gentleman-Lady or Son-Daughter etc.

5. Worker and working place:

For example we may say Doctor-Hospital or Clinic, and Manager-Bank, Teacher-School or college etc.

6. Product and Raw material:

For example, the Book-Paper, Jewelry-Gold, Shoes-Leather are some of the examples of the link of product and Raw Materials.

Illustrative Examples:

Q1. Mumbai: Maharashtra:: Ahmedabad:

- a. Maharashtra
- b. Gujrat
- c. Uttar Pradesh
- d. Canada

Here the correct answer is 'b' Gujrat as Ahmedabad is capital city of Gujrat.

Q2. Doctor: Nurse::Follower:

- a. Worker
- b. Employer
- c. Leader
- d. Union.

Here, the correct answer is 'c' Leader as the nurse follows the instructions of the doctor, then, the follower also follows the instructions of the leader.

Questions based on Directions

In the following types of questions, there are certain directions which one can understand; it is expected to choose the correct alternatives:

Q3. Moon: Satellite: : Earth: ?

- a. Solar system b. Sun c. Planet d. Asteroid

The correct answer should be c. Planet in the above case.

Q4. Clock: Time : Thermometer: ?

- a. Temperature b. Energy c. Heat d. radiation.

The correct answer should be 'a' temperature as the Thermometer gives the direction of temperature.

Questions Based on Relationship

Each of the following questions consists of two words that have a certain relationships to each other, followed by four letter head pairs of words. Select that letterhead pair that has same relationship as the original letterhead pair.

Q5. Sound: Muffled::

- a. Moisture: Humid b. Colour: faded c. Despair : Anger d. Odour: Pungent

The correct answer is 'b' because the second is the process of the gradual disappearance of the first.

Q6. Knowledge: Ignorance::

- a. Cure: Health b. Conceal : Hide c. Breath : Suffocation d. Construction : war
- The correct answer is 'c' as the words in each pair are antonyms of each other. *Logical order:*

Sometimes there can be logical order of the words or the given things. We understand more from the following questions:

Q7. Arrange the following words in the logical order: 1. Elbow 2. Wrist 3. Shoulder 4. Palm 5. Finger a. 2,4,5,3,1, b. 5,4,2,1,3, c. 3,4,5,2,1, d. 3,1,4,2,5

The correct answer is 'b' as the logic of the arrangement matches in that order.

Q8. The mobile manufacturing companies have increased the prices of smartphones. The government has recently increased the duty on the smartphones.

- a. The statement II is the cause and statement I is the effect.
- b. Statement I is cause and statement II is the effect.
- c. Both statement I and II are independent causes
- d. Both statement I and II are effects of independent causes.

The correct answer is 'a' as the statement II is cause and statement I is an effect.

Q9. Choose the some relationship of the given words: Bald Eagle: America:: Wolf : ?

- a. Australia b. Spain c. Italy d. France

Answer is 'c' Italy as the Bald Eagle is national bird of America and Wolf is national animal of Italy.

Q10. Appointment: Ability

a. Transfer : Punishment b. Business : Money c. Promotion : Merit d. Examination : Success The correct answer is 'c' as the first is the result of the second thing.

Q11. Pulp: Paper

a. Rope : Hemp b. Rayon : Cellulose c. Thread : needle d. Yarn : fabric Here the correct answer is 'd' as the first is used to make the second.

Q12. Liquor : Drink

a. Bread: Butter b. Tea : Beverage c. Snuff: Inhale d. Water : Sip

The correct answer is 'b' as the second denotes the class to which the first belongs.

Series Completion:

In this type of questions, the series of numbers are given and we have to choose that which is most logically fitting to the same.

Q13. Completing the given series: Which number would replace the question mark in the series 7, 12, 19, ?, 39

a. 29 b. 28 c. 26 d. 24

One can easily understand that $7+5=12$ and $12+7=19$ so, the numbers are added by 5, 7 and so on. Therefore, $19+9=28$. Hence the answer is 28. So the answer is 'b'

The Alphabet series: In this type of questions, we have to have logical flow of understanding the alphabets to get to the answer.

Q14. What will be the next term in BDF, CFI, DHL, ?

a. CJM b. EIM c. EJO d. EMI

Clearly, the first, the second and the third letters of each term are respectively moved one, two and three steps forward to obtain the corresponding letters of the next term. So the missing term is EJO and hence the correct answer is 'c'.

The Letter Series

This type of questions consists of the series of small letters which follow a certain pattern. However, some letters are missing from the series. These missing letters are given a proper sequence as one of the alternatives. The candidate should choose proper alternative answer.

For example : aab_aaa_bba_?

a. baa b. abb c. bab d. aab

Answer: We proceed step by step as below:

1. The first blank space should be filled by 'b' so that we have two 'a's followed by two 'b's
2. The second blank space should be filled in either by 'a' so that we have four 'a's followed by two 'b's or by 'b's or by 'b' so that we have three 'a's followed by three 'b's

3. The last space must be filled in by 'a'
4. Thus we have two possible answers 'baa' and 'bba' but only 'baa' appears in the alternatives.
So the correct answer is 'a' above.

Number coding

In these type of questions, either the numerical codes are assigned to the word or alphabetical codes are assigned to the numbers. The candidate should analyses the code with direction:

For example : If in a certain language, A is coded as 1, B is coded as 2, and so on, how is BIDDIC coded in that code?

- a. 294493
- b. 284563
- c. 375582
- d. 394492

As the given letters are coded as A B C D E F G H I 1 2 3 4 5 6 7 8 9

So, in BIDDIC, code B is coded as 2, I as 9, D as 4 and C as 3. Thus BIDDIC is coded as 294493 hence the correct answer is 'a'.

Relations Puzzles

In this type, the mutual blood relations or other informations of more than two persons are mentioned and information about two is mentioned.

Example : A and B are brothers. C and D are sisters. A's son is D's brother. How is B related to C?

- a. Father
- b. brother
- c. Grandfather
- d. Uncle
- e. none of these.

In this example, clearly B is brother of A; A's son is D's brother. This means D is the daughter of A. Since C and D are sisters, C is also a daughter of A. So, B is the uncle of C. Hence the correct answer is 'd'.

Alphabet Test

This is also called Alphabetical Order. Generally, there is not tough to understand and solve these types of questions. With enough practice, everyone can ace these questions. Like there may be questions to find the English letters between two English alphabets given in the question. You will also be asked to find out the place of English letter to the right or to the left of the one given in the question.

Questions may vary on the arrangement of alphabets. Like in some questions it may be backward, second half backward or multiple letter segments which are in changed order, etc. In some questions, one may be asked to find the letters that do not change with the change in their alphabetic arrangement and in some questions you will be asked to find the middle letter of the two given English letters in the question.

It is important to note that while solving the questions of alphabetical order you need to keep in mind the forward and backward position of all the alphabets along with its number.

Questions Asked in Alphabetical Order

There is not one single type of question of alphabetical order that is asked in exams. But rather there are many types of these questions which can be asked in the competitive exams. They are

1. Series of alphabets
2. Problems related to letter gap

3. Problems related to word formation
4. Words in the alphabetical order

For better understanding, we will provide you with the solved example of each and every type of question that can come under the Alphabetical Order section of Reasoning Ability.

Series of alphabets

This type of questions does not follow any rule and thus we would advise you to get enough practice. So that you can quickly solve these type of questions.

- Q. Which of the following options is fifth to the left of the 11th letter from the left in a forward series of the alphabet?
1. H
 2. G
 3. I
 4. E

In this type of question first we need to find the eleventh letter from the left in the forward series which is as follows:

A B C D E F G H I J K. Here K is the eleventh letter in the series, now from the eleventh letter we need to go five letters to the left again which will be: K J I H G. Hence G is the correct answer which is number 2 in the option.

Problems related to the Letter Gap

This question is purely based on your logic and how quickly you remember the alphabets.

- Q. In the word 'CHAIRS', how many pairs of the letters have the same number of letters between them in the word as in alphabet?
1. 1
 2. 3
 3. 4
 4. 2

Here in between C and A, there is one letter H and in general alphabets also there is one letter between them which is B. While in R and S there are no letters in between which is the same as in the alphabets. So the correct answer to this question is option - 4.

Problems related to word formation

These questions require more practice than any other type of questions. It is also important to have a good set of vocabulary.

- Q. If the name of a game is formed by rearranging the letters of the word MODBANTIN, than what will be the first and the last letter of the name?
1. A, T
 2. N, D
 3. B, N
 4. B, T

Here the name of the game that will be formed is Badminton. And its first and last letters are B and

N. Thus option (3) is the correct answer.

Words in the alphabetical order

In these types of questions, you need to find which word will come first based on their alphabetical order

Q. Arrange the question based on the initial letter of the word given in the alphabetical order.

1. Fame 2. Shame 3. Name 4. Came

'Came' comes first in the alphabetical order. 'Fame' comes second in the alphabetical order. 'Name' comes third in the alphabetical order. 'Shame' comes forth in the alphabetical order.

Practice Questions

1. How many meaning words can be formed using the first, fourth, seventh, and eighth letter of the word 'SUPERFLUOUS'?

- A. 1 B. 2 C. 3 D. 4

Answer : Option A

2. How many letters are there in between the 7th letter from the left and 8th from right in the English Alphabets?

- A. 8 B. 9 C. 10 D. 11

Answer : Option D

3. Which is the 11th letter to the left of the 4th letter from the right when you write the English alphabets in backward order?

- A. P B. Q C. O D. N

Answer : Option C

Alpha Numeric Sequence Puzzle

In Alpha numeric sequence puzzle, a mix up sentence consisting of some letters, numbers and symbols are given followed by some certain questions based on it.

Based on following types, questions are categorized:

- Satisfying certain conditions in the given sequence, it is required to find elements (letters, numbers or symbols).
- At a certain given relative position in the sequence, it is need to determine the element.
- By converting the hidden part in relation to the position of the elements in the sequence, it is required to complete a series consisting of terms formed by a combination of the elements of the sequence.
- By finding the common property which other combinations share as per their positions in the given sequence, It is required to find the odd combination from among a given set of combinations of elements.
- To determine the analogical relationship between a given pair of combination of elements, later find a combination which carry same relationship with another given combination.

Alphanumeric sequence is a sequence which consists of both alphabets and numbers. In this sequence, we can also add some symbols along with alphabets and numbers.

For example we can make an alphanumeric sequence as follows -

A \$ E R 9 * T 5 F 6 @ D 8

In the above sequence, we can see that there are numbers, alphabets, and symbols. These types of sequences are called Alphanumeric Sequence. We can make many sequences like this and can deduce questions based on the sequences.

Important Points to Remember

Let's have an alphanumeric sequence -

A \$ E R 9 * T 5 F 6 @ D 8

Questions regarding this chapter can come in this way -

- a. Which element is nth from the left of the sequence?
- b. Which element is nth from the right of the sequence?
- c. Which element is mth to the right of nth from the left of the sequence?
- d. Which element is mth to the left of nth from the left of the sequence?
- e. Which element is mth to the right of nth from the right of the sequence?
- f. Which element is mth to the left of nth from the right of the sequence?
- g. A precedes B
- h. B is preceded by A
- i. B follows A
- j. A is followed by B

To solve questions like this, we have to watch the sequence thoroughly and answer accordingly.

- a. Which element is nth from the left of the sequence?

To get the answer of the above question, we have to look at the sequence from the left side and have to count the exact number that is asked in the question.

- b. Which element is nth from the right of the sequence?

To get the answer of the above question, we have to look at the sequence from the right side and have to count the exact number that is asked in the question.

- c. Which element is mth to the right of nth from the left of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the left side of the sequence and then find out the mth element to the right of that particular element.

- d. Which element is mth to the left of nth from the left of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the left side of the sequence and then find out the mth element to the left of that particular element.

- e. Which element is mth to the right of nth from the right of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the right side of the sequence and then find out the mth element to the right of that particular element.

- f. Which element is mth to the left of nth from the right of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the right side of the sequence and then find out the mth element to the left of that particular element.

- g. If it is written that A precedes B then it means A is placed before B.
- h. Similarly if it is written that B is preceded by A then it means A is placed before B.
- i. If it is written that B follows A then it means B is placed after A.
- j. If it is written that A is followed by B then B is placed after A.

These ten type of questions are normally asked in this chapter. Whether it is of a type or b type or c type or j type we have to read the question carefully and see the sequence and finally we can get the answer according to the question.

SAMPLE QUESTIONS

Study the following arrangement carefully and answer the question given below -

6 R O T 4 A 8 % B F 1 E # W @ 9 H I \$ M N * 3 2 V \$ 5 G P 7 Q

- How many such consonants are there in the above arrangement, each of which is immediately preceded by a consonant and immediately followed by a number?

- A None
- B One
- C Two
- D Three

Answer - C Explanation

According to question –

Consonant – Consonant - Number

B -F -1

G -P -7

- How many such vowels are there in the above arrangement, each of which is immediately preceded by a letter but immediately not followed by a symbol?

- A None
- B One
- C Two
- D Three

Answer – B

Explanation

According to question

Letter-Vowels-Letter/Number R - O - T

- Which of the following is the fourth to left of the twelfth from the left end?

- A 8
- B B
- C 2
- D %

Answer - D

Explanation

According to question.

L - L = L

12 - 4 = 8TH

So the required element is %.

4. Three of the following four are alike in a certain way based on their position in the above arrangement and so form a group. Which is the one that does not belong to that group?

A 406 B F%A C @#1 D \$H9

Answer - D

Explanation

According to question.

-2	-2	
4	O	6
-2	-2	
F	%	A
-2	-2	
@	#	1
-2	-1	
\$	H	9

5. If all the symbols are eliminated from the above arrangement, than which of the following will be the 5th to the right of 10th element from the right end?

A 4 B 5 C V D A

Answer - B

Explanation

According to question.

R - R = R

10 - 5 = 5th from right end after deleting all the symbols is 5.

This question is based on the following letter /symbol/number sequence. Study it carefully and answer the question.

M 3 R # A P 4 9 @ K D 1 U H 5 \$ 2 N \$ W E Q 6 T V 7 * 8 B X

6. Which of the following elements is the fourth to the right of 12th from right end?

A 9 B 6 C 5 D \$

Answer - B

Explanation

Remember, $R_{12} - R_4 = R = 6$

7. How many such numbers are there in the above arrangement which are immediately preceded by a symbol?

A 2 B 1 C None D 3

Answer - A

Explanation

The numbers which are preceded by a symbol are \$2,*8.

8. If started from M, M is interchanged with 3 and R is interchanged with #and so on than which element will be twelfth from left?

A 1 B \$ C N D D

Answer - D

Explanation

As, M 3 R # A P 4 9 @ K D 1

So it will be D

9. What will come next in the following sequence - MRP,9KU,52W?

A QT7 B 6V8 C QT* D QV7

Answer - C

Explanation

As, M_R_ _P,_9_K_ _U,

_5_2_ _W,_Q_T_ _*.

10. Three of the following four are alike in a certain way based on their position in the above arrangement. Which of the following does not belong to the group?

A M3X B R#8 C P4V D KDE

Answer - D

Explanation

M 3 R # A P 4 9 @ K D 1 U H 5 \$ 2 N \$ W E Q 6 T V 7 * 8 B X

It should be Q in place of E.

Analogy

Analogy means similarity. In this type of questions, two objects related in some way are given and third object is also given with four or five alternatives. You have to find out which one of the alternatives bears the same relation with the third objects as first and second objects are related.

Example 1:

Curd : Milk :: Shoe : ?

(A) Leather (B) Cloth (C) Jute (D) Silver

Answer : Option A

As curd is made from milk similarly shoe is made from leather.

Example 2:

Calf : Piglet :: Shed : ?

- (A) Prison (B) Nest (C) Pigsty (D) Den

Answer : Option C

Calf is young one of the cow and piglet is the young of Pig. Shed is the dwelling place of cow. Similarly Pigsty is the dwelling place of pig.

Example 3:

Malaria : Mosquito :: ? : ?

- (A) Poison : Death (B) Cholera : Water (C) Rat : Plague (D) Medicine : Disease

Answer : Option B

As malaria is caused due to mosquito similarly cholera is cause due to water.

Example 4:

ABC : ZYX :: CBA : ?

- (A) XYZ (B) BCA (C) YZX (D) ZXY

Answer : Option A

CBA is the reverse of ABC similarly XYZ is the reverse of ZYX.

Example 5:

4 : 18 :: 6 : ?

- (A) 32 (B) 38 (C) 11 (D) 37

Answer : Option B

As, $(4)2 + 2 = 18$

Similarly, $(6)2 + 2 = 38$.

Assertion and Reason

This type of reasoning questions consists of two statements; an assertion (statement of fact) and a reason (explanation for the assertion). You have to determine whether each statement is correct. If both the statements are correct, you have to determine whether the reason supports the assertion. There will be four answer choices for the possible outcomes and you have to select the correct one.

- (1) Assertion (A) : James Watt invented the steam engine.

Reason (R) : It was invented to pump out the water from the flooded mines.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer : A

Explanation

The need of self-working engine to pump out the water from the flooded mines led James Watt to invent the steam engine.

- (2) Assertion (A) : Increased levels of carbon dioxide in the atmosphere would melt the polar ice.

Reason (R) : Increased levels of carbon dioxide would increase the temperature.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer : A

Explanation

The carbon dioxide traps the heat in the atmosphere. If its level rises, more heat will be trapped. It would increase the temperature and eventually the polar ice would melt.

- (3) Assertion (A) : Uranium can undergo a nuclear fusion reaction.

Reason (R) : Uranium has a big unstable nucleus.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer : D

Explanation

Uranium does not undergo a fusion reaction. It undergoes fission reaction due to the presence of a heavy unstable nucleus.

- (4) Assertion (A) : Baking soda helps reduce stomach acidity.

Reason (R) : It is a powerful natural cleaner.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.
- F. Hide Answer Workspace

Answer : B

Explanation

Baking soda is alkaline in nature, so it helps reduce stomach acidity. It is also used as a cleaning agent.

- (5) Assertion (A) : Plants have green leaves.

Reason (R) : Plants contain phycoerythrin, the green pigment.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer: C**Explanation**

Plants have green leaves due to the presence of a green pigment called chlorophyll. Phycoerythrin is a red pigment.

Blood Relations

The questions which are asked in this section depend upon Relation. You should have a sound knowledge of the blood relation in order to solve the questions.

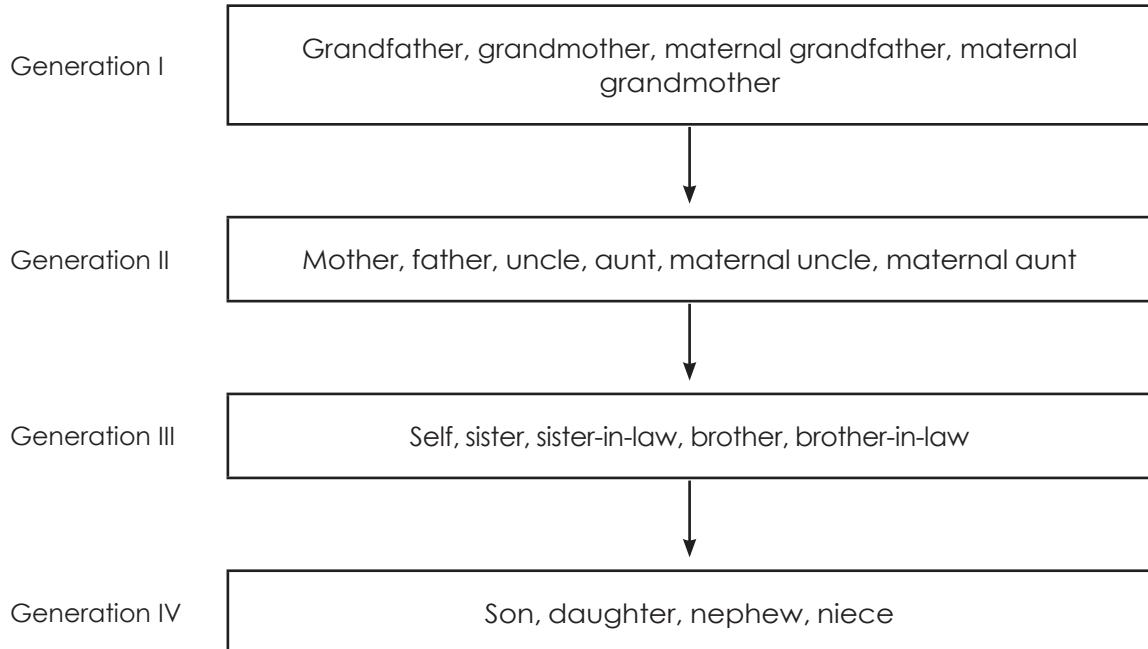
To remember easily the relations may be divided into two sides as given below:

1. Relations of Paternal side:
 1. Father's father ? Grandfather
 2. Father's mother ? Grandmother
 3. Father's brother ? Uncle
 4. Father's sister ? Aunt
 5. Children of uncle ? Cousin
 6. Wife of uncle ? Aunt
 7. Children of aunt ? Cousin
 8. Husband of aunt ? Uncle
2. Relations of Maternal side:
 1. Mother's father ? Maternal grandfather
 2. Mother's mother ? Maternal grandmother
 3. Mother's brother Maternal uncle
 4. Mother's sister ? Aunt
 5. Children of maternal uncle ? Cousin
 6. Wife of maternal uncle ? Maternal aunt

Relations from one generation to next

1. A man pointing to a photograph says, "The lady in the photograph is my nephew's maternal grandmother." How is the lady in the photograph related to the man's sister who has no other sister?

A. Mother B. Cousin C. Mother-in-law D. Sister-in-law



Answer : A

Explanation

Clearly, the lady is the grandmother of man's sister's son.

i.e. the mother of the mother of man's sister's son.

i.e. the mother of man's sister. So, the lady is man's mother.

2. A woman introduces a man as the son of the brother of her mother. How is the man related to the woman?

A. Son B. Nephew C. Grandson D. Uncle

Answer : D

Explanation

Brother of mother – Uncle; Uncle's son – Cousin.

3. Prasanna said, "This girl is the wife of the grandson of my mother." Who is Prasanna to the girl?

A. Husband B. Father C. Father-in-law D. Grandfather

Answer : C

Explanation

Mother's grandson – Son; Son's wife – Daughter-in-law.

4. If Arun says, "Vimal's mother is the only daughter of my mother", how is Arun related to Vimal?
 A. Father B. Brother C. Grandfather D. None of these

Answer : D.**Explanation**

Only daughter of Arun's mother – Arun's sister. So, Vimal's mother is Arun's sister (or)

Arun is the brother of Vimal's mother i.e . Vimal's maternal uncle.

5. Pointing to a man in a photograph. Asha said. "His mother's only daughter is my mother". How is Asha related to that man?
 A. Wife B. Sister C. Niece D. Nephew

Answer : C**Explanation**

Asha's mother's mother is man's mother i.e., Asha's mother is man's sister (or)

Asha is man's niece.

6. A woman going with a boy is asked by another woman about the relationship between them. The women replied, "My maternal uncle and the uncle of his maternal uncle is the same." How is the lady related with that boy?
 A. Mother and Son B. Aunt and Nephew
 C. Grandmother and Grandson D. None of these

Answer : B**Explanation**

Clearly, the brother of woman's mother is the same as the brother of the father of boy's maternal uncle.

So, the woman and boy's mother are cousins. Thus, the woman is boy's aunt.

7. A man said to a lady, "Your mother's husband's sister is my aunt." How is the lady related to the man?
 A. Grand daughter B. Mother C. Daughter D. Sister

Answer : D**Explanation**

Lady's mother husband – Lady's father; Lady's father's sister – Lady's aunt.

So, lady's aunt is man's aunt and therefore lady is man's sister.

8. If X is the brother of the son of Y's son, how is X related to Y?

- A. Son B. Cousin C. Grandson D. Brother

Answer : C

Explanation

Son of Y's son – Grandson;

Brother of Y's grandson – Y's grandson. So X is Y's grandson.

Decision Making

Decision Making is the process in which an outcome is derived by evaluating and analyzing the given information. The objective of Decision making is to reach a specific conclusion from the given data or a given set of conditions.

SAMPLE QUESTIONS

DIRECTIONS for questions 1 to 4 : Krishnapuram's town council has exactly three members: Arjun, Karn, and Bhim. During one week, the council members vote on exactly three bills: a recreation bill, a school bill, and a tax bill. Each council member votes either for or against each bill. The following is known:

- Each member of the council votes for at least one of the bills and against at least one of the bills.
 - Exactly two members of the council vote for the recreation bill.
 - Exactly one member of the council votes for the school bill.
 - Exactly one member of the council votes for the tax bill.
 - Arjun votes for the recreation bill and against the school bill.
 - Karn votes against the recreation bill.
 - Bhim votes against the tax bill.
1. If the set of members of the council who vote against the school bill are the only ones who also vote against the tax bill, then which one of the following statements must be true?
 - A. Arjun votes for the tax bill.
 - B. Karn votes for the recreation bill.
 - C. Karn votes against the school bill.
 - D. Bhim votes against the recreation bill.
 - E. Bhim votes against the school bill.

Answer : E

2. If Karn votes for the tax bill, then which one of the following statements could be true?:
 - A. Arjun and Karn each vote for exactly one bill.
 - B. Karn and Bhim each vote for exactly one bill.
 - C. Arjun votes for exactly two bills.
 - D. Karn votes for the recreation bill.
 - E. Bhim votes against the recreation bill.

Answer : A

3. Karn votes for exactly two of the three bills, which one of the following statements must be true?
 - A. Arjun votes for the tax bill.
 - B. Karn votes for the recreation bill.
 - C. Karn votes for the school bill.
 - D. Karn votes against the tax bill.
 - E. Bhim votes for the school bill.

Answer : C

4. If one of the members of the council votes against exactly the same bills as does another member of the council, then which one of the following statements must be true?
- A. Arjun votes for the tax bill
 - B. Kam votes for the recreation bill.
 - C. Kam votes against the school bill.
 - D. Kam votes for exactly one bill.
 - E. Bhim votes for exactly one bill.

Answer : E

SAMPLE QUESTIONS

DIRECTIONS for the question 5 : The year 2004 was a great year for Top-Cloth cotton mill. Manufacturing towels for the export market employing more than 2000 workers, the company had an impressive growth in sales and profits. The Chairman felt that employees were entitled to a share in the profits and it was proposed that the employee mess be air-conditioned. The proposal was discussed in a meeting that was attended by, among other senior officials, the marketing director, the personnel director and the finance director. The proposal was based on the fact that the shop floor of the mill often had temperatures in excess of 40°C with a relative humidity of 99%. The air-conditioned mess would represent management's appreciation of the employee's hard work.

At the end of 2005, management reviewed the mill's performance. Profits were higher, and employee attrition was negligible. Chairman decided that employees deserved additional recognition for their fine work. Since the mess had already been air-conditioned, the chairman wanted to know if the employees appreciated this sort of action. In the course of discussion, the chairman asked the personnel director to send a questionnaire to a sample of fifty employees and obtain their reaction to the air-conditioned mess. The management agreed to decide only after obtaining the feedback from the employees.

The personnel director mailed a simple form to fifty employees asked them for the following information: "Please state your reaction to the air-conditioned mess."

Of the fifty forms mailed, forty-six were returned. The answers received were as follows:

Reaction	Frequency
"I did not know it was air-conditioned."	16
"I never eat there."	8
"If management can spend money like that, they should pay us more"	6
"I wish the entire mill was air-conditioned."	8
"The mess is for management employees."	4
"It is ok."	2
Miscellaneous comments	2

5. This decision-making situation best highlights
 - A. Managerial short-sightedness in decision making
 - B. Managerial benevolence in sharing profits among the workers
 - C. Managerial incompetence in handling a negative feedback in employee survey
 - D. Inefficient infrastructure management

- E. None of the above

Answer : A

DIRECTIONS for questions 6 to 7 : For each question, an answer (A) and a reason (R) has been given. Base your analysis on the information presented in the passage. Mark

The Society for Education in India (in short SEI) had been engaged in running primary schools in different parts of the country since 1950s. While attending a conference on employee selection, Mr. J Mehta, a senior member of the society learned that a leading school had recently employed a psychologist to perform employment functions, i.e. recruitment and selection of teachers. Within two months of his return, Mr. J Mehta contacted a reputed university and employed a graduating psychologist, Mr. Bibek Gupta. Mr. Bibek Gupta was employed by SEI with the single directive that he was to contribute to the selection of teachers. This task had previously been the prerogative of principals of each school. Mr. Gupta immediately notified each principal that in the future he was to be notified of the personnel needs and in return he would recruit, screen and select the teachers.

At the end of his first year with SEI, Mr. Gupta realized that his efforts had resulted in failure. During his first few months he encountered much opposition from several principals who had been managing schools for ten or more years. They did not believe in newer psychological techniques and preferred selecting people based on their own assessment. Other principals frequently refused to accept the teachers selected by Mr. Gupta. Finally, Mr. Gupta began to notice fewer and fewer principals notifying him of vacancies in their schools. Realizing that he was not making any effective contribution, Mr. Gupta submitted the suggestion to the society members that support and co-operation of the school principals should be a matter of executive order, or else his resignation should be considered.

6. What was the flaw in the decision of selecting a psychologist for selecting teachers that led to the final situation?
- A: Mr. Mehta's decision was predominantly driven by the information about another school that had enlisted the services of a psychologist for recruitment and selection.
- R: Both the administration of the school and managing teachers have been primary responsibilities of the principal of the school.
- A. If both A and R are based on information given in the passage and R is the correct explanation of A.
 - B. If both A and R are based on information given in the passage but R is not the correct explanation of A.
 - C. If A is based on information given in the passage but R is not based on the facts given.
 - D. If A is not based on information given in the passage but R is based on the information given in the passage.
 - E. If both A and R are not based on information given in the passage.

Answer : B

7. What responsibilities were shouldered by Mr. Bibek in his first year of employment?
- A: Mr. Bibek had the responsibility of contributing his expertise to recruitment and selection of teachers.

- R: The board members wanted to systematize the recruitment and selection of the entire organization.
- if both A and R are based on information given in the passage and R is the correct explanation of A.
 - if both A and R are based on information given in the passage but R is not the correct explanation of A.
 - if A is based on information given in the passage but R is not based on the facts given.
 - if A is not based on information given in the passage but R is based on the information given in the passage.
 - if both A and R are not based on information given in the passage.

Answer : C

DIRECTIONS for questions 8 to 11: A famous retail electronics showroom chain has six new mobile phone models - T, V, W, X, Y, and Z – each equipped with at least one of the following three options: digital camera, music player, and office document viewer. No mobile has any other option. The following conditions apply:

- V features both a digital camera and an office document viewer.
 - W has digital camera and music player
 - W and Y have no options in common.
 - X has more options as compared to W
 - V and Z have exactly one option in common
 - T has fewer options as compared to Z.
8. For exactly how many of the six mobile phones is it possible to determine exactly which option each one has?
- A. Two B. Three **C. Four** D. Five E. Six

Answer : C

9. Which one of the following must be false?
- Exactly five mobile phones feature a music player.
 - Exactly five mobile phones feature a document viewer.
 - Exactly four mobile phones feature a music player.
 - Exactly four mobile phones feature a digital camera.
 - Exactly four mobile phones feature a document viewer.

Answer : A

10. If Z has no option in common with T but has at least one option in common with every other mobile phone, then which one of the following must be false?
- A. T has digital camera

- B. Z has document viewer
- C. Exactly four of the six mobile phones have digital camera.
- D. Exactly four of the six mobile phones have document viewer.
- E. Exactly four of the six mobile phones have music player.

Answer : E

11. Suppose no two mobile phone models have exactly the same options as one another. In that case each of the following could be true EXCEPT:
- A. Exactly three of the six mobile phones have digital camera.
 - B. Exactly four of the six mobile phones have digital camera.
 - C. Exactly three of the six mobile phones have document viewer.**
 - D. Exactly four of the six mobile phones have document viewer.
 - E. Exactly four of the six mobile phones have music player.

Answer : C

Answers & Explanation of Questions related to Decision Making

Decision Making 1-4

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn / Bhim	Arjun and Either Karn or Bhim
Tax Bill	Karn / Arjun	Bhim and Either Karn or Arjun

1. We can modify the above table based on the additional information given in the question.

Accordingly, Arjun and Bhim are the members who voted against the School Bill and Tax bill.

Bill	For	Against Recreation
Bill	Arjun, Bhim	Karn School
Bill	Karn	Arjun, Bhim
Tax Bill	Karn	Bhim, Arjun

By visual observation, it can be checked that Bhim votes against the school bill, thus option E is correct.

2. We can modify the above table based on the additional information given in the question as follows:

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Bhim	Arjun, Karn
Tax Bill	Karn	Bhim, Arjun

Thus, it can be verified that Arjun and Karn each vote for exactly one bill. The other answer choices do not follow from the above table. Hence, option A is correct.

3. We can modify the above table based on the additional information given in the question as follows:

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn	Arjun, Bhim
Tax Bill	Karn	Bhim, Arjun

Thus, it can be observed that Karn votes for the school bill.

4. We can modify the above table based on the additional information given in the question as follows:

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn	Arjun, Bhim
Tax Bill	Karn	Arjun, Bhim

Thus, Bhim votes for exactly one bill and hence option E is correct.

5. The situation highlights the management's short-sightedness.
 6. Both A and R are mentioned in the passage, but R is not the correct reason for A.
 7. A is mentioned in the passage while R is not.

	Mobile Phone	Digital Camera	Music Player	Office Document Viewer
T				
V		✓	X	✓
W		✓	✓	
X		✓	✓	✓
Y		X	X	✓
Z			✓	

T may have any of three options.

Z may have Music Player and either Digital Camera or Office Document Viewer.

8. It is clear from the table that it is possible to determine the option(s) of phones V, W, X and Y.
 9. Three or four mobile phones feature a music player.
 10. Z must have the music player and the office document viewer while T must have the digital camera. So only 3 models have the music player and option 5 is false.
 11. After assigning different features to the mobiles, it is seen that exactly four of the six mobiles have a document viewer. The best answer is option 3.

SAMPLE QUESTIONS

Logical Sequence Test

In this type of question, some words are given. You have to arrange these words in a meaningful order. The order may be according to age, size and need etc.

Example 1:

Arrange the following words in a meaningful order.

- | | | | | |
|------------------|------------------|------------------|------------------|------------|
| 1. Death | 2. Marriage | 3. Education | 4. Birth | 5. Funeral |
| A. 5, 1, 2, 3, 4 | B. 4, 2, 3, 1, 5 | C. 4, 3, 2, 5, 1 | D. 4, 3, 2, 1, 5 | |

Answer is Option D

Explanation : First of all a man is born then he takes education; after this he is married. Then after sometimes he dies. After death the order is of Funeral. So the correct order is 4, 3, 2, 1 and 5.

Example 2:

Arrange the following words in a logical sequence.

- | | | | | |
|------------------|---------|---------|--------|-----------|
| 1. Grass | 2. Curd | 3. Milk | 4. Cow | 5. Butter |
| A. 1, 2, 3, 4, 5 | | | | |
| B. 2, 3, 4, 5, 1 | | | | |
| C. 4, 1, 3, 2, 5 | | | | |
| D. 5, 4, 3, 2, 1 | | | | |

Answer is Option C

Explanation : We know that cow eats grass and then gives milk. With the milk, curd is made and then from curd, butter is made. Hence logical sequence is Cow, Grass, Milk, Curd, Butter.

1. Arrange the words given below in a meaningful sequence.

- | | | | | |
|------------------|------------------|------------------|------------------|--------------|
| 1. Key | 2. Door | 3. Lock | 4. Room | 5. Switch on |
| A. 5, 1, 2, 4, 3 | B. 4, 2, 1, 5, 3 | C. 1, 3, 2, 4, 5 | D. 1, 2, 3, 5, 4 | |

Answer : Option C

Explanation : The correct order is : Key Lock Door Room Switch on

2. Arrange the words given below in a meaningful sequence.

- | | | | | |
|------------------|------------------|------------------|------------------|-----------|
| 1. Word | 2. Paragraph | 3. Sentence | 4. Letters | 5. Phrase |
| A. 4, 1, 5, 2, 3 | B. 4, 1, 3, 5, 2 | C. 4, 2, 5, 1, 3 | D. 4, 1, 5, 3, 2 | |

Answer : Option D

Explanation : The correct order is : Letters Word Phrase Sentence Paragraph

3. Arrange the words given below in a meaningful sequence.

- | | | | | |
|------------------|------------------|------------------|------------------|--------------|
| 1. Police | 2. Punishment | 3. Crime | 4. Judge | 5. Judgement |
| A. 3, 1, 2, 4, 5 | B. 1, 2, 4, 3, 5 | C. 5, 4, 3, 2, 1 | D. 3, 1, 4, 5, 2 | |

Answer : Option D

Explanation : The correct order is : Crime Police Judge Judgement Punishment

4. Arrange the words given below in a meaningful sequence.

- | | | | | |
|------------------|------------------|------------------|------------------|------------|
| 1. Family | 2. Community | 3. Member | 4. Locality | 5. Country |
| A. 3, 1, 2, 4, 5 | B. 3, 1, 2, 5, 4 | C. 3, 1, 4, 2, 5 | D. 3, 1, 4, 5, 2 | |

Answer : Option A

Explanation : The correct order is : Member Family Community Locality Country

5. Arrange the words given below in a meaningful sequence.

- | | | | | |
|------------------|------------------|------------------|------------------|------------|
| 1. Poverty | 2. Population | 3. Death | 4. Unemployment | 5. Disease |
| A. 2, 3, 4, 5, 1 | B. 3, 4, 2, 5, 1 | C. 2, 4, 1, 5, 3 | D. 1, 2, 3, 4, 5 | |

Answer : Option C

Explanation : The correct order is : Population Unemployment Poverty Disease Death

SAMPLE QUESTIONS

Number, Ranking and Time Sequence Test

In this type of questions, generally, one is given a long series of numbers. The candidate is required to find out how many times a number satisfying the conditions, specified in the question, occurs. This includes the following category of sequences:

- Date-Time Sequence
 - Number Sequence
 - Ranking Sequence

Number Test

In this type of questions, generally a set, group or series of numerals is given and the candidate is asked to trace out numerals following certain given conditions or lying at specifically mentioned positions after shuffling according to a certain given pattern.

Example

How many such 5s are there in the following number sequence each of which is immediately preceded by 3 or 4 but not immediately followed by 8 or 9?

3 5 9 5 4 5 5 3 5 8 4 5 6 7 3 5 7 5 5 4 5 2 3 5 1 0

- (A) One (B) Three (C) Four (D) Five (E) None of these

Solution

As you know, a number which comes after a given number is said to follow it while the one which comes before the given number precedes it.

Thus, the number satisfying the given conditions may be marked as follows: 3 5 9 5 4 5 3 5 8 4 6 7 3 7
5 5 4 2 3 1 0

Clearly, there are five such 5s. Hence, the answer is (d).

Ranking Test

In this type of questions, generally the ranks of a person both from the top and from the bottom are mentioned and the total number of persons is asked. However, sometimes this question is put in the form of a puzzle of interchanging seats by two persons.

Example

Rohan ranks seventh from the top and twenty-sixth from the bottom in a class. How many students are there in the class?

Solution

Clearly, the whole class consists of:

- (i) 6 student who have ranks higher than Rohan;
 - (ii) Rohan; and

- (iii) 25 students who have ranks lower than Rohan, i.e., $(6+1+25) = 32$ students. Hence, the answer is (b).

Time Sequence Test

Example

Satish remembers that his brother's birthday is after fifteenth but before eighteenth of February whereas his sister Kajal remembers that her brother's birthday is after sixteenth but below nineteenth of February. On which day in February is Satish's brother's birthday?

- (A) 16th (B) 17th (C) 18th (D) 19th (E) None of these

Solution

According to Satish, the brother's birthday is on one of the days among 16th and 17th February.

According to Kajal, the brother's birthday is on one of the days among 17th and 18th February.

Clearly, Satish's brother's birthday is on the day common to both the above groups, i.e., 17th February.

Syllogism

Syllogism is a form of deductive reasoning where you arrive at a specific conclusion by examining two other premises or ideas. Syllogism derives from the Greek word syllogismos, meaning conclusion or inference.

Some syllogisms contain three components:

- Major Premise
- Minor Premise
- Conclusion

For Example : All roses are flowers (major premise). This is a rose (minor premise). Therefore, I am holding a flower (conclusion).

Types of Syllogism

The type of syllogism that typically contains these three components is categorical syllogism. However, there are two other major kinds of syllogism. We'll discuss each one here, plus enthymemes and syllogistic fallacy.

Categorical Syllogism

As we know, our first example about roses was a categorical syllogism. Categorical syllogisms follow an "If A is part of C, then B is part of C" logic.

Let's look at some more examples.

All cars have wheels. I drive a car. Therefore, my car has wheels.

- Major Premise : All cars have wheels.
- Minor Premise : I drive a car.
- Conclusion : My car has wheels.

All insects frighten me. That is an insect. Therefore, I am frightened.

- Major Premise: All insects frighten me.
- Minor Premise: That is an insect.
- Conclusion: I am frightened.

Conditional Syllogism

Conditional syllogisms follow an “If A is true, then B is true” pattern of logic. They’re often referred to as hypothetical syllogisms because the arguments aren’t always valid. Sometimes they’re merely an accepted truth.

If Katie is smart, then her parents must be smart.

- Major premise : Katie is smart.
- Conclusion : Katie's parents are smart.

If Richard likes Germany, then he must drive an Audi.

- Major premise : Richard likes Germany.
- Conclusion : He must like all things German, including their cars.

Disjunctive Syllogism

Disjunctive syllogisms follow a “Since A is true, B must be false” premise. They don’t state if a major or minor premise is correct. But it’s understood that one of them is correct.

- Major Premise : This cake is either red velvet or chocolate.
- Minor Premise : It's not chocolate.
- Conclusion : This cake is red velvet.
- Major Premise : On the TV show Outlander, Claire's husband is either dead or alive.
- Minor Premise: He's not alive.
- Conclusion: Claire's husband is dead.

Enthymemes

An enthymeme is not one of the major types of syllogism but is what's known as rhetorical syllogism. These are often used in persuasive speeches and arguments.

Generally, the speaker will omit a major or minor premise, assuming it's already accepted by the audience.

He couldn't have stolen the jewelry. I know him.

- Major Premise: He couldn't have stolen the jewelry.
- Minor Premise: I know his character.

Her new purse can't be ugly. It's a Louis Vuitton.

- Major Premise: Her new accessory can't be ugly.
- Minor Premise: It's made by famous designer Louis Vuitton.

In an enthymeme, one premise remains implied. In the examples above, being familiar with someone or something implies an understanding of them.

Syllogistic Fallacy

Some syllogisms contain false presumptions. When you start assuming one of the major or minor premises to be true, even though they're not based in fact - as with disjunctive syllogisms and enthymemes - you run the risk of making a false presumption.

All crows are black. The bird in my cage is black. Therefore, this bird is a crow.

- Major Premise: All crows are black.
- Minor Premise: The bird in my cage is black.
- Conclusion: This bird is a crow.

The scenery in Ireland is beautiful. I'm in Ireland. Therefore, the scenery must be beautiful.

- Major Premise: The scenery in Ireland is beautiful.
- Minor Premise: I'm in Ireland.
- Conclusion: The scenery is beautiful.

Of course, not every black bird is a crow and not all of Ireland is beautiful. When preparing a speech or writing a paper, we must always make sure we're not making any sweeping generalizations that will cause people to make false presumptions.

Rules of Syllogism

There are six known rules of syllogism. However, they mainly apply to categorical syllogism, since that is the only category that requires three components: major premise, minor premise, and conclusion. Here are six rules that will ensure you're making a strong and accurate argument.

1. Rule One: There must be three terms: the major premise, the minor premise, and the conclusion - no more, no less.
2. Rule Two: The minor premise must be distributed in at least one other premise.
3. Rule Three: Any terms distributed in the conclusion must be distributed in the relevant premise.
4. Rule Four: Do not use two negative premises.
5. Rule Five: If one of the two premises are negative, the conclusion must be negative.
6. Rule Six: From two universal premises, no conclusion may be drawn.

SAMPLE QUESTIONS

In each of the following questions two statements are given and these statements are followed by two conclusions numbered (1) and (2). You have to take the given two statements to be true even if they seem to be at variance from commonly known facts. Read the conclusions and then decide which of the given conclusions logically follows from the two given statements, disregarding commonly known facts.

Give answer:

- (A) If only (1) conclusion follows
- (B) If only (2) conclusion follows
- (C) If either (1) or (2) follows
- (D) If neither (1) nor (2) follows and
- (E) If both (1) and (2) follow.

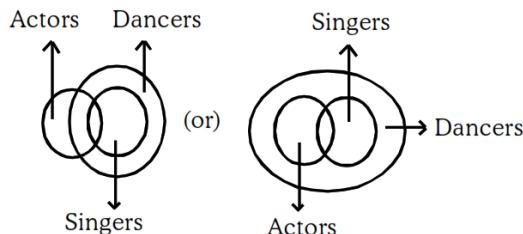
1. Statements : Some actors are singers. All the singers are dancers.

Conclusions:

1. Some actors are dancers.
 - A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option A

Explanation



Only (1) follows.

2. Statements : All the harmoniums are instruments. All the instruments are flutes.

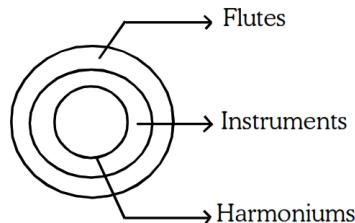
Conclusions:

1. All the flutes are instruments.
2. All the harmoniums are flutes.

- A. Only (1) conclusion follows
- B. Only (2) conclusion follows
- C. Either (1) or (2) follows
- D. Neither (1) nor (2) follows
- E. Both (1) and (2) follow

Answer : Option B

Explanation:



Only (2) follows.

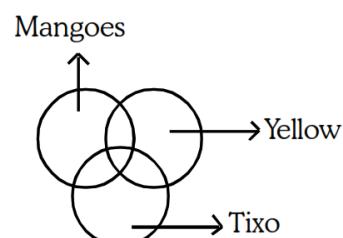
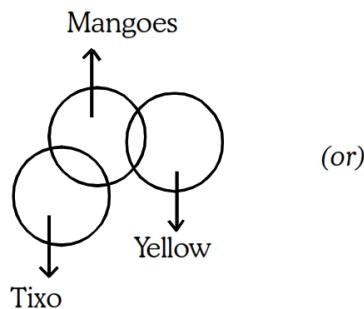
3. **Statements :** Some mangoes are yellow. Some tixo are mangoes.

Conclusions:

- 1. Some mangoes are green.
 - 2. Tixo is a yellow.
- A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option D

Explanation :



None of the two follows

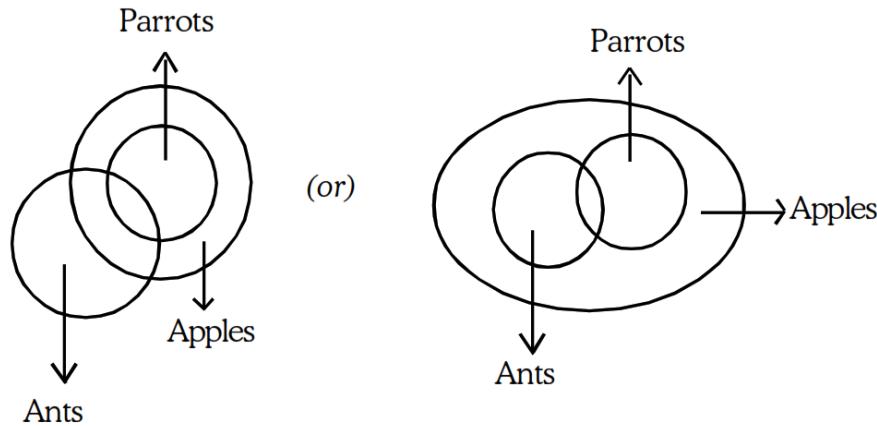
4. Statements : Some ants are parrots. All the parrots are apples.

Conclusions :

1. All the apples are parrots.
2. Some ants are apples.
 - A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option B

Explanation:



Only (2) follow.

5. Statements : Some papers are pens. All the pencils are pens.

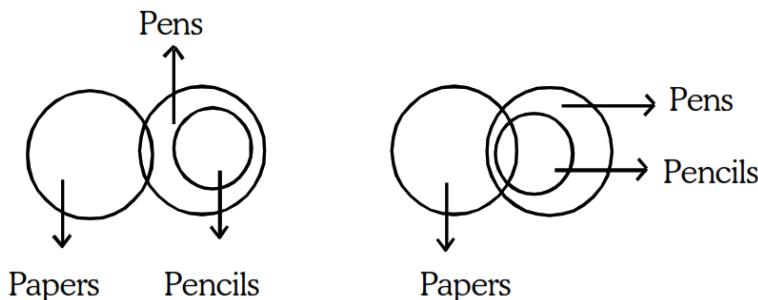
Conclusions :

1. Some pens are pencils.
2. Some pens are papers.
 - A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option E

Explanation

Truth Tellers and Liars*



Both (1) and (2) follow.

These problems will illustrate some of the logical concepts we've looked at, as well as illustrating some proof techniques that we'll look at in more detail later. These proofs are written entirely in words, so for the moment we don't need to worry about the presentation details associated with mathematical symbols.

The general setup : You're on an island where each inhabitant is a **truth-teller** or a **liar**. Truth-tellers always tell the truth; liars always lie. You're given some information about some people, usually in the form of statements they make. You're asked to determine whether each person is a truth-teller or a liar. In some cases, it may be impossible to determine what everyone is, or the situation may be impossible.

Example. You're on an island where each inhabitant is a truth-teller or a liar. Truth-tellers always tell the truth; liars always lie. Calvin and Phoebe are on the island.

Phoebe says: "If 34 is odd, then I am a truth-teller." Calvin says: "Phoebe is a liar."

Determine whether each person is a truth-teller or a liar.

1. See, Raymond Smullyan, What is the name of this book. New York: Dover Publications, 2011.

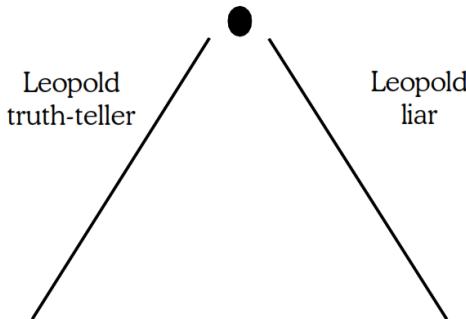
(In this problem, I notice that I can determine the truth or falsity of the statement "34 is odd" without knowing anything about Phoebe or Calvin. So I'll start with it and see what follows from it.)

Since "34 is odd" is false, the "if" part of Phoebe's statement is false. Hence, Phoebe's statement is true. Therefore, Phoebe must be a truth-teller.

Now Calvin says "Phoebe is a liar", and that is false, since I just showed that Phoebe is a truth-teller. Therefore, Calvin is a liar.

Thus, Phoebe is a truth-teller and Calvin is a liar.

Here are some **general ideas** about how you might approach a problem like this. Pick a character in the problem --- let's say you pick "Leopold". Consider the two cases: "Leopold is a truth-teller" or "Leopold is a liar". You can picture the reasoning process as a tree:

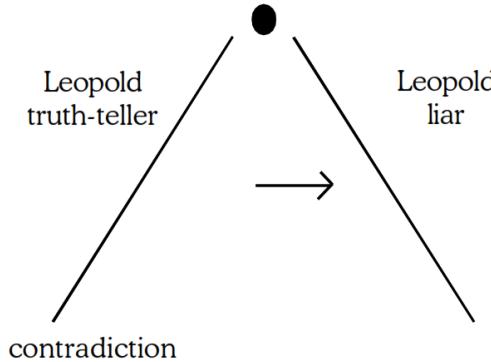


You can start with either case --- let's suppose you start with "Leopold is a truth-teller". (Note that this means anything he said is **true**.) Reason from this until you get a **contradiction**, a solution (that is, you know what all the characters are), or no **conclusion**.

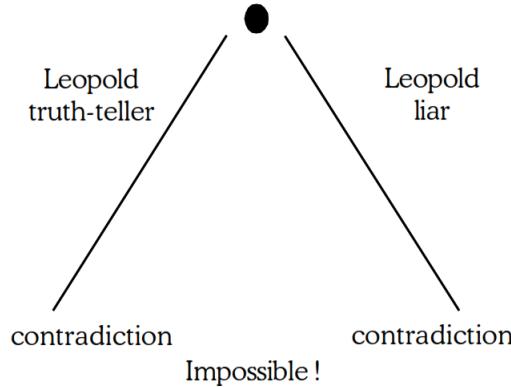
I'll consider the first of these three cases in more detail, but similar ideas hold for the other two cases.

Thus, suppose "Leopold is a truth-teller" gives a contradiction. Then he can't be a truth-teller, so he must be a liar. The "Leopold is a truth-teller" branch of the tree is finished: Switch to the "Leopold is a liar" branch and start reasoning there.

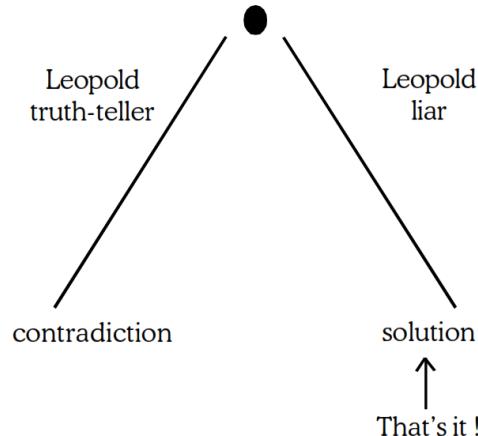
- (a) If "Leopold is a liar" gives a contradiction, then both cases have given a contradiction and the original problem is impossible.



- (b) If "Leopold is a liar" gives a solution, then that's the answer to the original problem.



- (c) If “Leopold is a liar” gives no conclusion, then you need to take cases on another character. Let’s say Molly is another character. Then we have the cases “Molly is a truth-teller” and “Molly is a liar”, and they are sub-cases of “Leopold is a liar”.



Now you have to continue reasoning with the two branches “Molly is a truth-teller” and “Molly is a liar”.

If at some point all the branches end in contradictions, then the problem is impossible. If all the branches end in contradictions but one ends in a solution, then the solution is the answer to the problem. If more than one branch ends in a solution, the problem has multiple answers. If any of the branches ends in no conclusion, and you have no more characters with which to take cases, then again the problem has multiple answers.

Similar things would happen if our original choice (“Leopold is a truth-teller”) gave a solution, or no conclusion.

It may also be that you should have started reasoning with another character --- so in the example I just went through, maybe you should have started by taking cases on Molly instead of Leopold. As with a lot of problem-solving and proof-writing, you should become accustomed to working on scratch paper and possibly throwing away early attempts in favor of later ones.

Example. You’re on an island where each inhabitant is a **truth-teller** or a **liar**. Truth-tellers always tell the truth; liars always lie. Calvin and Phoebe are on the island.

Calvin says: “One or both of us is a liar.”

Determine whether each person is a truth-teller or a liar.

- Suppose Calvin is a liar. Then the statement “One or both of us is a liar” is true, contradicting the fact that Calvin is a liar.
- Hence, Calvin is a truth-teller. Therefore, his statement is true, and at least one of them is a liar. Since it isn’t Calvin, it must be Phoebe.
- Thus, Calvin is a truth-teller and Phoebe is a liar.

Here are other ideas for these kinds of problems.

1. If there are statements whose truth value you know (like “34 is odd”), begin with that information and see what you can conclude. For example, if Phoebe says “34 is odd”, then (since the

statement is false) I know Phoebe is a liar.

2. You must take cases in pairs, e.g. "Calvin is a liar" and "Calvin is a truth teller". And once you take cases, you must consider both.
3. Don't take cases unless you have to --- that is, unless you can't go any further with the information you know.
4. Observe that these solutions are written entirely in words: We aren't using truth tables here. You should avoid using symbols unless they are necessary. Mathematics does not necessarily require the use of symbols!

It's okay to use pictures to clarify your reasoning, but a picture is not a substitute for a verbal proof.

Example. You're on an island where each inhabitant is a **truth-teller** or a **liar**. Truth-tellers always tell the truth; liars always lie. Calvin and Phoebe are on the island.

Calvin says: "If I am a liar, then Phoebe is a liar." Phoebe says: "Calvin is a truth-teller."

Determine whether each person is a truth-teller or a liar.

Suppose Calvin is a liar. Then his statement is false. Since it's an if-then statement, the if-part must be true and the then-part must be false. The if-part is "I am a liar", which is indeed true (by assumption). Then then- part must be false, so "Phoebe is a liar" is false, and hence Phoebe is a truth-teller. This means Phoebe's statement "Calvin is a truth-teller" is true, which contradicts our assumption that Calvin is a liar.

Since "Calvin is a liar" led to a contradiction, Calvin must be a truth-teller. Now Phoebe says "Calvin is a truth-teller", so she is telling the truth, and she is a truth-teller. Calvin's statement is "If I am a liar, then Phoebe is a liar". Both parts ("I am a liar" and "Phoebe is a liar") are false, so the if-then statement is true, consistent with Calvin being a truth-teller.

Since "Calvin is a liar" led to a contradiction and "Calvin is a truth-teller" led to a solution (consistent with both characters' statements), we find that Calvin is a truth-teller and Phoebe is a truth-teller.

It is noted that it's possible that a problem like this can't be solved, for either of the following reasons:

- (a) There isn't enough information to determine what all the characters are.
- (b) The given situation is impossible: All the cases lead to contradictions.

LESSON 8

NON-VERBAL REASONING

ANALYTICAL REASONING

Analytical Reasoning is Qualitative and Quantitative reasoning in nature. People use analytical reasoning to scrutinise speech, documents, diagrams, charts and graphs, and gather the most relevant information. Those with strong analytical skills will consider how key elements within that information relate to one another, and are more likely to notice crucial patterns and details.

Analytical reasoning measure a candidate's critical thinking and problem-solving skills.

- Data may be presented in the form of written passages, graphs, tables or shapes.
- Where questions are based on a series of images, they have much in common with inductive reasoning and non-verbal reasoning tests.
- Written analytical reasoning questions assess many of the same skills as verbal reasoning tests.

Analytical reasoning evaluate Inductive and Deductive reasoning

Inductive reasoning involves obtaining specific information relating to a topic/subject in order to make predictions based on such information.

Example of Inductive Reasoning

1. Every quiz has been easy. Therefore the test will be easy.
2. The teacher used power point in the last few classes. Therefore, the teacher will use power point tomorrow.
3. Every fall there have been hurricanes in the tropics this coming fall.

Deductive reasoning is the process of reaching a logical conclusion based on one or more given statements, or premises.

Example of deductive Reasoning

All Students eat pizza. Raman is a student at KKM. Therefore, Raman eats Pizza

All athletes work out in the gym. Karan is an athlete. Therefore, Karan works out in the gym.

Study the given information carefully and answer the questions that follow:

Analytical Reasoning Conditional Based

A team of five is to be selected from amongst five boys A, B, C, D and E and four girls P, Q, R and S. Some criteria for selection are:

- (a) A and S have to be together.
- (b) P cannot be put with R.
- (c) D and Q cannot go together.
- (d) C and E have to be together.
- (e) R cannot be put with B.

Unless otherwise stated, these criteria are applicable to all the questions below

1. If two of the members have to be boys, the team will consist of:
 - (a) A, B, S, P, Q (b) A, D, S, Q, R (c) B, D, S, R, Q (d) C, E, S, P,

Solution : Here we have, If A is selected, S has to be selected. If B is selected, R cannot be selected.

If D is selected, Q cannot be selected. Hence A, D, S, Q, R and B, D, S, R, Q are wrong. C, E, S, P, Q is not possible because A and S should be together. So answer is option 1.

2. If R be one of the members, the other members of the team are;

- (a) P, S, A, D (b) Q, S, A, D (c) P, S, C, E (d) S, A, C, E

Solution : If R is selected, P cannot be selected. So, P, S, A, D is wrong. D and Q cannot be together. So, Q, S, A, D is wrong.

S and A have to be together. So, P, S, C, E is wrong. The option (d) satisfies all the conditions. Hence it is the answer.

3. If two of the members are girls and D is one of the members, the members of the team other than D are:

- (a) P, Q, B, C (b) P, Q, C, E (c) P, S, A, B (d) P, S, C, E

Solution : If D is selected, Q cannot be selected. So P, Q, B, C and P, Q, C, E are incorrect. S and A have to be together. So, P, S, C, E is also wrong. The third option P, S, A, B satisfies all the conditions, hence it is the answer.

Classification

Classification means to 'assort the items of a given group on the basis of a certain common quality they possess and spot the odd one out.'

In these types of questions we will be provided with a group of 5 items out of which 4 would be similar to one another in a certain relationship among themselves and 1 would differ from them

Example 1: Choose the odd one

- (a) Horse
- (b) lion
- (c) giraffe
- (d) cheetah
- (e) Panda

Solution : option(A) Except Horse all are wild animals

Example 2 : Choose the odd one

- (a) 1728
- (b) 64
- (c) 1331
- (d) 343
- (e) 441

Solution : option(e) except 441 all are perfect cube

Example 3 : Choose the odd one

- (a) Iron
- (b) mercury
- (c) Copper
- (d) zinc
- (e) aluminum

Solution : (b) mercury

Explanation

Among all of the above only mercury is in liquid state at room temperature

1. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group?

- (A) Badminton
- (B) Table Tennis
- (C) Lawn Tennis
- (D) Hockey
- (E) Rugby

Solution : (E) Rugby

Explanation

Only sport Rugby contains a single thing Rugby, all other contain 2 things: racket and ball, stick and ball, etc.

*Rugby is not a ball

2. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group?

- (A) Morarji Desai
- (B) Lal Bahadur Shastri
- (C) R. Venkataraman
- (D) Rajiv Gandhi
- (E) P. V. Narasimha Rao

Solution : (C) R. Venkataraman

Explanation

Venkataraman had been the President, all others PMs

3. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group?

- (A) Lima
- (B) Wellington
- (C) Cairo
- (D) Cuba
- (E) Kingston

Solution : (D) Cuba Explanation

Cuba is a country and all other are capitals

4. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) Groundnut
- (2) Cumin
- (3) Cinnamon
- (4) Pepper
- (5) Clove

Solution : (1) Groundnut

Explanation : Remaining all are spice

5. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) 1936
- (2) 2916
- (3) 2304
- (4) 3364
- (5) 2744

Solution : (5) 2744 (14^3)

Explanation : Remaining all the numbers are Square number

6. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) Butterfly
- (2) Crow
- (3) Pigeon
- (4) Parrot
- (5) Peacock

Solution : (1) Butterfly (Insect)

Explanation : Remaining all are birds

7. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) Pelvis
- (2) Fibula
- (3) Vertebra
- (4) Skull
- (5) Appendix

Solution : (5) Appendix (Organ)

Explanation : Remaining all are bones

8. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) Ginger
- (2) Onion
- (3) Beetroot
- (4) Coriander
- (5) Potato

Solution : (4) Coriander

Explanation : Coriander – modified stem

9. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) Snake
- (2) Frog
- (3) Rat
- (4) Mongoose
- (5) Tortoise

Solution : (1) Snake

Explanation : Snake is only poisonous animal

10. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

- (1) Italy
- (2) Europe
- (3) Greece

(4) Poland

(5) Spain

Solution : (2) Europe

Explanation : It is a continent rest all are countries.

Numeric and Alphabet Series

This chapter covers the following types of questions:

(I) Coding-Decoding

(II) Series

Coding-Decoding

Group of letters consists of alphabet and the English alphabet consists of 26 letters. You have to remember the position of all the letters from left to right and vice-versa.

A B C D E F G H I J K L M

1 2 3 4 5 6 7 8 9 10 11 12 13

N O P Q R S T U V W X Y Z

14 15 16 17 18 19 20 21 22 23 24 25 26.

Trick to remember:

With the help of this trick, you can easily locate the position of letters.

From Left to Right—**Ejoty**

E J O T Y

5 10 15 20 25

From Right to Left—**bglqv**

B G L Q V

25 20 15 10 5

Type 1 : Letter Coding

In these questions, the real letters in a word are replaced by certain other letters according to a specific rule to form the code. The candidate is required to detect the common rule and answer the questions accordingly.

Examples

1. If in a certain language MYSTIFY is coded as NZTUJGZ, how is NEMESIS coded in that language?

(a) MDLHRDR

(b) OFNFTJT

(c) ODNHTDR

(d) PGOKUGU.

Solution

Each letter in MYSTIFY is moved one step forward to obtain the corresponding letter of the code.

M Y S T I F Y

+1 ↓

N Z T U J G Z

So, in NEMESIS, N will be coded as O, E as F, M as N and so on. Thus, code becomes OFNFTJT.
Hence, answer is (b).

2. If TAP is coded as SZO, then how is FREEZE coded?

- (a) EQDFYHG
- (b) ESDFYF
- (c) GQFDYF
- (d) EQDDYD.

Solution

Each letter in the word TAP is moved one step backward to obtain the corresponding letter of the code.

S Z O

-1 ↑

T A P

Thus, in freeze, F will be coded as E, R as Q, E as D and Z as Y. So the code becomes EQDDYD.

Hence, the answer is (d).

3. In a certain code SIKKIM is written as THLJJL. How is TRAINING written in that code?

- (a) SQBHOHOH
- (b) UQBHOHOF
- (c) UQBJOHHO
- (d) UQBJOHOH.

Solution

The letters in the word SIKKIM are moved alternately one step forward and one step backward to obtain the letters of the code.

-1

H -1 J -1 L

↑↑↑

S I K K I M

+1↓ -1↓ -1↓ T L J

In TRAINING, T will be coded as U, R as Q, A as B, I as H and so on. Thus, the code becomes UQBHOHOF.

Hence, answer is (b)

4. In a certain code, MENTION is written as LNEITNO. How is PATTERN written in that code?

- (a) APTTREM
- (b) PTAETNR
- (c) OTAETNR
- (d) OTAETRN.

Solution

To obtain the code, the first letter of the word MENTION is removed one step backward and the remaining letters are reversed in order, taking two at a time,

M E N T I O N

-1↓L

Thus, PATTERN becomes OTAETNR. Hence, answer is (c).

5. In a certain code FORGE is written as FPTJI. How is CULPRIT written in that code?

- (a) CSJNPGR
- (b) CVMQSTU
- (c) CVNSVNZ
- (d) CXOSULN.

Solution

The first letter in FORGE remains as it is and the second, third, fourth and fifth letters are respectively moved one, two, three and four steps forward to obtain the corresponding letters of the code.

Thus, the code for CULPRIT becomes CVNSVNZ. Hence, answer is (c).

SAMPLE QUESTIONS

Exercise 1

Likewise, HEARTEN would be coded as BFIQOFU.

1. In a certain code, TRIPPLE is written as SQHOOKD. How is DISPOSE written in that code?
 - (a) CPNCBX
 - (b) CPNCBZ
 - (c) CPOCBZ
 - (d) None of these.
2. If in a certain code, COULD is written as BNTKC and MARGIN is written as LZQFHM, how will MOULDING be written in that code?
 - (a) CHMFINTK
 - (b) LNKTCHMF
 - (c) LNTKCHMF
 - (d) NITKHCMF.
3. In a certain code, MONKEY is written as XDJMNL. How is TIGER written in that code?
 - (a) QDFHS
 - (b) SDFHS
 - (c) SHFDQ
 - (d) UJHFS.
4. If VICTORY is coded as YLFWRUB, how can SUCCESS be coded?
 - (a) VXEEIVV
 - (b) VXFHVV
 - (c) VYEEHVW
 - (d) VYEFIVV.
5. In a certain code TOGETHER is written as RQEGRJCT. In the same code PAROLE will be written as
 - (a) NCPQJG
 - (b) NCQPJG
 - (c) RCPQJK
 - (d) RCTQNG.
6. If in a certain code COUNSEL is written as BITIRAK, how will GUIDANCE be written in that code?
 - (a) EOHZKBB
 - (b) FOHZJBB

- (c) FPHZZKAB
(d) HOHYBJBA.
7. In a code, CORNER is written as GSVRIV. How will CENTRAL be written in that code?
(a) DFOUSBM
(b) GIRXVEP
(c) GJRYVEP
(d) GNFJKER.
8. If BEAUTY is coded as "DHEZZF", then how will "FLOWER" be written in that language?
(a) HSOBYK
(b) HBOSKY
(c) HOSBKY
(d) SBKYOH.
9. According to a code CERTAIN is written as XVIGZRM, how will MUNDANE be coded?
(a) MFHXZMV
(b) NFMWZMV
(c) NFMWZMX
(d) VMZWWMFN.
10. If CIGARETTE is coded as GICERAETT, then DIRECTION will be coded as
(a) RIDTCENOI
(b) NORTECDII
(c) NOIETCRID
(d) IRDCTIONE.
11. In a certain code language the word DIPLOMA is written as FERHQIC. How will the word FOREIGN be written in that code?
(a) HJTAKCP
(b) HKTALCP
(c) HKTAKCP
(d) HKTAKBP.
12. In a certain code language CREATIVE is written as BDSBFUJS. How is TRIANGLE written in that code?
(a) BSHSFHKM
(b) BHSSMHHF

- (c) BSSHFMKH
(d) BHSSFKHM
13. In a certain code language POETRY is written as QONDSQX and OVER is written as PNUDQ. How is MORE written in that code?
- (a) NNNQD
(b) NLPQD
(c) NLNQD
(d) LNNQD.
14. In certain code ELECTION is written as GLGCVIQN, then VOTER will be coded as
- (a) XOVET
(b) VOXET
(c) WPUFU
(d) VQTGR.
15. If BEAUTY is coded as "DHEZZF", then how will "FLOWER" be written in that language?
- (a) HSOBYK
(b) HBOSKY
(c) HOSBKY
(d) SBKYOH

Type 2 : Number Coding

In these questions, either numerical code values are assigned to a word or alphabetical code letters are assigned to a number. The candidate is required to analyse the code as per the directions.

Examples:

1. If PAINT is coded as 74128 and EXCEL is coded as 93596, then how would you code ACCEPT?
- (a) 455978
(b) 547978
(c) 554978
(d) 735961.

Solution

In the given code, the letters are coded as follows.

P A I N T E X C L

7 4 1 2 8 9 3 5 6

So in ACCEPT, A is coded as 4, C as 5, E as 9 and so on. Therefore answer is (a).

2. If D = 4 and COVER = 63, then BASIS = ?

- (a) 49
- (b) 50
- (c) 54
- (d) 55

Solution

$$D = 4$$

$$\text{COVER} = 3 + 15 + 22 + 5 + 18 = 63$$

$$\text{BASIS} = 2 + 1 + 19 + 9 + 19 = 50$$

Therefore, the answer is (b).

SAMPLE QUESTIONS

Exercise 2

1. If in a certain code, BEAUTIFUL is coded as 573041208, BUTTER as 504479, how is FUTURE coded in that code?
 - (a) 201497
 - (b) 204097
 - (c) 704092
 - (d) 204079.
2. In a certain code, 5 is coded as Z, 7 as E, 2 as S, 9 as T, and 4 as W. How is 977452 coded in that code
 - (a) SEEWZT
 - (b) TEEWZS
 - (c) ZEEWST
 - (d) WEEZST.
3. In a certain language, if A is coded as 1, B is coded as 2, and so on, how is STAR coded in that language?
 - (a) 1810291
 - (b) 9120118
 - (c) 1920118
 - (d) 1920811.
4. In a certain code, if SCHOOL is coded as 123445, TEAM as 6078, how is HOTEL coded in that code?
 - (a) 34605
 - (b) 43605
 - (c) 60734
 - (d) 34785.
5. In a certain code, if BOX is coded as 213, BITTER as 207749, how is BOXER coded in that code?
 - (a) 21359
 - (b) 23159
 - (c) 23149
 - (d) 21349.
6. If ROSE is coded as 6821, CHAIR is coded as 73456 and PREACH is coded as 961473, what will be the code for SEARCH?

- (a) 246173
 - (b) 214673
 - (c) 214763
 - (d) 216473.
7. In a certain code language, QUEUE is written as Q 22, and CHURCH is written as 1UR 1. Which of the following would be most appropriate code for BANANA in that language?
- (a) B5A5
 - (b) 5N5A
 - (c) B55A
 - (d) BA5A5A.
8. If PERFECT is coded as "116" then how will COMPACT be written in that code?
- (a) 85
 - (b) 111
 - (c) 98
 - (d) 118.
9. If ACNE is coded as 3, 7, 29, 11, then BOIL will be coded as
- (a) 5, 31, 21, 25
 - (b) 5, 31, 19, 25
 - (c) 5, 29, 19, 25
 - (d) 5, 29, 19, 27.
10. If FLARE is coded as 21, 15, 26, 9, 22, how will BREIF be coded in the same language?
- (a) 25, 9, 22, 21, 18
 - (b) 5, 37, 11, 19, 13
 - (c) 13, 19, 11, 37, 5
 - (d) 25, 9, 22, 18, 21.

Series

This deals with the questions in which series of numbers or alphabetical letters are given, which are generally called terms of the series. These terms follow a certain pattern throughout.

The candidate is required to recognize this pattern and either complete the given series with the most suitable alternative or find the wrong term in the series.

Type 1: Number Series

Important Patterns:

- (1) a, a ± d, a ± 2d, a ± 3d,.....

- (2) a, ak, ak^2, ak^3, \dots
- (3) $a, a/k, a/k^2, a/k^3, \dots$
- (4) $(a)n, (a \pm d)n, (a \pm 2d)n, (a \pm 3d)n, \dots$
- (5) $an + k, (a + k)n + k, [(an + k)]n + k, \dots$
- (6) $an + k, (a + 1)n + k, (a + 2)n + k, \dots$
- (7) $1n, 1n + 2n, 1n + 2n + 3n, 1n + 2n + 3n + 4n, \dots$
- (8) Series of prime numbers i.e. 2, 3, 5, 7, 11, 13, 17, 19, 23, etc.

Example

1. Which number would replace question mark in the series 7, 12, 19, ?, 39.

- (a) 29
- (b) 28
- (c) 26
- (d) 24

Solution

The given sequence follows the pattern:

$$+ 5, + 7, + 9, \dots \text{ i.e. } 7 + 5 = 12$$

$$12 + 7 = 19, \dots$$

\therefore Missing number = $19 + 9 = 28$ Hence, answer is (b).

2. Find out the missing number in the following sequence:

$$1, 3, 3, 6, 7, 9, ?, 12, 21$$

- (a) 10
- (b) 11
- (c) 12
- (d) 13.

Solution:

The given sequence is a combination of two series

- I. 1, 3, 7, ?, 21 and
- II. 3, 6, 9, 12

The pattern followed in I is $+ 2, + 4, \dots$; and the pattern followed in II is $+ 3$.

Thus, missing number = $7 + 6 = 13$.

Hence, the answer is (d).

SAMPLE QUESTIONS**Exercise 3**

Directions: (Qs. 1-22) Find the missing number in the series.

1. 3, 4, 12, 48, 27648
 - (a) 488
 - (b) 576
 - (c) 492
 - (d) 528.
2. 19, 2, 38, 3, 114, 4,
 - (a) 228
 - (b) 256
 - (c) 352
 - (d) 456.
3. 95, 115.5, 138, , 189
 - (a) 154.5
 - (b) 162.5
 - (c) 164.5
 - (d) 166.5.
4. 11, 22, 35, 50, , 86
 - (a) 80
 - (b) 67
 - (c) 68
 - (d) 70.
5. 1, 4, 9, 16, 25,
 - (a) 35
 - (b) 36
 - (c) 48
 - (d) 49.
6. 20, 19, 17, , 10, 5
 - (a) 12
 - (b) 13
 - (c) 14
 - (d) 15.

7. 2, 3, 5, 7, 11,, 17
 - (a) 12
 - (b) 13
 - (c) 14
 - (d) 15.
8. 1, 5, 15, 19, 57,
 - (a) 65
 - (b) 59
 - (c) 63
 - (d) 61.
9. 2, 5, 9, 19, 37,
 - (a) 76
 - (b) 75
 - (c) 74
 - (d) 72.
10. 345, 534, 264, 804,
 - (a) 552
 - (b) 662
 - (c) 442
 - (d) 384.
11. 363, 275, 484, 891,
 - (a) 393
 - (b) 582
 - (c) 211
 - (d) 286.
12. 5, 17, 37, 65,, 145
 - (a) 95
 - (b) 97
 - (c) 99
 - (d) 101.
13. 9, 11, 20, 31,, 82
 - (a) 41
 - (b) 51
 - (c) 60
 - (d) 71.

14. 3, 10, 101,
 (a) 10101
 (b) 10201
 (c) 10202
 (d) 11012.
15. 1, 2, 8, 24, 864
 (a) 96
 (b) 120
 (c) 206
 (d) 21

Answers**Exercise 1**

1. (d); TRIPPLE SQHOOKD

-1 -1 -1 -1 -1 -1 -1

Each letter in TRIPPLE is moved one step backward to obtain the corresponding letter of the code.

DISPOSE

-1 -1 -1 -1 -1 -1 -1

CHRONRD

Similarly moving each letter of DISPOSE one step backward, the coded word is CHRONRD, which is not among the options. Hence (d)

2. (c); COULD MARGIN

BNTKCLZQFHM

-1 -1 -1 -1 -1 -1 -1 -1 -1 -1

Moving letters of MOULDING one step backward, we get LNTKCHMF. Hence (c).

3. (a); Each letter of word MONKEY is written in reverse order i.e. YEKNOM and then each letter is moved one step backward to get X DJMNL. Writing TIGER in reverse order, we get REGIT. Moving one step backward we get QDFHS.

4. (b); Each letter in the word VICTORY is moved two steps forward i.e. V becomes Y, I becomes L, C becomes F and so on. Similarly, Success becomes VXFFHVV.

5. (a); TOGETHER RQEGRJCT

-2 +2 -2 +2 -2 +2 -2 +2

Each letter in TOGETHER is alternatively moved two steps backward and two steps forward. In the same code PAROLE will be written as NCPQJG.

6. (b); The word COUNSEL is divided into two separate parts. Each alternate letter starting with C is moved one step backward and remaining letters are respectively moved five, four and three steps backward.

Thus

C B, O I, U T, N I, S R, E A and C K

In the same manner G F, U O, I H and so on.

7. (b); Each letter in the word CORNER is moved four steps forward to get GSVRIV. Moving each letter of CENTRAL four steps forward, we get GIRXVEP.
8. (c); Each letter in JOSEPH is moved four steps backward. Similarly GEORGE is coded as CAKNCA.
9. (b); In the English alphabet, C is third letter from the left and X is the third letter from the right. Similarly E and V are the fifth letters from left and right respectively.
10. (a); The word CIGARETTE is divided into 3 groups of 3 letters each.

CIG – ARE – TTE. In each group, the first and third letters are interchanged. So the code becomes GICERAETT. Similarly working for DIR – ECT – ION, we get RIDTCENOI. Hence (a).

11. (c); The letters in DIPLOMA are alternatively moved two steps forward and four steps backward. Alphabets and Series 33

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12. (d); Step 1: The word Creative is divided into two parts CREA and Tive.
Step 2: In each sub-word, the first letter is replaced with fourth and second with third. So, we get AERC and EVIT.
Steps 3: Each letter is now moved one step forward and one step backward to get BDSBFUJS.
Similarly working for TRIANGLE we get BHSSFKHM.
13. (c); In both the words POETRY and OVER, each letter is moved one step backward to get ONDSQX and NUDQ respectively. Then the first letter of the original word is moved one step forward and added on the left to get QONDSQX and PNUDQ.
14. (a); The letters in the word ELECTION are alternatively moved two steps forward and left unchanged. Thus E G, L remains unchanged, E G, C C, T V, I I, O Q, N N.

In VOTER.

V X, O O, T V, E E, R T.

15. (c); B E A U T Y

+2 +3 +4 +5 +6 +7

D H E Z Z F

Similarly

F L O W E R

+2 +3 +4 +5 +6 +7

H O S B K Y

Exercise 2

1. (b); As given the letter are coded as:

B E A U T I F U L

5 7 3 0 4 1 2 0 8

So in FUTURE, F is coded as 2, U as 0, T as 4, R as 9 and E as 7. Therefore, FUTURE is coded as 204097.

Hence, the answer is (b).

As F = 2, (c) is eliminated. Again as the second digit of the other three choices is same, then check for the third, fourth and fifth digit which gives (b) as the answer.

2. (b); 977452 is coded as TEEWZS. Hence, the answer is (b). 3. (c); S 19 T 20 A 1 R 18. Hence, code is 1920118.
4. (a); S C H O O L T E A M 1 2 3 4 4 5 6 0 7 8
Hence HOTEL 34605
5. (d); B O X B I T T E R 2 1 3 2 0 7 7 4 9 Hence BOXER 21349
6. (b); From the coding pattern, it is clear that codes for S, E, A, R, C and H are 2, 1, 4, 6, 7 and 3, respectively as letters of the word are directly substituted.
7. (c); Similar pairs of letters have been given the same numeric in each word. As a result pair UE in word QUEUE has been coded 2, pair CH has been coded 1 and likewise the pair An has been coded 5. Hence, the word BANANA would be coded as B55A.
8. (d); In the given code A = 26, B = 25, C = 24 and so on. So PERFECT $11 + 22 + 9 + 21 + 22 + 24 + 7 = 116$ Similarly
COMPACT $24 + 12 + 14 + 11 + 26 + 24 + 7 = 118$
i.e., opposite value concept.
9. (b); $(2n+1)$ is the coding pattern used, where n = position of the alphabet in the alphabetical order.
10. (d); Numbers in the coding show the positions of the respective letters from the end of the alphabetical series.

Exercise 3

1. (b); $3 \times 4 = 12$
 $4 \times 12 = 48$
Similarly $12 \times 48 = 576$
Also $576 \times 48 = 27648$
2. (d); The sequence is a combination of two series: I. 19, 38, 114, and II. 2, 3, 4
The pattern followed in I is $\times 2, \times 3, \dots$
 \therefore The missing no. = $114 \times 4 = 456$
3. (b); The pattern is $+ 20.5, + 22.5, \dots$
 \therefore Missing term = $138 + 24.5 = 162.5$
4. (b); The given sequence follows the pattern:
 $+11, +13, +15 \dots$ i.e. $11 + 11 = 22, 22 + 13 = 35$
 $35 + 15 = 50$
 \therefore Missing number = $50 + 17 = 67$ Hence, the answer is (b).

5. (b); The numbers are 12, 22, 32, 42, 52.
 \therefore Missing number = $62 - 36 = 36$.
6. (c); The pattern is -1, -2,
 \therefore Missing number = $17 - 3 = 14$.
7. (b); Clearly, the given series consists of prime numbers starting from 2. The prime number after 11 is 13. So, 13 is the missing number.
8. (d); The pattern is $1 + 4 = 5$
 $5 \times 3 = 15$
 $15 + 4 = 19$
 $19 \times 3 = 57$
Hence the next number in the series should be $57 + 4 = 61$.
9. (b); The pattern is $x^2+1, x^2-1, x^2+1, x^2-1, \dots$.
 \therefore Missing number = $37^2 + 1 = 75$.
10. (a); $3 + 4 + 5 = 12$
 $5 + 3 + 4 = 12$
 $2 + 6 + 4 = 12$
 $8 + 0 + 4 = 12$
So, $5 + 5 + 2 = 12$.
11. (d); Adding of two corner numbers is equal to the middle number: 3 6 3
+
2 7 5, and so on.
+
Similarly, 2 8 6
+
12. (d); The numbers are $22 + 1, 42 + 1, 62 + 1, 82 + 1, \dots, 122 + 1$.
 \therefore Missing number = $102 + 1 = 101$.
13. (b); Each term in the series is the sum of the preceding two terms.
 \therefore Missing number = $20 + 31 = 51$.
14. (c); Each term in the series is obtained by adding 1 to the square of the preceding term.
So, missing term
 $= (101)^2 + 1 = 10202$
15. (d); The series is $x 2; x 22; x 3; x 32; x 4; x 42$ So correct answer would be $(24 \times 32) = 216$

PART 3 : ECONOMIC AND BUSINESS ENVIRONMENT

LESSONS

- | | |
|--|------------|
| 1. Basics of Demand and Supply and Forms of Market Competition | 431 |
| 2. National Income Accounting and Related Concepts | 449 |
| 3. Indian Union Budget | 463 |
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SYLLABUS

PART 3 : ECONOMIC AND BUSINESS ENVIRONMENT

Objective:

- To test understanding on concepts of Micro & Macro Economics with a focus on Indian economic system.
- To test understanding on various crucial elements of business environment.

Total Marks – 50 Marks

Sub-part A – Economics (25 Marks)

Sub-part B – Business Environment (25 Marks)

S. No.	Topic	Sub-topics
Sub-part A - Economics (25 Marks)		
1	Basics of Demand and Supply and Forms of Market Competition	<ul style="list-style-type: none">• Theory of Demand and Supply• Equilibrium Price• Elasticity of Demand and Supply and other related concepts• Increase and Decrease in Demand and Expansion and Contraction of Demand• Forms of Market Competition-Monopoly, Duopoly, Oligopoly, Perfect Competition and Monopolistic Competition
2	National Income Accounting and Related Concepts	<ul style="list-style-type: none">• Meaning and methods to compute National Income• Key concepts of National Income (GNP, GDP, NNP, NDP, Domestic Income, Private Income, Personal Income, Disposable Income, Real Income and Per Capita Income)
3	Indian Union Budget	<ul style="list-style-type: none">• Key terminologies / heads covered under the budget• Revenue and Capital Budget• Major components of Revenue and Capital Budget• Meaning of Fiscal Deficit• Components/ Variables covered under Fiscal Deficit
4	Indian Financial Markets	<ul style="list-style-type: none">• Overview of Indian Financial Ecosystem• Key facets of Indian financial system• Growth of Financial Institutions• Public and private sector banks

S. No.	Topic	Sub-topics
		<ul style="list-style-type: none"> ● Industrial Finance Corporation of India and Small Industries Development Bank of India ● Regional Rural Banks ● Cooperative Banks ● Non-Banking Finance Companies ● Basics of Capital Market: Types of Shares and Debentures ● Financial assistance scenario for Small and Medium Enterprises and Start-Ups
5	Indian Economy	<ul style="list-style-type: none"> ● Primary (Agriculture and allied activities) ● Secondary (Manufacturing) ● Tertiary (Services) ● Current scenario of agriculture and allied activities in India ● Agricultural and Industrial Policies of India ● Current scenario of services sector in India ● Balance of Payments ● Components of Balance of Payments ● Favorable and Unfavorable Balance of Trade ● Foreign Investments in India- Types and Flows
Sub-part B – Business Environment (25 Marks)		
6	Entrepreneurship Scenario	<ul style="list-style-type: none"> ● Government initiatives to foster entrepreneurship ● Need for entrepreneurship in India ● Bottlenecks in entrepreneurial growth
7	Business Environment	<ul style="list-style-type: none"> ● Overview of Business Environment ● Features and factors influencing business environment ● Types of environment: Economic environment, Socio-cultural environment, Political environment, Legal and Technological environment ● Ease of Doing Business Index by World Bank for India and Department for Promotion of Industry and Internal Trade (DPIIT) for States
8	Key Government Institutions	<ul style="list-style-type: none"> ● Basic awareness about various institutions and regulatory bodies in India such as NITI Aayog, MCA, SEBI, RBI, IBBI, CCI, NCLT and NCLAT

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A : ECONOMICS

LESSON 1

**BASICS OF DEMAND AND
SUPPLY AND FORMS OF
MARKET COMPETITION**

THEORY OF DEMAND AND SUPPLY

Meaning of Demand

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.

Law of Demand

According to the law of demand, other things being equal, if price of a commodity falls, the quantity demanded of it will rise, and if price of the commodity rises, its quantity demanded will decline. It implies that there is an inverse relationship between the price and quantity demanded of a commodity. In other words, other things being equal, quantity demanded will be more at a lower price than at a higher price.

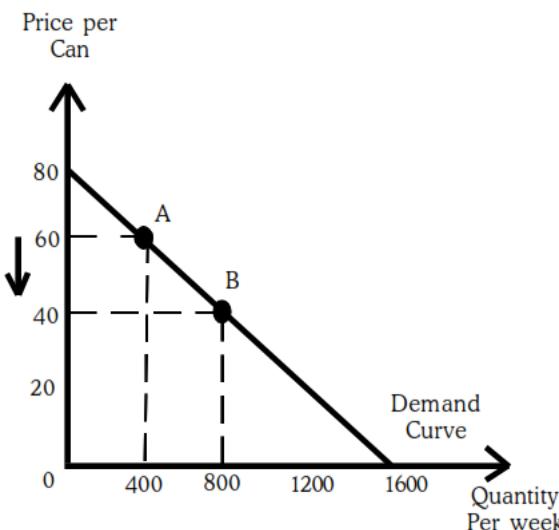
The law of demand describes the functional relationship between price and quantity demanded. Among various factors affecting demand, price for a commodity is the most critical factor. Thus, demand of a commodity is mainly determined by the price of commodity.

$$Dx = f(Px)$$

The law of demand may be understood from the following example:

PRICE PER CAN (INR)	QUANTITY DEMANDED
80	0
70	200
60	400
50	600
40	800
30	1000
20	1200
10	1400
0	1600

Source: Economics Online



Source : www.economicsonline.co.uk

Thus, it may be observed that with the rise in price per can, the demand for the cans is reducing.

Assumptions of the law of demand

The above stated law of demand is conditional. It is based on certain conditions as given. It is therefore, always stated with the 'other things being equal'. It relates to the change in price variable only, assuming other determinants of demand to be constant. The law of demand is thus, based on the following *ceteris paribus* assumptions:

1. No Change in Consumer's Income
2. No Change in Consumer's Preferences
3. No Change in the Fashion
4. No Change in the Price of Related Goods
5. No Expectation of Future Price Changes or Shortages
6. No Change in Size, Age Composition and Sex Ratio of the Population
7. No Change in the Range of Goods Available to the Consumers
8. No Change in the Distribution of Income and Wealth of the Community
9. No Change in Government Policy
10. No Change in Weather Conditions.

EXCEPTIONS TO THE LAW OF DEMAND

There are few exceptional cases where the law of demand is not applicable, which may be categorised as follows:

Giffen Goods : In the case of certain inferior goods called Giffen goods (named after Sir Robert Giffen), when the prices fall, quite often less quantity will be purchased than before because of the negative income effect and people's increasing preference for a superior commodity with the rise in their real income. Examples of Giffen goods can include bread, rice, and wheat.

Articles of Snob Appeal : Sometimes, certain commodities are demanded just because they happen to be expensive or prestige goods, and have a 'snob appeal'. They satisfy the aristocratic desire to preserve exclusiveness for unique goods.

Speculation : When people speculate about changes in the price of a commodity in the future, they may not act according to the law of demand at the present price, say, when people are convinced that the price of a particular commodity will rise still further, they will not contract their demand with the given price rise: on the contrary, they may purchase more for the purpose of hoarding.

Consumer's Psychological Bias or Illusion : When the consumer is wrongly biased against the quality of the commodity with the price change, he may contract this demand with a fall in price.

Law of Supply

Supply represents how much the market can offer. The quantity supplied refers to the amount of a good producers are willing to supply when receiving a certain price. The supply of a good or service refers to the quantities of that good or service that producers are prepared to offer for sale at a set of prices over a period of time. Supply means a schedule of possible prices and amounts that would be sold at each price. The supply is not the same concept as the stock of something in existence, for example, the stock of commodity X in Delhi means the total quantity of Commodity X in existence at a point of time; whereas, the supply of commodity X in Delhi means the quantity actually being offered for sale, in the market, over a specified period of time.

The law of supply states that a firm will produce and offer to sell greater quantities of a product or service as the price of that product or service rises, other things being equal. There is a direct relationship between price and quantity supplied. In this statement, change in price is the cause and change in supply is the effect. Thus, the price rise leads to an increase in supply and not otherwise. It may be noted that at higher prices, there is a greater incentive to the producers or firms to produce and sell more. Other things including the cost of production, change of technology, prices of inputs, level of competition, size of the industry, government policy and non-economic factors.

Thus 'Ceteris Paribus'

- (a) With an increase in the price of a good, the producer is willing to offer more quantity in the market for sale.
- (b) The quantity supplied is related to the specified time interval over which it is offered.

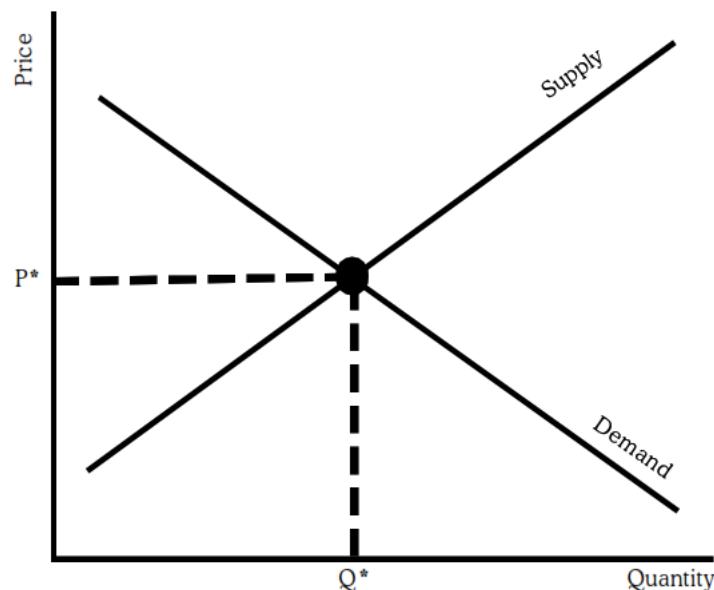
The law of supply is the microeconomic law that states that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa. The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale.

Assumptions of Law of Supply

The term "other things remaining the same" refers to the following assumptions in the law of supply:

1. No change in the state of technology.
2. No change in the price of factors of production.
3. No change in the number of firms in the market.
4. No change in the goals of the firm.
5. No change in the seller's expectations regarding future prices.
6. No change in the tax and subsidy policy of the products.
7. No change in the price of other goods.

The equilibrium price is the market price where the quantity of goods supplied is equal to the quantity of goods demanded. This is the point at which the demand and supply curves in the market intersect.



Source: Study.com

At equilibrium, there is no shortage or surplus unless a determinant of demand or a determinant of supply changes. If a change in the price of a good or service creates a shortage, it means that consumers want to buy a higher quantity than the one offered by producers. In this case, demand exceeds supply and consumers are not satisfied. In contrast, if a change in the price of a product or a service creates a surplus, it means that consumers want to buy less quantity than the one offered by producers. In this case, supply exceeds demand and producers need to lower the price of the product or the service to avoid excessive inventory.

Let us take an example to understand the concept.

Price (\$)	Quantity Demanded (Kg)	Quantity Supplied (Kg)	Surplus (kg)	Shortage (kg)
100	5	50	45	
90	12	41	29	
80	18	35	17	
70	22	28	6	
60	25	25	0	0
50	34	22		12
40	41	18		23
30	47	14		33

20	50	9		41
10	55	5		50

Source : My Accounting Course

In the table above, the quantity demanded is equal to the quantity supplied at the price level of \$60. Therefore, the price of \$60 is the equilibrium price. At any other price level, there is either surplus or shortage. Specifically, for any price that is lower than \$60, the quantity supplied is greater than the quantity demanded, thereby creating a surplus. For any price that is higher than \$60, the quantity demanded is greater than the quantity supplied, thereby creating a shortage.

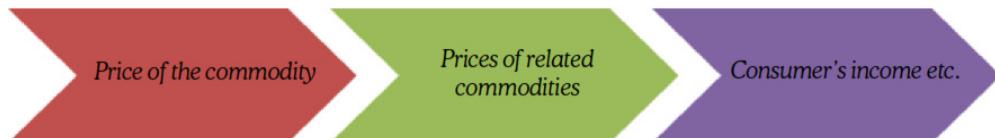
ELASTICITY OF DEMAND

In economics, the demand elasticity (elasticity of demand) refers to how sensitive the demand for a good is to changes in other economic variables, such as prices and consumer income.

Demand elasticity is calculated as the percent change in the quantity demanded divided by a percent change in another economic variable. A higher demand elasticity for an economic variable means that consumers are more responsive to changes in this variable.

"Elasticity of demand is the responsiveness of the quantity demanded of a commodity to changes in one of the variables on which demand depends. In other words, it is the percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends."

The variables on which demand can depend are:



There are major three types of elasticity of demand, i.e. Price elasticity; Income elasticity and Cross elasticity. However, this lesson focuses only on price elasticity of demand.

Price Elasticity of Demand

The price elasticity of demand is the response of the quantity demanded to change in the price of a commodity. It is assumed that the consumer's income, tastes, and prices of all other goods are steady. It is measured as a percentage change in the quantity demanded divided by the percentage change in price. Therefore, price elasticity of demand is:

$$Ep = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

$$\text{Or, } Ep = \frac{\text{Change in Quantity}}{\text{Original Quantity}} \times \frac{\text{Original Price}}{\text{Change in Price}}$$

Types of Price Elasticity of Demand

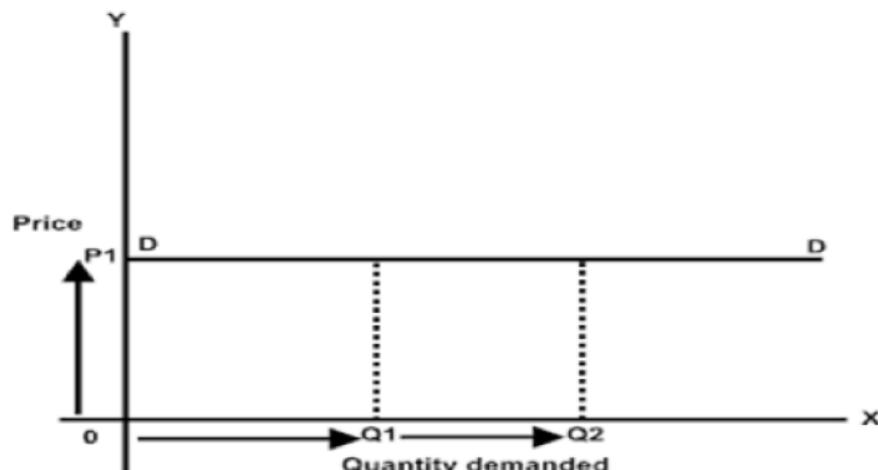
The extent of responsiveness of demand with change in the price is not always the same. The demand for a product can be elastic or inelastic, depending on the rate of change in the demand with respect

to change in price of a product.

Elastic demand is the one when the response of demand is greater with a small proportionate change in the price. On the other hand, inelastic demand is the one when there is relatively less change in the demand with a greater change in the price.

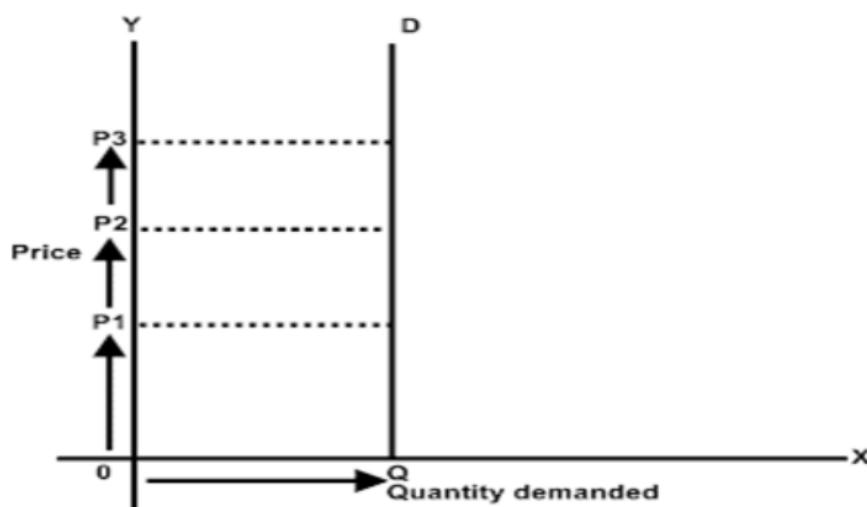
The various forms of price elasticity of demand are as under:

1. *Perfectly Elastic Demand* : When a small change in the price of a product causes a major change in its demand, it is said to be perfectly elastic demand. In perfectly elastic demand, a small rise in price results in a fall in demand to zero, while a small fall in price causes an increase in demand to infinity. In such a case, the demand is perfectly elastic or $ep = \infty$.



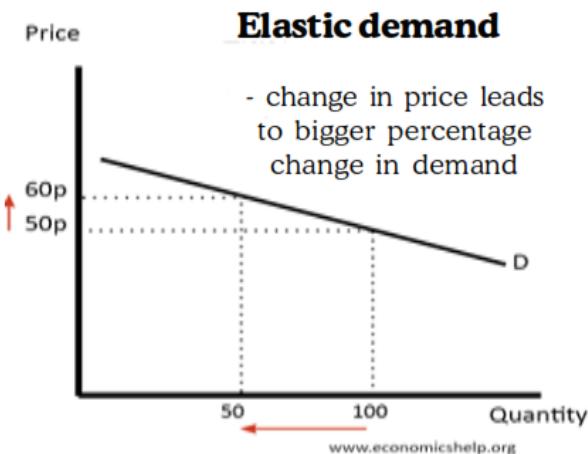
Source: Economics basics

2. *Perfectly Inelastic Demand* : A perfectly inelastic demand is one when there is no change produced in the demand of a product with a change in its price. The numerical value for perfectly inelastic demand is zero ($ep=0$).



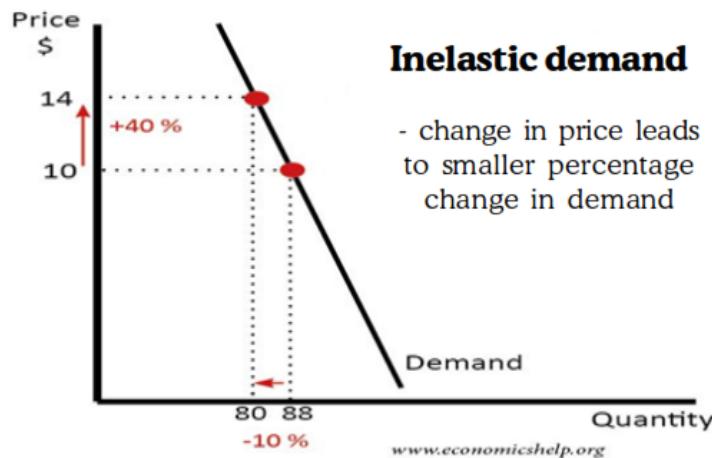
Source: Economics basics

3. *Relatively Elastic Demand* : Relatively elastic demand refers to the demand when the proportionate change produced in demand is greater than the proportionate change in price of a product. The numerical value of relatively elastic demand ranges between one to infinity ($ep > 1$).



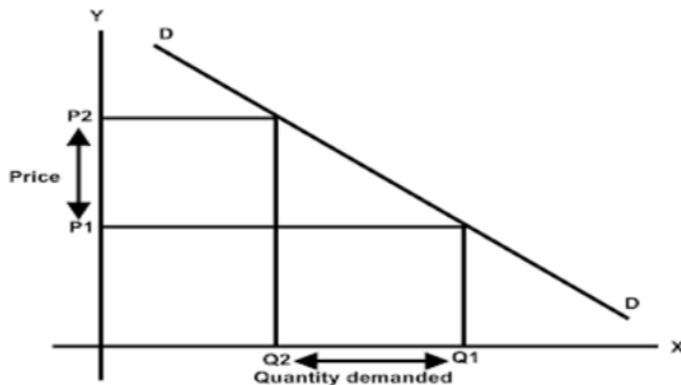
Source: Economics help

4. *Relatively Inelastic Demand*: Relatively inelastic demand is one when the percentage change produced in demand is less than the percentage change in the price of a product. For example, if the price of a product increases by 30% and the demand for the product decreases only by 10%, then the demand would be called relatively inelastic. The numerical value of relatively elastic demand ranges from zero to one ($ep < 1$).



Source: Economics help

5. *Unitary Elastic Demand* : When the proportionate change in demand produces the same change in the price of the product, the demand is referred as unitary elastic demand. The numerical value for unitary elastic demand is equal to one ($ep = 1$).



Source: Economics basics

A quick recap

- Perfectly Elastic Demand ($E_p = ?$)
- Perfectly Inelastic Demand ($E_p = 0$)
- Relatively Elastic Demand ($E_p > 1$)
- Relatively Inelastic Demand ($E_p < 1$)
- Unitary Elastic Demand ($E_p = 1$)

Factors affecting Price Elasticity of Demand

1. **Price Level :** The demand is generally elastic for moderately priced goods but, the demand for very costly and very cheap goods is inelastic. The rich do not bother about the prices of the goods that they buy. Very costly goods are demanded by the rich people and hence their demand is not affected much by the change in prices. For example, an increase in the price of Toyota car from Rs. 5,00,000 to Rs. 5,20,000 will not make any noticeable difference in its demand. Similarly, the change in the price of very cheap goods (such as salt) will not have any effect on their demand, for their consumption which is very small and fixed.
2. **Availability of Substitutes :** If a good has close substitutes, the price elasticity of demand for a commodity will be very elastic as some other commodities can be used for it. A small rise in the price of such a commodity will induce consumers to switch their consumption to its substitutes. For example gas, kerosene oil, coal etc. will be used more as fuel if the price of wood increases. On the other hand, the demand of such commodities which have no close substitutes is inelastic, such as salt.
3. **Necessities :** If a good is a necessity, then the demand tends to be inelastic. For example, if the price for drinking water rises, then there is unlikely to be a huge drop in the quantity demanded since drinking water is a necessity.
4. **Time Period :** Over time, a good tends to become more elastic because consumers and businesses have more time to find alternatives or substitutes. For example, if the price of gasoline goes up, over time people will adjust for the change, i.e., they may drive less or use public transportation or form carpools.

5. *Habits* : The demand for addictive or habitual products is usually inelastic. This is because the consumer has no choice but to pay whatever the producer is demanding. For example, if the price for a pack of cigarettes goes up, it will likely not have any effect on demand.
6. *Nature of the Commodities* : The demand for necessities is inelastic and that for comforts and luxuries is elastic. This is so because certain goods which are essential will be demanded at any price, whereas goods meant for luxuries and comforts can be dispensed with easily if they appear to become costlier.
7. *Various Uses* : A commodity which has several uses will have an elastic demand such as milk, wood etc. On the other hand, a commodity having only one or fewer uses will have inelastic demand. The consumer finds it easier to adjust the quantity demanded of a good when it is to be used for satisfying several wants than if it is confined to a single or few uses. For this reason, a multiple-use good tends to have more elastic demand.
8. *Postponing Consumption* : Usually the demand for commodities, the consumption of which can be postponed, is elastic as the prices rise and are expected to fall again. For example, the demand for mp3 is elastic because its use can be postponed for some time if its price goes up, but the demand for rice and wheat is inelastic because their use cannot be postponed when their prices increase.

Income Elasticity of Demand

Income elasticity of demand is the degree of responsiveness of demand to the change in income. Prof. Watson defines it as : "Income elasticity of demand is the rate of change of quantity with respect to changes in the income, other determinants remaining constant." The income elasticity of demand can be measured by the following formula :

$$Ey = \text{Percentage change in quantity demanded}/\text{Percentage change in income}$$

$$\text{Percentage change in quantity demanded} = \frac{\text{New quantity demanded } (\Delta Q)}{\text{Original quantity demanded } (Q)}$$

$$\text{Percentage change in income} = \frac{\text{New income } (\Delta Y)}{\text{original income } (Y)}$$

Symbolically,

$$Ey = \frac{\Delta Q}{Q} \times \frac{\Delta Y}{Y}$$

Income elasticity of demand, thus explains the responsiveness of demand to a change in income. Ordinarily, demand for most goods increases with an increase in household's level of income. Demand for inferior goods, however, shows a negative relation to change in income.

Types of Income Elasticity of Demand

Income elasticity of demand can be of five different types : These are tabulated with description below:

S. No.	Numerical Measure of Income elasticity of demand	Verbal description
1.	Negative Demand for a commodity falls as income rises.	The trend is visible in case of inferior goods.

2.	Zero Demand for a commodity does not change as income changes.	This is true in the case of essential goods.
3.	Greater than zero but less than one.	Demand for commodity rises in proportion to a rise in income.
4.	Unity	Demand for commodity rises in the same proportion as rise in income.
5.	Greater than the unity	Demand for commodity rises more than in proportion to rise in income.

Cross Elasticity of Demand

The responsiveness of demand to changes in prices of related commodities is called cross elasticity of demand. Prof. Watson defines it as, "Cross elasticity of demand is the rate of change in quantity associated with a change in the price of related goods." Thus cross elasticity of demand is the responsiveness of demand for commodity X to change in price of commodity Y and is represented as follows :

Symbolically :

Cross Elasticity of Demand Ec

% increase in quantity demanded of A

% increase in price of product B

The relationship between X and Y commodities may be substitutive as in case of tea and coffee or complementary as in the case of ball pens and refills. Main measures of cross elasticity with description are as follows :

1. Cross elasticity = Infinity (Commodity X is nearly a perfect substitute for commodity Y)
2. Cross elasticity = Zero (Commodity X and Y are not related)
3. Cross elasticity = Negative (Commodities X and Y are complementary)

Thus, if Ec approaches infinity, it means that commodity X is nearly a perfect substitute for commodity Y. On the other hand, if Ec approaches Zero it would mean that the two commodities in question are not related at all. Ec shall be negative when commodity Y is complementary to commodity X.

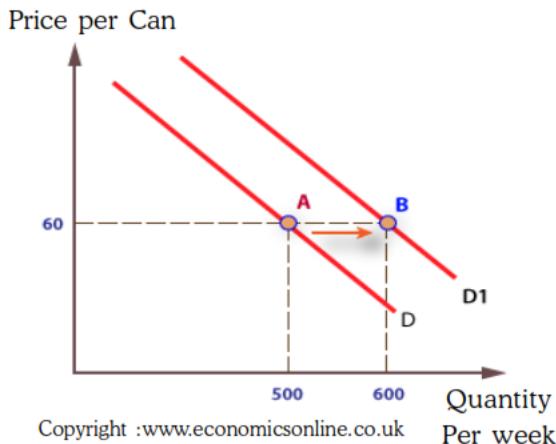
INCREASE AND DECREASE IN DEMAND AND EXPANSION AND CONTRACTION OF DEMAND

Increase in Demand and Decrease in Demand

Changes in demand include an increase or decrease in demand. Due to the change in the price of related goods, the income of consumers, and the preferences of consumers, etc. the demand for a product or service changes.

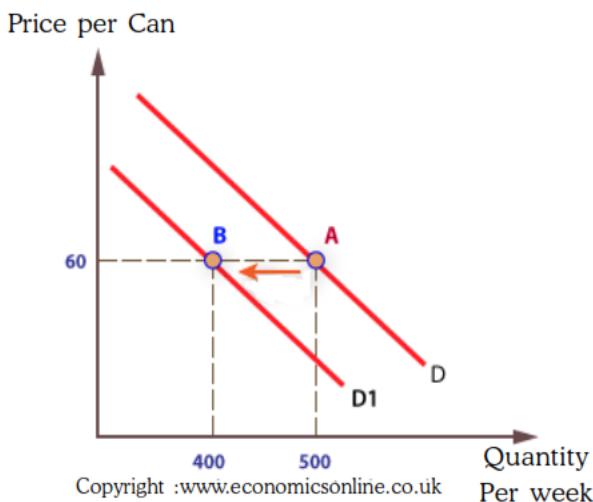
- (a) *Increase in Demand* : When demand changes not because of price but because of changes in other determinants of demand, it is a case of either increase or decrease in demand. "Increase in demand means more demand at same price".

Increases in demand are shown by a shift to the right in the demand curve. This could be caused by a number of factors, including a rise in income, a rise in the price of a substitute or a fall in the price of a complement.



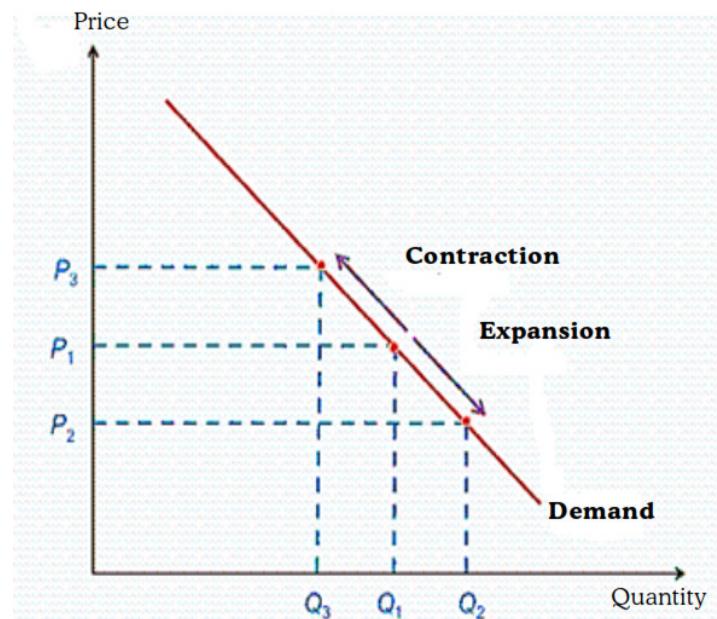
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- (b) Decrease in Demand: Decrease in demand means, "Less demand at same price". Demand can decrease and cause a shift to the left of the demand curve for a number of reasons, including a fall in income, assuming a good is a normal good, a fall in the price of a substitute and a rise in the price of a complement.



Expansion and Contraction of Demand

When the quantity demanded of a commodity increases as a result of the fall in the price, it is called extension (or expansion) in demand and when the quantity demanded decreases as a result of an increase in the price of the commodity, it is called contraction in demand. The following is the diagrammatical presentation of expansion and contraction of demand:



Source: knowledgiate.com

FORMS OF MARKET COMPETITION

A variety of market structures will characterize an economy. Such market structures essentially refer to the degree of competition in a market.

There are other determinants of market structures such as the nature of the goods and products, the number of sellers, number of consumers, the nature of the product or service, economies of scale etc. We will discuss the five basic types of market structures in any economy.

(1) Perfect Competition

In a perfect competition market structure, there are a large number of buyers and sellers. All the sellers in the market are small sellers in competition with each other. There is no one big seller with any significant influence on the market. So, all the firms in such a market are price takers.

There are certain assumptions when discussing the perfect competition. This is the reason a perfect competition market is pretty much a theoretical concept. These assumptions are as follows,

- The products on the market are homogeneous, i.e. they are completely identical
- All firms only have the motive of profit maximization
- There is free entry and exit from the market, i.e. there are no barriers
- And there is no concept of consumer preference

(2) Monopolistic Competition

This is a more realistic scenario that actually occurs in the real world. In monopolistic competition, there are still a large number of buyers as well as sellers. But they all do not sell homogeneous products. The products are similar but all sellers sell slightly differentiated products.

Now consumers have the preference of choosing one product over another. The sellers can also charge a marginally higher price since they may enjoy some market power. So, the sellers become the price setters to a certain extent.

For example, the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours. Another such example is toothpaste.

(3) **Oligopoly**

In an oligopoly, there are only a few firms in the market. While there is no clarity about the number of firms, 3-5 dominant firms are considered the norm. So, in the case of an oligopoly, the buyers are far greater than the sellers.

The firms in this case either compete with another to collaborate together. They use their market influence to set the prices and in turn maximize their profits. So, the consumers become the price takers. In an oligopoly, there are various barriers to entry into the market, and new firms find it difficult to establish themselves.

(4) **Monopoly**

In a monopoly type of market structure, there is only one seller, so a single firm will control the entire market. It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller. Monopolies are extremely undesirable. Here the consumers lose all their power and market forces become irrelevant. However, a pure monopoly is very rare in reality.

(5) **Duopoly**

A duopoly is a kind of oligopoly: a market dominated by a small number of firms. In the case of a duopoly, a particular market or industry is dominated by just two firms (this is in contrast to the more widely-known case of a monopoly when just one company dominates).

In very rare cases, this means they are the only two firms in the entire market (this almost never occurs); in practice, it usually means the two duopolistic firms have a great deal of influence, and their actions, as well as their relationship to each other, powerfully shape their industry. Duopolistic markets are imperfectly competitive, so entry barriers are typically significant for those attempting to enter the market, but there are usually still other, smaller businesses persisting alongside the two dominant firms.

ELASTICITY OF SUPPLY

The elasticity of supply establishes a quantitative relationship between the supply of a commodity and its price. Hence, we can express the numeral change in supply with the change in the price of a commodity using the concept of elasticity. Note that elasticity can also be calculated with respect to the other determinants of supply.

However, the major factor controlling the supply of a commodity is its price. Therefore, we generally talk about the price elasticity of supply. The price elasticity of supply is the ratio of the percentage change in the price to the percentage change in quantity supplied of a commodity.

$$E_s = [\Delta q/q] \times 100 \div [(\Delta p/p) \times 100] = (\Delta q/q) \div (\Delta p/p)$$

Δ_q = The change in quantity supplied

q = The quantity supplied

Δp = The change in price

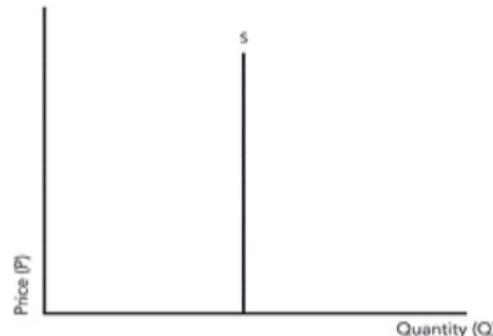
p = The price

Types of Price Elasticity of Supply

1. *Perfectly Inelastic Supply* : A service or commodity has a perfectly inelastic supply if a given quantity of it can be supplied whatever might be the price. The elasticity of supply for such a service or commodity is zero. A perfectly inelastic supply curve is a straight line parallel to the Y-axis. This is representative of the fact that the supply remains the same irrespective of the price.

The supply of exclusive items, like the painting of Mona Lisa, falls into this category. Whatever might be the price on offer, there is no way we can increase its supply.

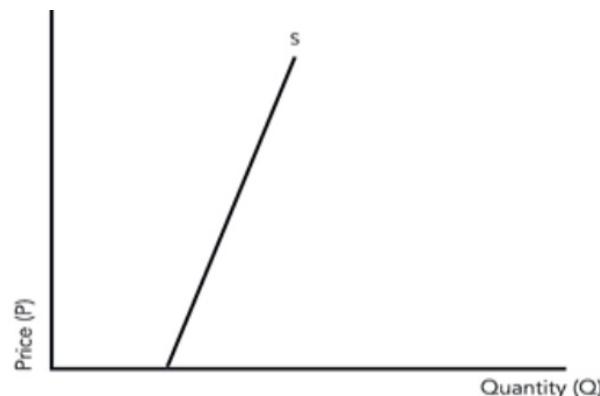
(PES = 0), The Quantity Supplied doesn't change as the price changes.



Source: Intelligent Economist

2. *Relatively Less-Elastic Supply* : When the change in supply is relatively less when compared to the change in price, we say that the commodity has a relatively-less elastic supply. In such a case, the price elasticity of supply assumes a value less than 1.

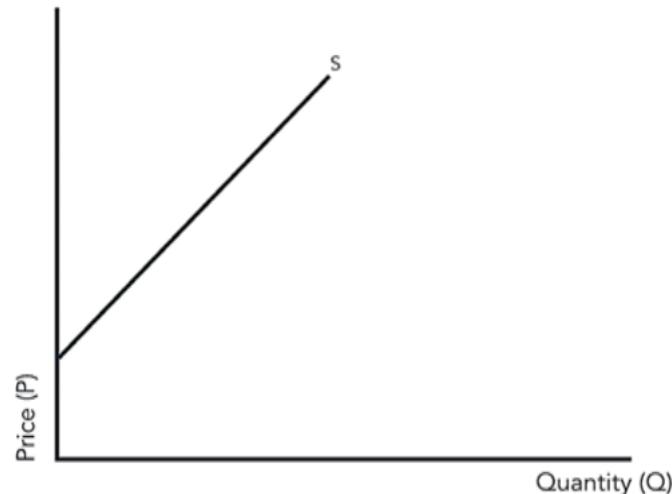
($0 < PES < 1$), Quantity Supplied changes by a lower percentage than a percentage change in price.



Source: Intelligent Economist

3. *Relatively Greater-Elastic Supply* : When the change in supply is relatively more when compared to the change in price, we say that the commodity has a relatively greater-elastic supply. In such a case, the price elasticity of supply assumes a value greater than 1.

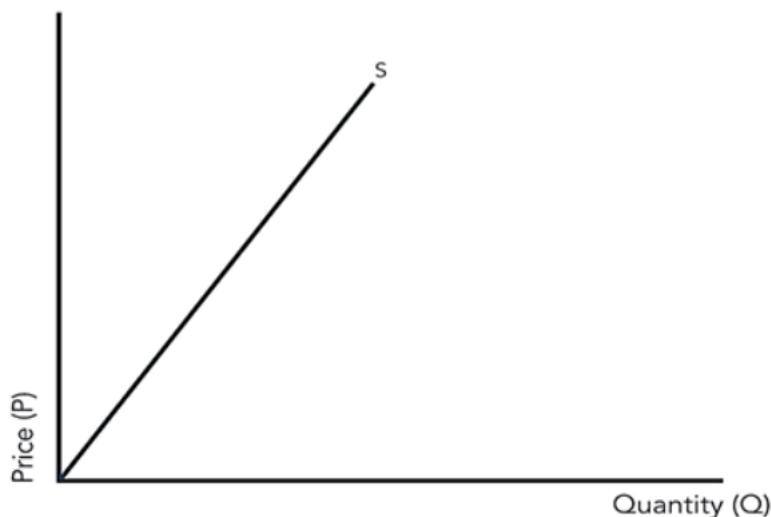
($PES > 1$), The Quantity Supplied changes by a larger percentage than the percentage change in price.



Source: *Intelligent Economist*

4. *Unitary Elastic Supply* : For a commodity with a unit elasticity of supply, the change in quantity supplied of a commodity is exactly equal to the change in its price. In other words, the change in both price and supply of the commodity is proportionately equal to each other. To point out, the elasticity of supply in such a case is equal to one. Further, a unitary elastic supply curve passes through the origin.

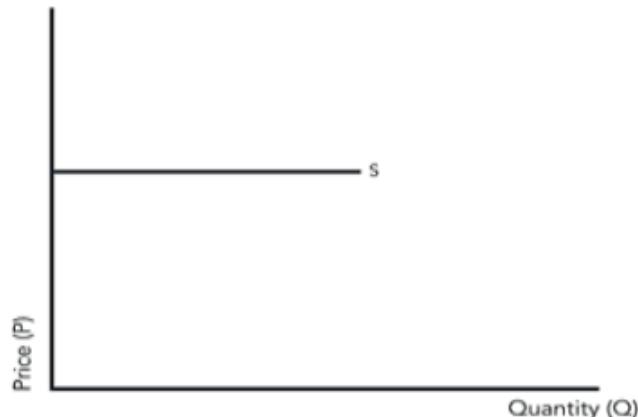
($PES = 1$), Quantity Supplied changes by the same percentage as the change in price.



Source: *Intelligent Economist*

5. *Perfectly Elastic supply* : A commodity with a perfectly elastic supply has an infinite elasticity. In such a case the supply becomes zero with even a slight fall in the price and becomes infinite with a slight rise in price. This is indicative of the fact that the suppliers of such a commodity are willing to supply any quantity of the commodity at a higher price. A perfectly elastic supply curve is a straight line parallel to the X-axis.

(PES = ∞). Suppliers will be willing and able to supply any amount at a given price but none at a different price.



Source: Intelligent Economist

Factors influencing the elasticity of supply

1. *Price of the Good* : The supply and elasticity of supply of a good depend upon the price of the good. If the price of a good increases or decreases, the quantity supplied of it will also increase or decrease, respectively. This is the law of supply. Also, the coefficient of price-elasticity of supply (ES) will depend on the price of the good. ES may be greater than, less than, or equal to one, depending on the price.
2. *Probability that the Price would Change in Future* : If the sellers think that the price of the good will increase (or decrease) in near future, then, at any particular price at present, they would want to decrease (or increase) their supply. In this case, the supply curve for the good would shift to the left (or to the right).
3. *Conditions regarding Cost of Production* : If the cost of production of good increases (or decreases), i.e., if its cost curve shifts upwards (or downwards), then the quantity supplied of the good would decrease (or increase) at any particular price, i.e., the supply curve would shift to the left (or to the right).
4. *Nature of the Good* : The supply of a good depends upon the nature of the good, e.g., on the perishability and lumpiness of the good. The more the perishability or lumpiness of the good, the more would be its market localised, and, in a localised market, the supply of a good at any particular price would be relatively small.

5. *Length of Time* : If the price of good rises, then by how much would supply rise, or, how large will be the price-elasticity of supply, would depend on the length of time available for the necessary adjustments (e.g., in the quantities of the factor inputs used) to complete. That is why; the elasticity of supply in the long-period market would be larger than that in the short-period market.

LESSON 2

NATIONAL INCOME ACCOUNTING AND RELATED CONCEPTS

INTRODUCTION

National income is an uncertain term which is used interchangeably with national dividend, national output and national expenditure. On this basis, national income has been defined in a number of ways. In common parlance, national income means the total value of goods and services produced annually in a country.

In other words, the total amount of income accruing to a country from economic activities in a year's time is known as national income. It includes payments made to all resources in the form of wages, interest, rent and profits.

National Income or Net National Income is Gross National Income or Gross National Product less depreciation. It is to be noted that National Income includes Net Factor Income Earned from Abroad also. While computing National Income only finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies.

METHODS TO MEASURE NATIONAL INCOME

There are three methods of measuring the national income of a country. They yield the same result. These methods are:

- (1) The Product Method or Value Added Method.
- (2) The Income Method.
- (3) The Expenditure Method

(1) The Product Method : The Product method measures the contribution of each producing enterprise in the domestic territory of the country. This method involves the following steps:

- (a) Identifying the producing enterprise and classifying them into individual sectors according to their activities.
- (b) Estimating net value added by each producing enterprise as well as each industrial sector and adding up the net value added by all the sectors.

Goods and services are counted in gross domestic product (GDP) at their market values. The product approach defines a nation's gross product as that market value of goods and services currently produced within a nation during a one year period of time.

The product approach measuring national income involves adding up the value of all the final goods and services produced in the country during the year. Here we focus on various sectors of the economy and add up all their production during the year. The main sectors whose production value is added up are:

- (i) agriculture
- (ii) manufacturing
- (iii) construction
- (iv) transport and communication
- (v) banking
- (vi) administration and defence
- (vii) distribution of income.

Precautions for Product Method or Value Added Method

- (i) **Problem of double counting :** When we add up the value of output of various sectors, we should be careful to avoid double counting. This pitfall can be avoided by either counting the final value of the output or by including the extra value that each firm adds to an item.

- (ii) **Value addition in particular year :** While calculating national income, the values of goods added in the particular year in question are added up. The values which had previously been added to the stocks of raw material and goods have to be ignored. GDP thus includes only those goods, and services that are newly produced within the current period.
- (iii) **Stock appreciation :** Stock appreciation, if any, must be deducted from value added. This is necessary as there is no real increase in output.
- (iv) **Production for self consumption :** The production of goods for self consumption should be counted while measuring national income. In this method, the production of goods for self consumption should be valued at the prevailing market prices.

(2) Expenditure Method : The expenditure approach measures national income as total spending on final goods and services produced within the nation during a year. The expenditure approach to measuring national income is to add up all expenditures made for final goods and services at current market prices by households, firms and government during a year. Total aggregate final expenditure on final output thus is the sum of four broad categories of expenditures:

- (i) Consumption (ii) Investment (iii) Government and (iv) Net export.
- (i) **Consumption expenditure (C) :** Consumption expenditure is the largest component of national income. It includes expenditure on all goods and services produced and sold to the final consumer during the year.
- (ii) **Investment expenditure (I) :** Investment is the use of today's resources to expand tomorrow's production or consumption. Investment expenditure is expenditure incurred by business firms on (a) new plants, (b) adding to the stock of inventories and (c) on newly constructed houses.
- (iii) **Government expenditure (G) :** It is the second largest component of national income. It includes all government expenditure on currently produced goods and services but excludes transfer payments while computing national income.
- (iv) **Net exports ($X - M$) :** Net exports are defined as total exports minus total imports. National income calculated from the expenditure side is the sum of final consumption expenditure, expenditure by a business on plants, government spending and net exports.

Precautions for Expenditure Method

- (i) The expenditure on second hand goods should not be included as they do not contribute to the current year's production of goods.
- (ii) Similarly, expenditure on purchase of old shares and bonds is not included as these also do not represent expenditure on currently produced goods and services.
- (iii) Expenditure on transfer payments by government such as unemployment benefit, old age pensions, interest on public debt should also not be included because no productive service is rendered in exchange by recipients of these payments.

(3) Income Method : Income approach is another alternative way of computing national income. This method seeks to measure national income at the phase of distribution. In the production process of an economy, the factors of production are engaged by the enterprises. They are paid money incomes for their participation in the production. The payments received by the factors and paid by the enterprises are wages, rent, interest and profit. National income thus may be defined as the sum of wages, rent, interest and profit received or occurred to the

factors of production in lieu of their services in the production of goods. Briefly, national income is the sum of all income, wages, rents, interest and profit paid to the four factors of production. The four categories of payments are briefly described below:

- (i) Wages : It is the largest component of national income. It consists of wages and salaries along with fringe benefits and unemployment insurance.
- (ii) Rents : Rents are the income from property received by households.
- (iii) Interest : Interest is the income private businesses pay to households who have lent the business money.
- (iv) Profits: Profits are normally divided into two categories (a) profits of incorporated businesses and (b) profits of unincorporated businesses (sole proprietorship, partnerships and producers cooperatives).

Precautions for Income Method

While estimating national income through income method, the following precautions should be undertaken.

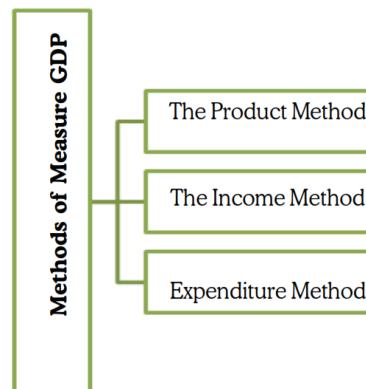
- (i) Transfer payments such as gifts, donations, scholarships, indirect taxes should not be included in the estimation of national income.
- (ii) Illegal money earned through smuggling and gambling should not be included.
- (iii) Windfall gains such as prizes won, lotteries etc. are not to be included in the estimation of national income.
- (iv) Receipts from the sale of financial assets such as shares, bonds should not be included in measuring national income as they are not related to the generation of income in the current year's production of goods.

KEY CONCEPTS OF NATIONAL INCOME

Gross Domestic Product (GDP)

GDP is the total value of goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. Dernberg defines GDP at market price as "the market value of the output of final goods and services produced in the domestic territory of a country during an accounting year."

There are three different ways to measure GDP:



- (a) *The Product Method* : In this method, the value of all goods and services produced in different industries during the year is added up. This is also known as the value added method to GDP or GDP at factor cost by industry of origin. The following items are included in India in this: agriculture and allied services; mining; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estates and ownership of dwellings and business services; and public administration and defence and other services (or government services). In other words, it is the sum of gross value added.
- (b) *The Income Method* : The people of a country who produce GDP during a year receive income from their work. Thus GDP by income method is the sum of all factor incomes: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.
- (c) *Expenditure Method* : This method focuses on goods and services produced within the country during one year. GDP by expenditure method includes:
 - 1. Consumer expenditure on services and durable and non-durable goods (C).
 - 2. Investment in fixed capital such as residential and non-residential building, machinery, and inventories (I).
 - 3. Government expenditure on final goods and services (G).
 - 4. Export of goods and services produced by the people of the country (X).
 - 5. Less imports (M). That part of consumption, investment and government expenditure which is spent on imports is subtracted from GDP. Similarly, any imported component, such as raw materials, which are used in the manufacture of export goods, is also excluded.

Thus $\text{GDP by expenditure method at market prices} = C + I + G + (X - M)$, where $(X-M)$ is net export which can be positive or negative.

GDP at Factor Cost

GDP at factor cost is the sum of the net value added by all producers within the country. Since the net value added gets distributed as income to the owners of factors of production, GDP is the sum of domestic factor incomes and fixed capital consumption (or depreciation).

Thus $\text{GDP at Factor Cost} = \text{Net value added} + \text{Depreciation}$. GDP at factor cost includes:

- (a) Compensation of employees i.e., wages, salaries, etc.
- (b) Operating surplus which is the business profit of both incorporated and unincorporated firms [Operating Surplus = Gross Value Added at Factor Cost—Compensation of Employees—Depreciation].
- (c) Mixed Income of Self-employed.

Conceptually, GDP at factor cost and GDP at market price must be identical/This is because the factor cost (payments to factors) of producing goods must equal the final value of goods and services at market prices. However, the market value of goods and services is different from the earnings of the factors of production.

In GDP at market price, indirect taxes are included and subsidies by the government are excluded.

Therefore, in order to arrive at GDP at factor cost, indirect taxes are subtracted and subsidies are added to GDP at market price.

Thus, GDP at Factor Cost = GDP at Market Price – Indirect Taxes + Subsidies.

- (i) *Net Domestic Product (NDP)* : NDP is the value of the net output of the economy during the year. Some of the country's capital equipment wears out or becomes obsolete each year during the production process. The value of this capital consumption is some percentage of gross investment which is deducted from GDP. Thus Net Domestic Product = GDP at Factor Cost – Depreciation.
- (ii) *Nominal and Real GDP* : When GDP is measured on the basis of current price, it is called GDP at current prices or nominal GDP. On the other hand, when GDP is calculated on the basis of fixed prices in some year, it is called GDP at constant prices or real GDP.

Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of a rise in prices (or inflation).

On the contrary, GDP may increase as a result of a fall in prices in a year but actually it may be less as compared to the last year. In both cases, GDP does not show the real state of the economy. To rectify the underestimation and overestimation of GDP, we need a measure that adjusts for rising and falling prices.

This can be done by measuring GDP at constant prices which is called real GDP. To find out the real GDP, a base year is chosen when the general price level is normal, i.e., it is neither too high nor too low. The prices are set to 100 (or 1) in the base year.

Now the general price level of the year for which real GDP is to be calculated is related to the base year on the basis of the following formula which is called the deflator index:

$$\text{Real GDP} = \frac{\text{GDP for the Current Year} \times \text{Base Year (100)}}{\text{Current Year Index}}$$

GDP Deflator

GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100. Thus,

$$\text{GDP Deflator} = \frac{\text{Nominal (or Current Prices) GDP}}{\text{Real (or Constant Prices) GDP}} \times 100$$

Gross National Product (GNP)

GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

GNP includes four types of final goods and services:

1. Consumers' goods and services to satisfy the immediate wants of the people;
2. Gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods;

3. Goods and services produced by the government; and
4. Net exports of goods and services, i.e., the difference between the value of exports and imports of goods and services, known as net income from abroad.

In this concept of GNP, there are certain factors that have to be taken into consideration:

First, GNP is the measure of money, in which all kinds of goods and services produced in a country during one year are measured in terms of money at current prices and then added together.

Second, in estimating GNP of the economy, the market price of only the final products should be taken into account. Many of the products pass through a number of stages before they are ultimately purchased by consumers.

If those products were counted at every stage, they would be included many a time in the national product. Consequently, the GNP would increase too much. To avoid double-counting, therefore, only the final products and not the intermediary goods should be taken into account.

Third, goods and services rendered free of charge are not included in the GNP, because it is not possible to have a correct estimate of their market price. For example, the bringing up of a child by the mother, imparting instructions to his son by a teacher, recitals to his friends by a musician, etc.

Fourth, the transactions which do not arise from the produce of current year or which do not contribute in any way to production are not included in the GNP. The sale and purchase of old goods, and of shares, bonds and assets of existing companies are not included in GNP because these do not make any addition to the national product, and the goods are simply transferred.

Fifth, the payments received under social security, e.g., unemployment insurance allowance, old age pension, and interest on public loans are also not included in GNP, because the recipients do not provide any service in lieu of them. But the depreciation of machines, plants and other capital goods is not deducted from GNP.

Sixth, the profits earned or losses incurred on account of changes in capital assets as a result of fluctuations in market prices are not included in the GNP if they are not responsible for the current production or economic activity.

For example, if the price of a house or a piece of land increases due to inflation, the profit earned by selling it will not be a part of GNP. But if, during the current year, a portion of a house is constructed anew, the increase in the value of the house (after subtracting the cost of the newly constructed portion) will be included in the GNP. Similarly, variations in the value of assets, that can be ascertained beforehand and are insured against flood or fire, are not included in the GNP.

Last, the income earned through illegal activities is not included in the GNP. Although the goods sold in the black market are priced and fulfil the needs of the people, but as they are not useful from the social point of view, the income received from their sale and purchase is always excluded from the GNP.

There are two main reasons for this. One, it is not known whether these things were produced during the current year or the preceding years. Two, many of these goods are foreign made and smuggled and hence not included in the GNP.

Three Approaches to GNP

After having discussed the basic constituents of GNP, it is essential to know how it is estimated. Three approaches are employed for this purpose. One, the income method to GNP; two, the expenditure method to GNP and three, the value added method to GNP. Since gross income equals gross expenditure, GNP estimated by all these methods would be the same with appropriate adjustments.

1. **Income Method to GNP :** The income method to GNP consists of the remuneration paid in terms of money to the factors of production annually in a country.

Thus GNP is the sum total of the following items:

- (a) *Wages and salaries* : Under this head are included all forms of wages and salaries earned through productive activities by workers and entrepreneurs. It includes all sums received or deposited during a year by way of all types of contributions like overtime, commission, provident fund, insurance, etc.
- (b) *Rents* : Total rent includes the rents of land, shop, house, factory, etc. and the estimated rents of all such assets as are used by the owners themselves.
- (c) *Interest* : Under interest comes the income by way of interest received by the individual of a country from different sources. To this is added, the estimated interest on that private capital which is invested and not borrowed by the businessman in his personal business. But the interest received on governmental loans has to be excluded, because it is a mere transfer of national income.
- (d) *Dividends* : Dividends earned by the shareholders from companies are included in the GNP.
- (e) *Undistributed corporate profits* : Profits which are not distributed by companies and are retained by them are included in the GNP.
- (f) *Mixed incomes* : These include profits of an unincorporated business, self-employed persons and partnerships. They form part of GNP.
- (g) *Direct taxes* : Taxes levied on individuals, corporations and other businesses are included in the GNP.
- (h) *Indirect taxes* : The government levies a number of indirect taxes, like excise duties and sales tax. These taxes are included in the price of commodities. But revenue from these goes to the government treasury and not to the factors of production. Therefore, the income due to such taxes is added to the GNP.
- (i) *Depreciation* : Every corporation makes allowance for expenditure on wearing out and depreciation of machines, plants and other capital equipment. Since this sum also is not a part of the income received by the factors of production, it is, therefore, also included in the GNP.
- (j) *Net income earned from abroad* : This is the difference between the value of exports of goods and services and the value of imports of goods and services. If this difference is positive, it is added to the GNP and if it is negative, it is deducted from the GNP.

GNP according to the Income Method = Wages and Salaries + Rents + Interest + Dividends + Undistributed Corporate Profits + Mixed Income + Direct Taxes + Indirect Taxes + Depreciation + Net Income from abroad.

2. **Expenditure Method to GNP :** From the expenditure viewpoint, GNP is the sum total of expenditure incurred on goods and services during one year in a country.

It includes the following items:

- (a) *Private consumption expenditure* : It includes all types of expenditure on personal consumption by the individuals of a country. It comprises expenses on durable goods like watch, bicycle, radio, etc., expenditure on single-used consumers' goods like milk, bread, ghee, clothes, etc., as also the expenditure incurred on services of all kinds like fees for school, doctor, lawyer and transport. All these are taken as final goods.
- (b) *Gross domestic private investment* : Under this the expenditure incurred by private enterprise on new investment and on replacement of old capital. It includes expenditure on house construction, factory- buildings, and all types of machinery, plants and capital equipment.

In particular, the increase or decrease in inventory is added to or subtracted from it. The inventory includes produced but unsold manufactured and semi-manufactured goods during the year and the stocks of raw materials, which have to be accounted for in GNP. It does not take into account the financial exchange of shares and stocks because their sale and purchase is not real investment. But depreciation is added.

- (c) *Net foreign investment* : It means the difference between exports and imports or export surplus. Every country exports to or imports from certain foreign countries. The imported goods are not produced within the country and hence cannot be included in the national income, but the exported goods are manufactured within the country. Therefore, the difference in value between exports (X) and imports (M), whether positive or negative, is included in the GNP.
- (d) *Government expenditure on goods and services* : The expenditure incurred by the government on goods and services is a part of the GNP. Central, state or local governments spend a lot on their employees, police and army. To run the offices, the governments have also to spend on contingencies which include paper, pen, pencil and various types of stationery, cloth, furniture, cars, etc.

It also includes the expenditure on government enterprises. But expenditure on transfer payments is not added, because these payments are not made in exchange for goods and services produced during the current year.

Thus GNP according to the Expenditure Method=Private Consumption Expenditure (C) + Gross Domestic Private Investment (I) + Net Foreign Investment (X-M) + Government Expenditure on Goods and Services (G) = C+ I + (X-M) + G.

3. **Value Added Method to GNP :** Another method of measuring GNP is by value added. In calculating GNP, the money value of final goods and services produced at current prices

during a year is taken into account. This is one of the ways to avoid double counting. But it is difficult to distinguish properly between a final product and an intermediate product.

For instance, raw materials, semi-finished products, fuels and services, etc. are sold as inputs by one industry to the other. They may be final goods for one industry and intermediate for others. So, to avoid duplication, the value of intermediate products used in manufacturing final products must be subtracted from the value of total output of each industry in the economy.

Thus, the difference between the value of material outputs and inputs at each stage of production is called the value added. If all such differences are added up for all industries in the economy, we arrive at the GNP by value added. $\text{GNP by value added} = \text{Gross value added} + \text{net income from abroad}$.

GNP at Market Prices

When we multiply the total output produced in one year by the market prices prevalent during that year in a country, we get the Gross National Product at market prices. Thus GNP at market prices means the gross value of final goods and services produced annually in a country plus net income from abroad.

$$\text{GNP at Market Prices} = \text{GDP at Market Prices} + \text{Net Income from Abroad.}$$

GNP at Factor Cost

GNP at factor cost is the sum of the money value of the income produced by and accruing to the various factors of production in one year in a country. It includes all items mentioned above under income method to GNP less indirect taxes.

GNP at market prices always includes indirect taxes levied by the government on goods which raise their prices. But GNP at factor cost is the income that the factors of production receive in return for their services alone. It is the cost of production.

Thus GNP at market prices is always higher than GNP at factor cost. Therefore, in order to arrive at GNP at factor cost, we deduct indirect taxes from GNP at market prices. Again, it often happens that the cost of production of a commodity to the producer is higher than a price of a similar commodity in the market.

In order to protect such producers, the government helps them by granting monetary help in the form of a subsidy equal to the difference between the market price and the cost of production of the commodity. As a result, the price of the commodity to the producer is reduced and equals the market price of a similar commodity.

For example, if the market price of rice is Rs. 3 per kg but it costs the producers in certain areas Rs. 3.50. The government gives a subsidy of 50 paise per kg to them in order to meet their cost of production. Thus in order to arrive at GNP at factor cost, subsidies are added to GNP at market prices.

$$\text{GNP at Factor Cost} = \text{GNP at Market Prices} - \text{Indirect Taxes} + \text{Subsidies.}$$

Net National Product (NNP)

NNP includes the value of the total output of consumption goods and investment goods. But the process of production uses up a certain amount of fixed capital. Some fixed equipment wears out, its other components are damaged or destroyed, and still others are rendered obsolete through technological changes.

All this process is termed depreciation or capital consumption allowance. In order to arrive at NNP, we deduct depreciation from GNP. The word 'net' refers to the exclusion of that part of total output which represents depreciation. So $NNP = GNP - \text{Depreciation}$.

NNP at Market Prices

Net National Product at market prices is the net value of final goods and services evaluated at market prices in the course of one year in a country. If we deduct depreciation from GNP at market prices, we get NNP at market prices.

$$\text{NNP at Market Prices} = \text{GNP at Market Prices} - \text{Depreciation}.$$

NNP at Factor Cost

Net National Product at factor cost is the net output evaluated at factor prices. It includes income earned by factors of production through participation in the production process such as wages and salaries, rents, profits, etc. It is also called National Income. This measure differs from NNP at market prices in that indirect taxes are deducted and subsidies are added to NNP at market prices in order to arrive at NNP at factor cost. Thus,

$$\begin{aligned}\text{NNP at Factor Cost} &= \text{NNP at Market Prices} - \text{Indirect taxes} + \text{Subsidies} \\ &= \text{GNP at Market Prices} - \text{Depreciation} - \text{Indirect taxes} + \text{Subsidies}. \\ &= \text{National Income}.\end{aligned}$$

Normally, NNP at market prices is higher than NNP at factor cost because indirect taxes exceed government subsidies. However, NNP at market prices can be less than NNP at factor cost when government subsidies exceed indirect taxes.

Domestic Income

Income generated (or earned) by factors of production within the country from its own resources is called domestic income or domestic product.

Domestic income includes:

- (i) Wages and salaries, (ii) rents, including imputed house rents, (iii) interest, (iv) dividends, (v) undistributed corporate profits, including surpluses of public undertakings, (vi) mixed incomes consisting of profits of unincorporated firms, self-employed persons, partnerships, etc., and (vii) direct taxes.

Since domestic income does not include income earned from abroad, it can also be shown as:
 $\text{Domestic Income} = \text{National Income} - \text{Net income earned from abroad}$. Thus the difference between

domestic income and national income is the net income earned from abroad. If we add net income from abroad to domestic income, we get national income, i.e., National Income = Domestic Income + Net income earned from abroad.

But the net national income earned from abroad may be positive or negative. If exports exceed imports, net income earned from abroad is positive. In this case, national income is greater than domestic income. On the other hand, when imports exceed exports, net income earned from abroad is negative and domestic income is greater than national income.

Private Income

Private income is income obtained by private individuals from any source, productive or otherwise, and the retained income of corporations. It can be arrived at from NNP at Factor Cost by making certain additions and deductions.

The additions include transfer payments such as pensions, unemployment allowances, sickness and other social security benefits, gifts and remittances from abroad, windfall gains from lotteries or from horse racing, and interest on public debt. The deductions include income from government departments as well as surpluses from public undertakings, and employees' contribution to social security schemes like provident funds, life insurance, etc.

Private Income = National Income (or NNP at Factor Cost) + Transfer Payments + Interest on Public Debt — Social Security — Profits and Surpluses of Public Undertakings.

Personal Income

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in one year. Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

Personal income is derived from national income by deducting undistributed corporate profits, profit taxes, and employees' contributions to social security schemes. These three components are excluded from national income because they do not reach individuals.

But business and government transfer payments, and transfer payments from abroad in the form of gifts and remittances, windfall gains, and interest on public debt which are a source of income for individuals are added to national income.

Personal Income = National Income – Undistributed Corporate Profits – Profit Taxes – Social Security Contribution + Transfer Payments + Interest on Public Debt.

Personal income differs from private income in that it is less than the latter because it excludes undistributed corporate profits.

Personal Income = Private Income – Undistributed Corporate Profits – Profit Taxes

Disposable Income

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on

consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain disposable income, direct taxes are deducted from personal income. Thus, $\text{Disposable Income} = \text{Personal Income} - \text{Direct Taxes}$.

But the whole of disposable income is not spent on consumption and a part of it is saved. Therefore, disposable income is divided into consumption expenditure and savings. Thus $\text{Disposable Income} = \text{Consumption Expenditure} + \text{Savings}$.

If disposable income is to be deduced from national income, we deduct indirect taxes plus subsidies, direct taxes on personal and on business, social security payments, undistributed corporate profits or business savings from it and add transfer payments and net income from abroad to it.

Disposable Income = National Income – Business Savings – Indirect Taxes + Subsidies – Direct Taxes on Persons – Direct Taxes on Business – Social Security Payments + Transfer Payments + Net Income from abroad.

Real Income

Real income is national income expressed in terms of a general level of prices of a particular year taken as a base. National income is the value of goods and services produced as expressed in terms of money at current prices. But it does not indicate the real state of the economy.

It is possible that the net national product of goods and services this year might have been less than that of the last year, but owing to an increase in prices, NNP might be higher this year. On the contrary, it is also possible that NNP might have increased but the price level might have fallen, as a result, national income would appear to be less than that of the last year. In both situations, the national income does not depict the real state of the country. To rectify such a mistake, the concept of real income has been evolved.

In order to find out the real income of a country, a particular year is taken as the base year when the general price level is neither too high nor too low and the price level for that year is assumed to be 100. Now the general level of prices of the given year for which the national income (real) is to be determined is assessed in accordance with the prices of the base year. For this purpose, the following formula is employed.

Real NNP = NNP for the Current Year \times Base Year Index (=100) / Current Year Index

Per Capita Income

The average income of the people of a country in a particular year is called Per Capita Income for that year. This concept also refers to the measurement of income at current prices and at constant prices. For instance, in order to find out the per capita income for 2018, at current prices, the national income of a country is divided by the population of the country in that year.

$$\text{Per Capita Income for 2018} = \frac{\text{National Income for 2018}}{\text{Population of 2018}}$$

Similarly, for the purpose of arriving at the Real Per Capita Income, this very formula is used.

$$\text{Real Per Capita Income for 2018} = \frac{\text{Real National Income for 2018}}{\text{Population of 2018}}$$

This concept enables us to know the average income and the standard of living of the people. But it is not very reliable, because in every country due to unequal distribution of national income, a major portion of it goes to the richer sections of the society and thus income received by the common man is lower than the per capita income.

LESSON 3

INDIAN UNION BUDGET

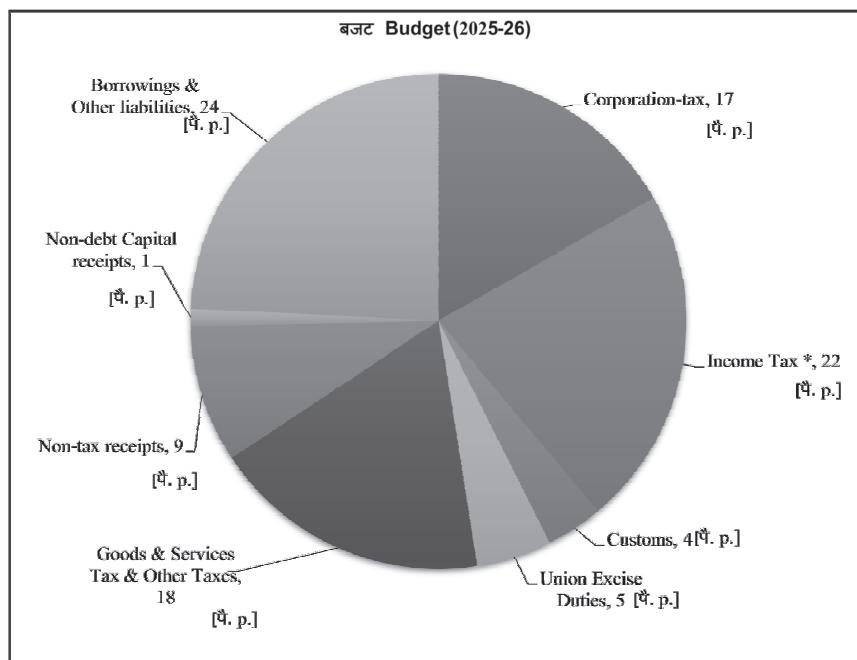
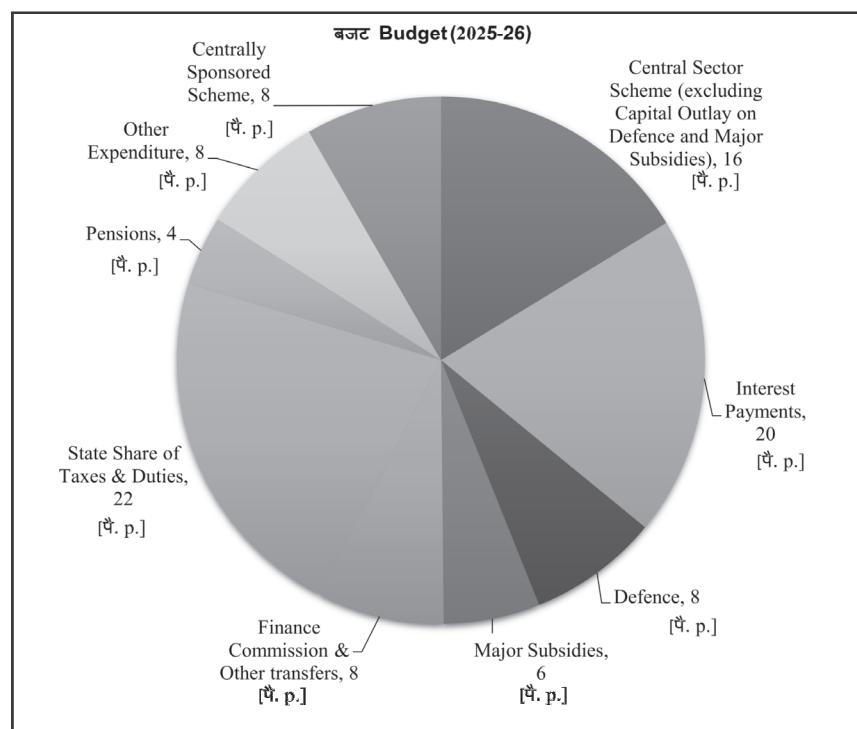
A description of anticipated receipts and expenses, known as the "Annual Financial Statement," must be presented to the Parliament for consideration each fiscal year in accordance with Article 112 of the constitution.

The Indian Union Budget is an annual financial statement presented by the Finance Minister of India in the Parliament. It outlines the government's revenue and expenditure for the upcoming financial year, which begins on April 1st and ends on March 31st of the following year. The Union Budget is an important tool for the government to manage the economy, allocate resources, and implement policies to achieve its economic and social objectives.

Here are some key aspects of the Indian Union Budget:

1. **Budget Speech** : The finance minister delivers a budget speech in Parliament, highlighting the government's economic policies, fiscal measures, and priorities for the upcoming year. The speech provides an overview of the state of the economy, key challenges, and policy initiatives.
2. **Revenue and Expenditure** : The budget provides details of the government's revenue sources, including taxes, duties, and non-tax revenues, as well as its planned expenditures across various sectors such as infrastructure, healthcare, education, defence, agriculture, and social welfare programs.
3. **Fiscal Deficit** : The budget outlines the government's fiscal deficit target, which is the difference between total revenue and total expenditure. Fiscal deficit management is crucial for maintaining macroeconomic stability and investor confidence.
4. **Taxation** : The budget may introduce changes to the tax regime, including revisions to income tax rates, corporate tax rates, customs duties, excise duties, and other levies. Tax reforms are often aimed at promoting economic growth, incentivizing investments, and improving tax compliance.
5. **Policy Initiatives** : The budget may announce policy measures and reforms to address key economic challenges, promote inclusive growth, enhance infrastructure development, boost investment climate, and improve governance and transparency.
6. **Sectoral Allocations** : The budget allocates funds to different sectors based on government priorities and development needs. Major sectors such as agriculture, healthcare, education, infrastructure, and defence receive significant attention in budget allocations.
7. **Public Debt Management** : The budget outlines the government's borrowing program to finance its expenditure, including both domestic and external borrowings. Effective debt management is essential for maintaining fiscal sustainability and debt sustainability.
8. **Social Welfare Programs** : The budget may include provisions for social welfare schemes and programs aimed at poverty alleviation, rural development, employment generation, healthcare access, and education.
9. **Budget Implementation** : Following the budget announcement, various ministries and departments prepare detailed expenditure plans and undertake budget execution throughout the fiscal year, subject to parliamentary approval and oversight.

Union Budget of a year, also referred to as the annual financial statement of the estimated receipts and expenditure of the government for that particular year. The followings are the estimates for the year 2025 and 2026 of the sources of various receipts and expenditures.

Rupee Comes From**Rupee Goes To**

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

OBJECTIVES AND SIGNIFICANCE OF BUDGET

One of the key objectives of the Indian Union Budget is to promote economic growth and development. To achieve this, the government allocates resources to various sectors such as agriculture, education, health, infrastructure, and defense. The budget also aims to promote social welfare and reduce poverty by increasing investments in social programs and schemes.

Another objective of the Union Budget is to maintain macroeconomic stability by managing inflation and reducing the fiscal deficit. To achieve this, the government may introduce measures such as increasing taxes, reducing subsidies, and rationalizing government expenditure. The government may also take steps to attract foreign investment and promote exports, in order to increase foreign exchange reserves and stabilize the economy.

The Indian Union Budget is also a reflection of the government's policy priorities and political agenda. For instance, in the 2021-22 Union Budget, the government focused on promoting infrastructure development, increasing healthcare spending, and boosting rural and agricultural growth. The government also announced several measures to promote digitalization, innovation, and entrepreneurship, as part of its vision to make India self-reliant and a global manufacturing hub.

The Union Budget has a significant impact on the Indian economy and its various stakeholders. For instance, businesses and industries are affected by changes in tax rates, subsidies, and government policies. Investors and financial markets also closely monitor the budget announcements, as they can affect stock prices, bond yields, and currency exchange rates. Similarly, individual taxpayers are affected by changes in income tax rates, deductions, and exemptions.

The Union Budget is also a platform for the government to announce policy reforms and initiatives. For instance, in recent years, the government has introduced several reforms such as the Goods and Services Tax (GST), Digital India, Make in India, and Atmanirbhar Bharat, which have had a significant impact on the Indian economy and society.

In conclusion, the Indian Union Budget is a crucial instrument of economic governance and policymaking in India. It reflects the government's economic priorities, policy objectives, and political agenda. The budget provides an opportunity for the government to promote economic growth, social welfare, and macroeconomic stability, while also addressing the challenges and opportunities facing the Indian economy. The budget also has a significant impact on various stakeholders, including businesses, investors, financial markets, and individual taxpayers. As such, it is important for the government to manage the budget effectively and transparently, and ensure that its policies and measures are inclusive and sustainable.

Major Components of Union Budget

The Union Budget comprises three major components:

- 1. Revenue Budget**
- 2. Capital Budget**
- 3. Fiscal Policy Statement**

The revenue budget includes the government's revenue and expenditure for the upcoming year, while the capital budget outlines the government's capital expenditure, including investments in infrastructure, and other long-term assets. The fiscal policy statement provides an overview of the government's macroeconomic policies and objectives for the upcoming financial year. Now we will discuss each of the components in detail.

Revenue Budget

The Revenue Budget consists of the revenue receipts of the Government (Tax revenues and non-tax revenues) and the revenue expenditure. Tax revenues comprise proceeds of taxes and other duties levied by the Union. Other revenues are receipts of the government mainly consisting of interest and dividend on investments made by the government, and fees and receipts for other services rendered by the government.

The Revenue Budget of India is an essential component of the Union Budget, which lays out the government's revenue and expenditure plans for the upcoming fiscal year. The Revenue Budget is a crucial tool for promoting economic growth and development in India, as it enables the government to allocate resources efficiently and effectively towards critical areas such as education, healthcare, infrastructure, and social welfare programs.

The Revenue Budget comprises two major components:

- 1. Revenue Receipts**
- 2. Revenue Expenditure**

Revenue Receipts refer to the government's revenue inflows from various sources such as taxes, duties, fees, and other levies. Revenue Expenditure refers to the government's expenditure on various heads such as salaries and wages, interest payments, subsidies, pensions, and grants, among others. Revenue receipts includes tax revenue and non-tax revenue.

Tax Revenue

Tax revenue is the most significant source of revenue for the Indian government, which includes both direct and indirect taxes. Direct taxes refer to taxes that are paid directly by individuals and corporations, whereas Indirect taxes refer to taxes that are levied on goods and services. Tax revenue contributes around 70% of the government's total revenue receipts.

The followings are the examples of tax revenue:

- 1. Income Tax:** Tax levied on the income earned by individuals and entities.
- 2. Corporate Tax:** Tax imposed on the profits earned by companies.
- 3. Goods and Services Tax (GST):** A consumption tax levied on the sale of goods and services.
- 4. Customs Duty:** Tax imposed on goods imported into or exported out of the country.
- 5. Excise Duty:** Tax levied on the production or sale of certain goods within the country.

Non-Tax Revenue

Non-tax revenue refers to the government's revenue inflows from sources other than taxes. Non-tax revenue contributes around 30% of the government's total revenue receipts. Non-tax revenue includes sources such as:

- 1. Interest Receipts:** Interest earned on loans extended by the government.
- 2. Dividend and Profits:** Income earned from investments in public sector enterprises.
- 3. Fees and Fines:** Revenue generated from fees for government services and fines imposed for violations of regulations.
- 4. Revenue from Public Sector Enterprises:** Income earned by the government from its ownership of public sector companies.

The following is the abstract of receipts of the Receipt Budget 2025-2026

ABSTRACT OF RECEIPTS

	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
	2023-2024	2024-2025	2024-2025	2025-2026
REVENUE RECEIPTS				
1. Tax Revenue				
Gross Tax Revenue	34,65,518.58	38,40,170.40	38,53,455.01	42,70,233.00
Corporation Tax	9,11,055.01	10,20,000.00	9,80,000.00	10,82,000.00
Taxes on Income	10,45,178.31	11,87,000.00	12,57,000.00	14,38,000.00
Customs	2,33,118.97	2,37,745.00	2,35,000.00	2,40,000.00
Union Excise Duties	3,09,291.26	3,24,000.00	3,10,000.00	3,22,000.00
Service Tax	424.96	100.00	100.00	100.00
Goods and Services Tax (GST) #	9,57,207.82	10,61,899.00	10,61,899.00	11,78,000.00
Taxes of Union Territories	9,242.25	9,426.40	9,456.01	10,133.00
Less - NCCD transferred to the National Calamity				
Contingency Fund/National Disaster Response Fund	8,774.32	9,460.00	9,610.00	10,380.00
Less - States' share	11,29,493.71	12,47,211.28	12,86,885.44	14,22,444.11
Centre's Net Tax Revenue	23,27,250.55	25,83,499.12	25,56,959.57	28,37,408.89
2. Non-Tax Revenue				
Interest receipts	38,260.61	38,224.00	34,041.86	47,737.98
Dividends and Profits	1,70,876.97	2,89,134.00	2,89,284.60	3,25,000.00
Other Non Tax Revenue	1,89,582.10	2,15,432.68	2,04,603.26	2,06,842.84
Receipts of Union Territories	3,065.66	2,910.32	3,070.28	3,419.18
Total Non Tax Revenue	4,01,785.34	5,45,701.00	5,31,000.00	5,83,000.00
I. Total Revenue Receipts	27,29,035.89	31,29,200.12	30,87,959.57	34,20,408.89
3. Capital Receipts				
A. Non-debt Receipts				
1. Recoveries of loans and advances@	26,645.79	27,999.99	26,000.00	29,000.00
2. Miscellaneous Capital Receipts	33,121.68	50,000.00	33,000.00	47,000.00
Total Non-debt Receipts	59,767.47	77,999.99	59,000.00	76,000.00
B. Debt Receipts				
1. Market Loans (Net)	11,77,754.10	11,63,181.77	10,74,514.17	11,53,833.94
2. Market Loans for Repayments	3,62,542.23	2,37,818.24	2,37,818.24	3,28,166.06
3. Market Loans for Buyback	-88,164.01	...
4. Market Loans for Switching	1,00,289.87	1,50,000.00	1,46,793.65	2,50,000.00
5. Less Payments for Switching	-1,02,993.55	-1,50,000.00	-1,46,994.63	-2,50,000.00
6. Market Loans (Gross) (1+2+3) + (4+5)*	15,43,000.00	14,01,000.01	14,00,697.40	14,82,000.00
7. Short Term/T-Bill Borrowings	53,205.11	-50,000.00	-120,000.00	...
8. External Loan (Net)	55,121.27	15,952.29	31,992.33	23,490.39
9. Securities issued against Small Savings (Net)	4,51,398.94	4,20,063.00	4,11,871.29	3,43,382.46
10. State Provident Fund (Net)	5,058.85	5,000.00	5,000.00	5,000.00
11. Other Receipts (Net)^	-88,689.22	-81,282.14	26,034.05	40,744.98
12. Total Debt Receipts	16,53,849.04	14,72,914.92	14,29,411.84	15,66,451.77
II. Total Capital Receipts	17,13,616.51	15,50,914.91	14,88,411.84	16,42,451.77
4. Draw-Down of Cash Balance	793.83	1,40,397.06	1,40,115.15	2,484.38
Total Receipts (I+II)	26,81,359.58	30,95,232.91	34,67,663.41	34,11,852.78

@ excludes recovery of short term Loans & Advances from States, Loans to Govt. Servants, etc.

12,223.83 50,250.01 50,250.01 50,250.01

Includes GST Compensation Cess.

* The receipts are net of payment

^ includes receipts from reserve funds, deposits and advances, etc.

Source: <https://www.indiabudget.gov.in/doc/rec/allrec.pdf>

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag5.pdf

From the above we can see there are three sources of the revenue that includes:

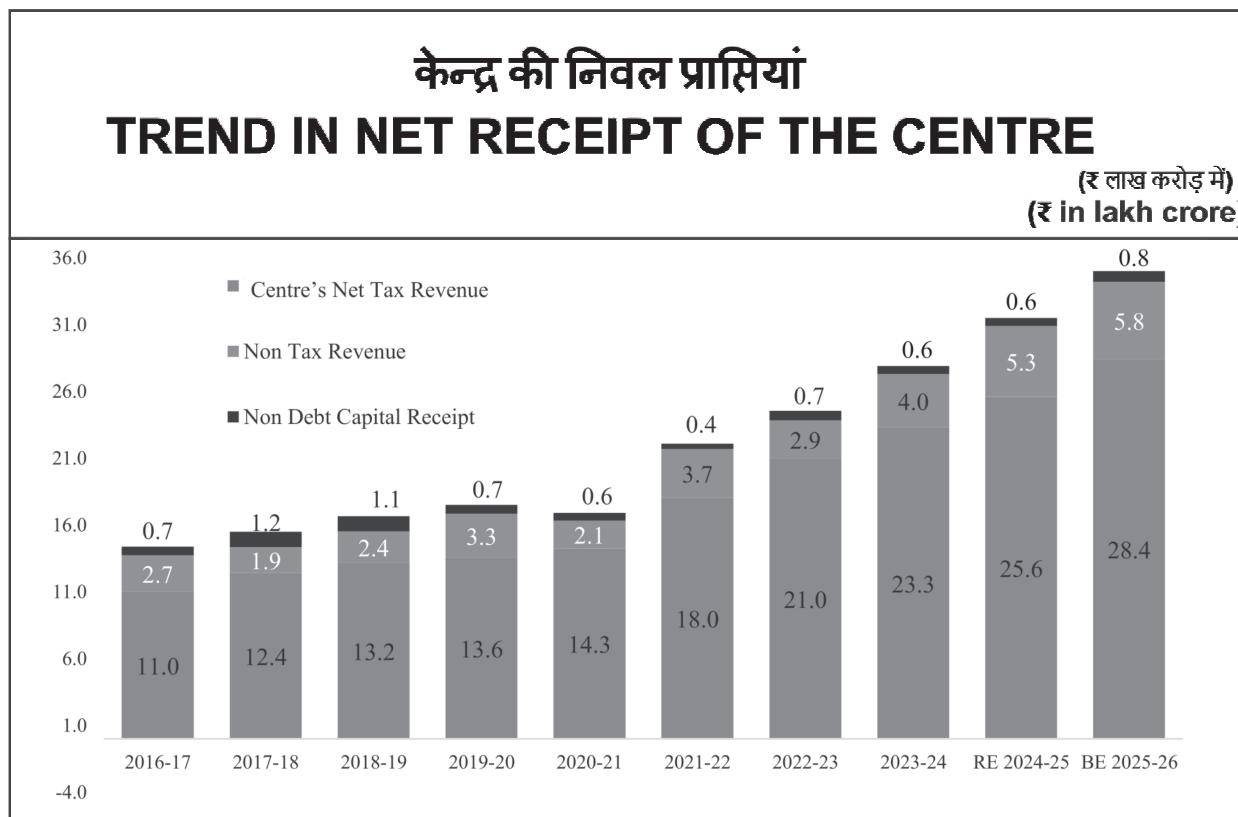
1. Tax Revenue
2. Non-tax Revenue
3. Capital Receipts (non-debt receipts and debt receipts)

The submission of the above three sources is known as total receipts. Tax revenue and non-tax revenue is explained earlier.

Capital Receipts: Though not a part of the Revenue Budget, capital receipts involve borrowing by the government and proceeds from disinvestment. Capital receipts are different from the revenue receipts because they create liabilities or reduce assets of the government.

The following diagram represents the Trend in net receipt of the centre from the year 2016-17 to 2025-26

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag5.pdf



Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

From the above we can analyze that the maximum receipt source is tax revenue followed by the non-tax revenue and the lowest contribution is of non-debt capital receipts.

Revenue Expenditure: Revenue expenditure is the government's expenditure on various heads such as salaries and wages, interest payments, subsidies, pensions, and grants, among others. The Revenue Expenditure is broadly classified into two categories:

1. Plan Revenue Expenditure
2. Non-Plan Revenue Expenditure.

The following table shows the trend of revenue expenditure for the years 2023-2024 (Actuals), 2024-2025 (Budget Estimates), 2024-2025 (Revised Estimates) and 2025-2026(Budget Estimates)

(In Crore)

Actuals 2023-2024	Budget Estimates 2024-2025	Revised Estimates 2024-2025	Budget Estimates 2025-2026
327010.05	349833.71	356960.41	382660.45

Source: <https://www.indiabudget.gov.in/doc/eb/vol1.pdf>

Plan Revenue Expenditure: Plan Revenue Expenditure refers to the government's expenditure on various Plan schemes and programs such as the National Rural Health Mission, National Rural Employment Guarantee Scheme, and National Highways Development Project, among others. Plan Revenue Expenditure is an essential tool for promoting economic growth and development as it supports the government's socio-economic objectives and promotes inclusive growth.

Non-Plan Revenue Expenditure: Non-Plan Revenue Expenditure includes the government's expenditure on defense, interest payments, and subsidies, among others. Defense expenditure is a critical component of the government's expenditure as it ensures national security and sovereignty. Interest payments refer to the government's expenditure on servicing its debt, which is an essential component of fiscal management. Subsidies are provided by the government to promote specific sectors such as agriculture, energy, and food, among others, and to support vulnerable sections of society.

Other Revenue Expenditure: Other Revenue Expenditure refers to the government's expenditure on various heads such as pensions, grants, and loans, among others. Pensions are provided to retired government employees as a form of social security. Grants are provided to various organizations and institutions for promoting specific sectors such as education, healthcare, and social welfare. Loans are provided by the government to various organizations and institutions for promoting economic growth and development.

Following diagrams shows the trend of Government of India's expenditure for the years 2023-2024 (Actuals), 2024-2025 (Budget Estimates), 2024-2025 (Revised Estimates) and 2025-2026 (Budget Estimates).

भारत सरकार का व्यय

Expenditure of Government of India

		2023-2024 वास्तविक Actuals	2024-2025 बजट अनुमान Budget Estimates	2024-2025 संशोधित Revised Estimates	(₹ करोड़) (In ₹ crore) 2025-2026 बजट अनुमान Budget Estimates
क. केंद्र का व्यय	A. Centre's Expenditure				
I स्थापना व्यय	I Establishment Expenditure	768961	783618	841762	868096
II केंद्रीय क्षेत्र की योजनाएं/परियोजनाएं	II Central Sector Schemes/Projects	1423437	1516176	1512820	1621899
III केंद्रीय क्षेत्र का अन्य व्यय	III Other Central Sector Expenditure	1322216	1490586	1444628	1526008
जिसमें से व्याज भुगतान	of which Interest Payments	1063872	1162940	1137940	1276338
ख. अंतरण	B. Transfers				
IV केंद्रीय प्रायोजित योजनाएं	IV Centrally Sponsored Schemes	444547	505978	415356	541850
V वित्त आयोग के अनुदान	V Finance Commission Grants	148522	132378	127146	132767
VI अन्य अनुदान/ऋण/अंतरण	VI Other Grants/Loans/Transfers	335764	391776	374774	374725
कुल जोड़	Grand Total	4443447	4820512	4716487	5065345

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

The following are the details of the expenditure on the major items during the years 2023-2024 (Actuals), 2024-2025 (Budget Estimates), 2024-2025 (Revised Estimates) and 2025-2026 (Budget Estimates)

प्रमुख मदाँ का व्यय Expenditure of Major Items

		2023-2024 वास्तविक Actuals	2024-2025 बजट Budget Estimates	2024-2025 संशोधित Revised Estimates	2025-2026 बजट Budget Estimates
पेंशन	Pension	238328	243296	275103	276618
रक्षा	Defence	444699	454773	456722	491732
सब्सिडी -	Subsidy -				
उर्वरक	Fertiliser	188292	164000	171299	167887
खाद्य	Food	211814	205250	197420	203420
पेट्रोलियम	Petroleum	12240	11925	14700	12100
कृषि और संबंध कार्यकलाप#	Agriculture and Allied Activities #	145995	151851	140859	171437
वाणिज्य और उद्योग	Commerce and Industry	49809	47559	56502	65553
पूर्वोत्तर का विकास	Development of North East	1628	5900	4006	5915
शिक्षा	Education	123365	125638	114054	128650
ऊर्जा#	Energy #	52405	68769	63403	81174
विदेश	External Affairs	28915	22155	25277	20517
वित्त	Finance	23403	86339	63512	62924
स्वास्थ्य	Health	81594	89287	88032	98311
गृह (संघ राज्य क्षेत्र सहित)	Home Affairs (including Union Territories)	196872	219643	220371	233211
ब्याज	Interest	1063872	1162940	1137940	1276338
आईटी और दूरसंचार	IT and Telecom #	82277	116342	117869	95298
ग्रामीण विकास#	Rural Development #	241193	265808	190675	266817
वैज्ञानिक विभाग	Scientific Departments	24657	32736	29831	55679
सामाजिक कल्याण	Social Welfare	42065	56501	46482	60052
कर प्रशासन@	Tax Administration@	191327	203530	207968	186632
जिसमें से जीसटी	of which Transfer to				
क्षतिपूर्ति निधि को अंतरण	GST Compensation Fund	145000	150000	153440	130641
परिवहन	Transport	526765	544128	541384	548649
शहरी विकास	Urban Development	68565	82577	63670	96777
अन्य	Others	403367	473555	450008	482653
निवाल अतिरिक्त संसाधन (+)/(-)	Net additional resources transferred to (+)/ met from (-)		-13990	39400	-23000
के अंतर्गत/समर्पित आरक्षित निधि से पूरा करना *	dedicated reserve funds*		-		
कुल जोड़	Grand Total	4443447	4820512	4716487	5065345

कार्यक्रम परिवय में अंतरण को छोड़कर/समर्पित आरक्षित निधियों को शामिल करना-नीचे टिप्पणी (*) देखें

* लोक लेखा में निर्दिष्ट आरक्षित निधि को समेकित निधि से अधिक्य सामग्री अंतरण के संदर्भ में आरक्षित निधि के यहां कृषि अवसंरचना और विकास निधि-वैश्यक सेवा दायित्व निधि तथा तेल उद्योग विकास निधि चिह्नित किया गया है।

Programme outlays excluding transfer to / including met from dedicated reserve funds - see note below (*)

* (+) refers to material excess transfers from Consolidated Fund to designated Reserve Fund in Public Account; (-) refers to expenditure met from designated Reserve Fund in Public Account. Reserve Funds indicated here are Agriculture Infrastructure and Development Fund, Universal Service Obligation Fund and Oil Industry Development Fund.

@ this also includes payments of scrip-based schemes.

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

CAPITAL BUDGET

Capital Budget is an important component of the Union Budget. It refers to the government's expenditure on long-term assets, such as infrastructure, machinery, and equipment, which are expected to yield benefits over a period of time. The capital budget is an essential tool for promoting economic growth and development by investing in critical areas such as transportation, energy, water supply, and communication.

The Capital Budget is a critical tool for promoting economic growth and development in India. It enables the government to invest in critical areas such as infrastructure, energy, and education, among others, which are essential for promoting economic development and improving the quality of life of its citizens. The Capital Budget also plays an important role in promoting social welfare and reducing poverty by investing in social programs and schemes.

Components of Capital Budget

Capital budget comprises three major components:

1. Plan Capital Expenditure
2. Non-Plan Capital Expenditure
3. Public Sector Undertakings (PSUs)

Plan Capital Expenditure

Plan Capital Expenditure includes the government's expenditure on various Plan schemes and programs such as the National Rural Health Mission, National Rural Employment Guarantee Scheme, and National Highways Development Project. Non-Plan Capital Expenditure includes the government's expenditure on defense, interest payments, and subsidies. Public Sector Undertakings refer to government-owned companies such as Indian Oil, BHEL, and SAIL, among others, in which the government invests to promote their growth and development.

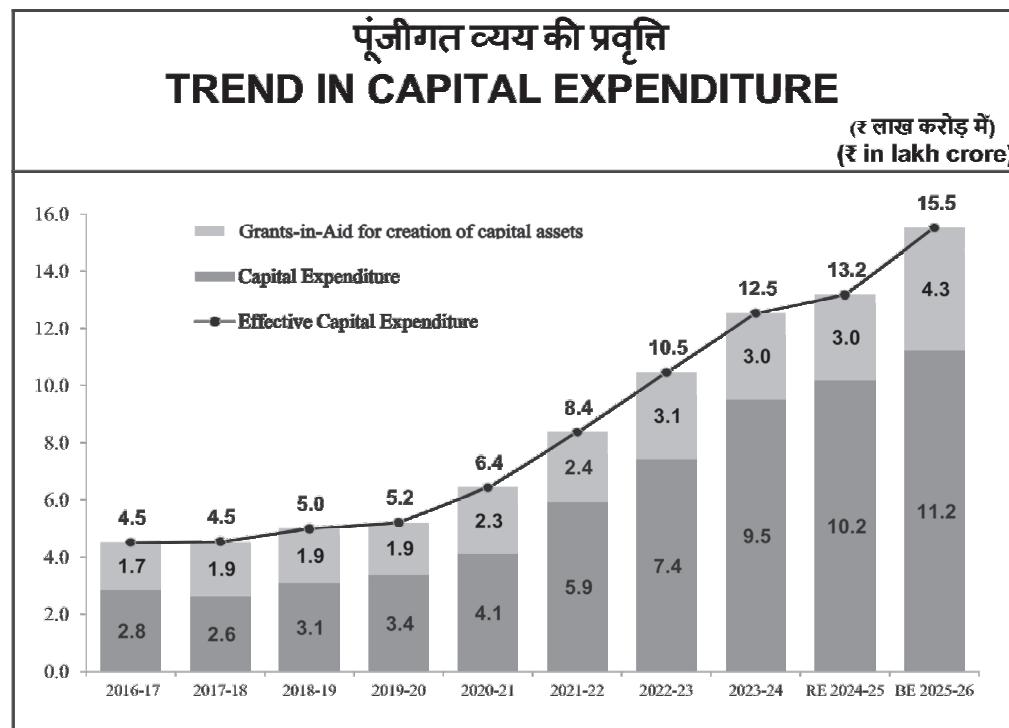
Plan Capital Expenditure is a crucial component of the Capital Budget as it supports the government's socio-economic objectives and promotes inclusive growth. The government allocates resources to various sectors such as agriculture, education, health, infrastructure, and defense, among others, to promote economic development and improve the quality of life of its citizens. For instance, the government may invest in building roads, railways, airports, and ports to improve connectivity and promote trade and commerce. It may also invest in education and healthcare to improve human capital and reduce poverty.

Non-Plan Capital Expenditure is also an important component of the Capital Budget as it includes expenditure on defense, interest payments, and subsidies, among others. Defense expenditure is a critical component of the government's expenditure as it ensures national security and sovereignty. Interest payments refer to the government's expenditure on servicing its debt, which is an essential component of fiscal management. Subsidies are provided by the government to promote specific sectors such as agriculture, energy, and food, among others, and to support vulnerable sections of society.

Public Sector Undertakings (PSUs) are government-owned companies in which the government invests

to promote their growth and development. The government may invest in PSUs to promote strategic sectors such as defense, energy, and infrastructure, among others. The government may also invest in PSUs to promote social welfare and support vulnerable sections of society, such as through investments in healthcare, education, and housing.

Below diagram is showing the trend in capital expenditure from the year 2016-17 to 2025-26



Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

In conclusion, the Capital Budget is a crucial component of the Union Budget in India. It comprises three major components: Plan Capital Expenditure, Non-Plan Capital Expenditure, and Public Sector Undertakings (PSUs). The Capital Budget is an essential tool for promoting economic growth and development by investing in critical areas such as infrastructure, energy, and education, among others. The Capital Budget also plays an important role in promoting social welfare and reducing poverty by investing in social programs and schemes. As such, it is important for the government to manage the Capital Budget effectively and transparently and ensure that its policies and measures are inclusive and sustainable.

FISCAL DEFICIT

Fiscal deficit is the gap between a government's total expenditure and its total revenue. In the context of India's budget, it refers to the amount of money the government borrows to finance its spending when its revenue falls short of expenses. The fiscal deficit is a crucial component of the budget, as it indicates the government's borrowing requirement and its impact on the economy.

There are several components of fiscal deficit in India's budget. The primary deficit is the difference between the government's revenue from taxes and non-tax sources and its expenses, excluding interest payments on past debt. This component reflects the government's ability to finance its expenses from its revenue, excluding the cost of borrowing.

Another component of fiscal deficit is the interest payments on **past debt**. This component indicates the burden of interest payments on the government's borrowing, which can impact the country's future borrowing ability and overall economic growth.

Additionally, the fiscal deficit also includes the **revenue deficit**, which is the difference between the government's revenue from taxes and non-tax sources and its expenses, excluding capital expenses. This component indicates the government's inability to finance its regular expenses from its revenue, excluding investments in long-term projects.

Capital expenses are another significant component of the fiscal deficit. These expenses are investments made by the government in infrastructure, education, healthcare, and other long-term projects. Capital expenses can help boost economic growth, but they also increase the government's borrowing requirement, leading to a higher fiscal deficit.

घाटे का सार Deficit Statistics

		(₹ करोड़) (In ₹ crore)			
		2023-2024	2024-2025	2024-2025	2025-2026
		वास्तविक	बजट	संशोधित	बजट
		Actuals	अनुमान Budget Estimates	अनुमान Revised Estimates	अनुमान Budget Estimates
1. राजकोषीय घाटा	1. Fiscal Deficit	1654643	1613312	1569527	1568936
		(5.6)	(4.9)	(4.8)	(4.4)
2. राजस्व घाटा	2. Revenue Deficit	765216	580201	610098	523846
		(2.6)	(1.8)	(1.9)	(1.5)
3. प्रभावी राजस्व घाटा	3. Effective Revenue Deficit	461300	189423	310207	96654
		(1.6)	(0.6)	(1.0)	(0.3)
4. प्राथमिक घाटा	4. Primary Deficit	590771	450372	431587	292598
		(2.0)	(1.4)	(1.3)	(0.8)

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag2.pdf

UNION BUDGET 2025-26

This Budget continues our Government's efforts to accelerate growth, secure inclusive development, invigorate private sector investments, uplift household sentiments, and enhance spending power of India's rising middle class. Our economy is the fastest-growing among all major global economies. Our development track record of the past 10 years and structural reforms have drawn global attention. Confidence in India's capability and potential has only grown in this period. We see the next five years as a unique opportunity to realize 'Sabka Vikas', stimulating balanced growth of all regions. The great Telugu poet and playwright Gurajada Appa Rao had said, 'Desamante Matti Kaadoi, Desamante Manushuloi'; meaning, 'A country is not just its soil, a country is its people.' In line with this theme, the Finance Minister outlined the broad Principles of Viksit Bharat to encompass the following:

- (a) Zero-poverty;
- (b) Hundred per cent good quality school education;

- (c) Access to high-quality, affordable, and comprehensive healthcare;
- (d) Hundred per cent skilled labour with meaningful employment;
- (e) Seventy per cent women in economic activities; and
- (f) Farmers making our country the 'food basket of the world'.

Budget Estimates 2025-26

- The total receipts other than borrowings and the total expenditure are estimated at ₹ 34.96 lakh crore and ₹ 50.65 lakh crore respectively.
- The net tax receipts are estimated at ₹ 28.37 lakh crore.
- The fiscal deficit is estimated to be 4.4 per cent of GDP.
- The gross market borrowings are estimated at ₹ 14.82 lakh crore.
- Capex Expenditure of ₹11.21 lakh crore (3.1% of GDP) earmarked in FY 2025-26.

The Union Budget 2025-2026 promises to continue Government's efforts to accelerate growth, secure inclusive development, invigorate private sector investments, uplift household sentiments, and enhance spending power of India's rising middle class. The Budget proposes development measures focusing on poor (Garib), Youth, farmer (Annadata) and women (Nari).

The Budget aims to initiate transformative reforms in Taxation, Power Sector, Urban Development, Mining, Financial Sector, and Regulatory Reforms to augment India's growth potential and global competitiveness.

Union Budget highlights that **Agriculture, MSME, Investment, and Exports** are engines in the journey to Viksit Bharat using reforms as fuel, guided by the spirit of inclusivity.

Ease of Doing Business

- In the Jan Vishwas Act 2023, more than 180 legal provisions were decriminalized. The Government will now bring up the Jan Vishwas Bill 2.0 to decriminalize more than 100 provisions in various laws.
- The Requirements and procedures for speedy approval of company mergers is to be rationalized. Further, the scope for fast-track mergers are to be widened and the process also will be made simpler.
- A High-Level Committee for Regulatory Reforms to be set up for a review of all non-financial sector regulations, certifications, licenses, and permissions to enhance 'ease of doing business', especially in matters of inspections and compliances.
- A mechanism to be set up to evaluate impact of the current financial regulations and subsidiary instructions to formulate a framework to enhance the responsiveness and development of the financial sector.
- The FDI limit for the insurance sector to be raised from 74 to 100 per cent. for the companies which invest the entire premium in India.
- Revamped Central KYC registry to be rolled out in 2025.
- Extension of time-limit to file updated Income Tax returns, from the current limit of two years, to four years for Encouraging voluntary compliance.

- Rationalization of TDS/TCS for easing difficulties.
- Reducing compliance burden for small charitable trusts/institutions.
- Tax payers to be allowed to claim the annual value of 02 self-occupied properties

Inclusive Budget covering stakeholders including:

Farmer

- Prime Minister Dhan-Dhaanya Krishi Yojana for Developing Agri Districts Programme.
- Enhanced Credit through KCC Mission for Facilitating short term loans for 7.7 crore farmers, fishermen, and dairy farmers with enhanced loan of ₹5 lakh.
- 5-year mission to facilitate improvements in productivity and sustainability of cotton farming.
- National Mission on High Yielding Seeds.
- Set-up of Makhana Board in Bihar.

Youth & Entrepreneurship

- Customised Credit Cards for Micro Enterprises.
- For 5 lakh first-time entrepreneurs, including women, Scheduled Castes and Scheduled Tribes, a new scheme to provide term loans.
- Providing digitalform Indian language books for school and higher education.
- Setting up of National Centres of Excellence for skilling.
- Broadband connectivity to all government secondary schools and primary health centres in rural areas.

Industry

- Incentivize distribution reforms and augmentation of intra-state transmission under Power Sector Reforms.
- Maritime Development Fund with a corpus of ₹25,000 crore for long-term financing with up to 49 % contribution by the government.
- Regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years.
- Greenfield airports, Financial support for the Western Koshi Canal ERM Projects for Future needs of Bihar.

Women

- A comprehensive multi-sectoral 'Rural Prosperity and Resilience' programme focus on rural women, young farmers, rural youth, marginal and small farmers, and landless families.
- A new scheme will be launched for 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs.
- The enhanced cost norms for the nutritional support for the Saksham Anganwadi and Poshan 2.0 programme which provides nutritional support to more than 8 crore children, 1 crore pregnant women and lactating mothers and about 20 lakh adolescent girls in aspirational districts and the north-east region.

The four powerful engines of this budget i.e. Agriculture, MSME, Investment, and Exports

The four powerful engines for the Journey of Development categorised under this budget are Agriculture, MSME, Investment, and Exports. The Key features of these engines are as follows:

I. Agriculture

- Budget focuses on Spurring Agricultural Growth & Building Rural Prosperity.
- Prime Minister Dhan-Dhaanya Krishi Yojana - Developing Agri Districts Programme to cover 100 districts and likely to help 1.7 crore farmers.
- 'Rural Prosperity and Resilience' programme to be launched in partnership with states for addressing under employment in agriculture through skilling, investment, technology, and invigorating the rural economy.
- Aatmanirbharta in Pulses: Government to launch a 6-year Mission with special focus on Tur, Urad and Masoor.
- Comprehensive Programme for Vegetables & Fruits: A comprehensive programme to promote production, efficient supplies, processing, and remunerative prices for farmers to be launched in partnership with states.
- Makhana Board in Bihar to be set up to improve production, processing, value addition, and marketing and organisation of FPOs.
- National Mission on High Yielding Seeds for Targeted development and propagation of seeds with high yield, pest resistance and climate resilience.
- Fisheries: Government to bring an enabling framework for sustainable harnessing of fisheries from Indian Exclusive Economic Zone and High Seas, with a special focus on the Andaman & Nicobar and Lakshadweep Islands.
- Mission for Cotton Productivity: 5-year mission to facilitate improvements in productivity and sustainability of cotton farming.
- Enhanced Credit through KCC: Facilitate short term loans for 7.7 crore farmers, fishermen, and dairy farmers with enhanced loan of ₹5 lakh.
- India Post as a Catalyst for the Rural Economy and the expanded range of services will include Rural community hub colocation, Institutional account services, DBT, cash out and EMI pickup, Credit services to micro enterprises, Insurance; and Assisted digital services.
- Urea Plant in Assam: a plant with annual capacity of 12.7 lakh metric tons to be set up at Namrup, Assam.

II. MSME

The Union Budget 2025-26 introduces a series of measures aimed at strengthening the Micro, Small, and Medium Enterprises (MSME) sector, recognising its role as one of the key engines in India's journey of development, alongside agriculture, investment, and exports. To help businesses expand and improve efficiency, the investment and turnover limits for MSME classification have been raised. Access to credit is set to improve with an increase in the credit guarantee cover for micro and small enterprises, startups, and export-focused MSMEs.

A new scheme will provide financial support to first-time entrepreneurs from disadvantaged backgrounds,

while sector-specific initiatives will enhance productivity in areas such as footwear, leather, and toy manufacturing. As a vital contributor to India's industrial landscape, the MSME sector plays a crucial role in manufacturing, exports, and employment. With 5.93 crore registered MSMEs employing more than 25 crore people, these enterprises generate a significant share of the country's economic output.

In 2023-24, MSME related products accounted for 45.73% of India's total exports, reinforcing their role in positioning the country as a global manufacturing hub. The new budgetary provisions aim to build on this strong foundation by fostering innovation, enhancing competitiveness, and ensuring better access to resources. Through these steps, the government seeks to equip MSMEs with the tools needed to expand their reach and strengthen their contribution to India's economic growth.

The MSME sector continues to be a cornerstone of India's economic growth, contributing significantly to employment, manufacturing, and exports. In recent years, the sector has displayed remarkable resilience, with its share in the country's Gross Value Added (GVA) increasing from 27.3% in 2020-21 to 29.6% in 2021-22 and 30.1% in 2022-23, highlighting its growing role in national economic output.

The investment and turnover limits for classification of all MSMEs is enhanced to 2.5 and 2 times respectively. The revised limits are as follows:

Rs. In Crore	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

Budgetary Outlay of Ministry of MSME

(In Rs. Crore)

Financial Year	Budget Estimates	Revised Estimates
2019-20	7,011.29	7,011.29
2020-21	7,572.20	5,644.22
2021-22	15,699.65	15,699.65
2022-23	21,422.00	23,628.73
2023-24	22,137.95	22,138.01
2024-25	22,137.95	17,306.70
2025-26	23,168.15	-

- The credit guarantee cover will be enhanced:
 - For Micro and Small Enterprises, from ₹ 5 crore to ₹ 10 crore.

- (ii) For Startups, from ₹ 10 crore to ₹ 20 crore; and
- (iii) For well-run exporter MSMEs, for term loans up to ₹ 20 crore.
- Customized Credit Cards to be provided for Micro Enterprises registered on Udyam portal with a limit of ₹ 5 lakhs.
- A new Fund of Funds, with expanded scope and a fresh contribution of another ₹ 10,000 crore to be set up through the Alternate Investment Funds (AIFs) for startups.
- A new scheme to be launched for 5 lakh women belonging to Scheduled Castes and Scheduled Tribes being first-time entrepreneurs by providing term loans up to ₹ 2 crore during the next 5 years.
- Measures for Labour-Intensive sectors to be undertaken through specific policy and facilitation measures.
- Implementation of focus product scheme to boost Footwear & Leather Sectors.
- National Action Plan for Toys to be implemented through a scheme to make India a global hub for toys.
- In line with commitment towards 'Purvodaya', a National Institute of Food Technology, Entrepreneurship and Management to be established in Bihar to provide strong fillip to food processing activities in the entire Eastern region.
- To set up a National Manufacturing Mission covering small, medium and large industries for furthering "Make in India". The Mission's mandate to include 5 focus areas.
- To support Clean Tech manufacturing.

III. Investment

As part of the 3rd engine of investment in economy, Union Minister for Finance and Corporate Affairs proposed multi-sectoral reforms encompassing Public Private Partnerships, support to States, Asset Monetisation Plan for 2025-2030, mining sector, development encompassing investing in people, investing in the economy, investing in innovation development encompassing investing in people, investing in the economy and investing in innovation and support to domestic manufacturing .As part of investing in people, the Union Budget 2025-26 proposes to enhance the following initiative

- The Saksham Anganwadi and Poshan 2.0 programme to provide nutritional support to children, pregnant women and lactating mothers all over the country, and adolescent girls in aspirational districts and the north-east region.
- Fifty thousand Atal Tinkering Labs to be set up in Government schools in next 5 years.
- Broadband connectivity to be provided to all Government secondary schools and primary health centres in rural areas.
- Bharatiya Bhasha Pustak Scheme to provide digital-form Indian language books for school and higher education.
- Five National Centres of Excellence for skilling to be set up for "Make for India, Make for the World" manufacturing.
- A Centre of Excellence in Artificial Intelligence for education to be set up with a total outlay of ₹ 500 crore.

- 10,000 additional seats to be added in medical colleges and hospitals, towards the goal of adding 75,000 seats in the next 5 years.
- Day Care Cancer Centres to be setup in all district hospitals in the next 3 years.
- A scheme for socio-economic upliftment of urban workers to be implemented to help them improve their incomes, have sustainable livelihoods and a better quality of life.
- PM SVANidhi scheme to be revamped with enhanced loans from banks, UPI linked credit cards with ₹ 30,000 limit, and capacity building support.
- Healthcare services under PM Jan Arogya Yojana to be provided to Gig workers.
- Each infrastructure-related ministry to come up with a 3-year pipeline of projects in Public Private Partnership mode.
- An outlay of ₹ 1.5 lakh crore is proposed for the 50-year interest free loans to states for capital expenditure and incentives.
- Jal Jeevan Mission is extended till 2028 and the focus to be on the quality of infrastructure and O&M of rural piped water supply schemes through "Jan Bhagidhari".
- Urban sector reforms related to governance, municipal services, urban land, and planning to be incentivized.
- The Government to set up an Urban Challenge Fund of ₹ 1 lakh crore to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation'.
- The Government will incentivize electricity distribution reforms and augmentation of intra-state transmission capacity by states.
- Atomic Energy Act and the Civil Liability for Nuclear Damage Act to be amended.
- A Nuclear Energy Mission for research & development of Small Modular Reactors (SMR) with an outlay of ₹ 20,000 crore to be set up.
- The Shipbuilding Financial Assistance Policy to be revamped.
- A Maritime Development Fund with a corpus of ₹ 25,000 crore to be set up with up to 49 per cent contribution by the Government, and the balance from ports and private sector.
- A modified UDAN scheme to be launched to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years. The scheme will also support helipads and smaller airports in hilly, aspirational, and North East region districts.
- Greenfield airports to be facilitated in Bihar.
- Financial support to be provided for the Western Koshi Canal ERM Project.
- Mining sector reforms, including those for minor minerals, to be encouraged through sharing of best practices and institution of a State Mining Index. A policy for recovery of critical minerals from tailings will be brought out.
- For furthering PPPs and assisting the private sector in project planning, access to relevant data and maps from the PM Gati Shakti portal to be provided.
- Top 50 tourist destination sites in the country to be developed in partnership with states.
- Medical Tourism and Heal in India to be promoted in partnership with the private sector along with capacity building and easier visa norms.

- ₹ 20,000 crore allocated to Research, Development and Innovation initiatives driven by private sector.
- A Deep Tech Fund of Funds will be explored to catalyze the next generation startups.
- Ten thousand fellowships for technological research in IITs and IISc with enhanced financial support to be provided under PM Research Fellowship scheme.
- The 2nd Gene Bank with 10 lakh germplasm lines to be set up for future food and nutritional security.
- National Geospatial Mission to be started by the Government to develop foundational geospatial infrastructure and data.
- A Gyan Bharatam Mission for survey, documentation and conservation of manuscript heritage with academic institutions, museums, libraries and private collectors to be undertaken to cover more than 1 crore manuscripts. National Digital Repository of Indian knowledge systems to be set up.

IV. Exports

- The government to set up an Export Promotion Mission, with sectoral and ministerial targets to facilitate easy access to export credit, cross-border factoring support, and support to MSMEs to tackle non-tariff measures in overseas markets.
- BharatTradeNet (BTN) for international trade to be set-up as a unified platform for trade documentation and financing solutions.
- Development of domestic manufacturing capacities for economy's integration with global supply chains.
- Facilitation groups with participation of senior officers and industry representatives to be formed for select products and supply chains.
- Government to support the domestic electronic equipment industry to leverage the opportunities for the benefit of the youth.
- A national framework to be formulated as guidance to states for promoting Global Capability Centres (GCC) in emerging tier 2 cities.

DIRECT TAX

Personal Income Tax

- No personal income tax payable upto income of Rs. 12 lakh under the new regime. This limit will be Rs. 12.75 lakh for salaried tax payers, due to standard deduction of Rs. 75,000.
- **Revised tax rate structure under New Tax Regime**

0-4 lakh rupees	Nil
4-8 lakh rupees	5 percent
8-12 lakh rupees	10 percent
12-16 lakh rupees	15 percent

16-20 lakh rupees	20 percent
20- 24 lakh rupees	25 percent
Above 24 lakh rupees	30 percent

TDS/TCS rationalization for easing difficulties

- The limit for tax deduction on interest for senior citizens doubled from the present Rs. 50,000 to Rs. 1 lakh.
- The annual limit of Rs. 2.40 lakh for TDS on rent increased to Rs. 6 lakh.
- The threshold to collect tax at source (TCS) on remittances under RBI's Liberalized Remittance Scheme (LRS) increased from Rs. 7 lakh to Rs. 10 lakh.
- The provisions of the higher TDS deduction will apply only in non-PAN cases.
- Decriminalization for the cases of delay of payment of TCS up to the due date of filing statement.

Reducing Compliance Burden

- Reduction of compliance burden for small charitable trusts/institutions by increasing their period of registration from 5 years to 10 years.
- The benefit of claiming the annual value of self-occupied properties as nil will be extended for two such self-occupied properties without any condition.
- Extends time-limit to file updated returns for any assessment year, from the current limit of two years, to four years.

Ease of Doing Business

- Introduction of a scheme for determining arm's length price of international transaction for a block period of three years.
- Expansion of the scope of safe harbour rules to reduce litigation and provide certainty in international taxation.
- Exemption of withdrawals made from National Savings Scheme (NSS) by individuals on or after the 29th of August, 2024.
- Similar treatment to NPS Vatsalya accounts as is available to normal NPS accounts, subject to overall limits.

Employment and Investment

- Presumptive taxation regime for non-residents who provide services to a resident company that is establishing or operating an electronics manufacturing facility.
- Introduction of a safe harbour for tax certainty for non-residents who store components for supply to specified electronics manufacturing units.
- The benefits of existing tonnage tax scheme to be extended to inland vessels registered under the Indian Vessels Act, 2021 to promote inland water transport in the country.
- **Extension for incorporation of Start-Ups** - Extension of the period of incorporation by 5 years to allow the benefit available to start-ups incorporated before 1.4.2030.

- **Alternate Investment Funds (AIFs)** - Certainty of taxation on the gains from securities to Category I and Category II AIFs which are undertaking investments in infrastructure and other such sectors.
- **Extension of investment date for Sovereign and Pension Funds** - Extension of the date of making investments in Sovereign Wealth Funds and Pension Funds by five more years, to 31st March, 2030, to promote funding from them to the infrastructure sector.

INDIRECT TAX (CUSTOMS)

Rationalisation of Customs Tariff Structure for Industrial Goods

- Remove seven tariff rates. This is over and above the seven tariff rates removed in 2023-24 budget. After this, there will be only eight remaining tariff rates including 'zero' rate.
- Apply appropriate cess to broadly maintain effective duty incidence except on a few items, where such incidence will reduce marginally.
- Levy not more than one cess or surcharge. Therefore, Social Welfare Surcharge on 82 tariff lines that are subject to a cess, exempted.

Relief on import of Drugs/Medicines

- 36 lifesaving drugs and medicines fully exempted from Basic Customs Duty (BCD).
- 6 lifesaving medicines to attract concessional customs duty of 5%.
- Specified drugs and medicines under Patient Assistance Programmes run by pharmaceutical companies fully exempted from BCD; 37 more medicines added along with 13 new patient assistance programmes.

Support to Domestic Manufacturing and Value addition

Particulars	Basic Customs Duty
Critical Minerals: Cobalt powder and waste, the scrap of lithium-ion battery, Lead, Zinc and 12 more critical minerals	Fully exempted
Textiles: <ul style="list-style-type: none">● Two more types of shuttle-less looms● knitted fabrics	Fully exempted “10% or 20%” to “20% or Rs. 115 per kg, whichever is higher.
Electronic Goods: <ul style="list-style-type: none">● Interactive Flat Panel Display (IFPD)● Open Cell and other components● Parts of Open Cells	10% to 20% Reduced to 5% Exempted
Lithium-Ion Battery: 35 additional capital goods for EV battery manufacturing, and 28 additional capital goods for mobile phone battery manufacturing	Exempted

Shipping Sector: Raw materials, components, consumables or parts for the manufacture of ships	Exemption extended for another ten years
Telecommunication: Carrier Grade ethernet switches	20% to 10%
Leather sector <ul style="list-style-type: none"> ● Wet Blue leather ● Crust leather 	Fully exempted Exempted from 20% export duty
Marine products <ul style="list-style-type: none"> ● Frozen Fish Paste (Surimi) for manufacture and export of its analogue products ● fish hydrolysate for manufacture of fish and shrimp feeds 	30% to 5% 15% to 5%

Trade facilitation

- **Time limit for Provisional Assessment:** For finalising the provisional assessment, time-limit of two years fixed, extendable by a year.
- **Voluntary Compliance:** A new provision introduced to enable importers or exporters, after clearance of goods, to voluntarily declare material facts and pay duty with interest but without penalty
- **Extended Time for End Use:** Time limit for the end-use of imported inputs in the relevant rules extended from six months to one year. Such importers to file only quarterly statements instead of a monthly statement.

For accessing detailed Union Budget 2025-2026 and previous Union Budgets, please refer Union Budget, Ministry of Finance at: <https://www.indiabudget.gov.in/>.

REFERENCE:

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LESSON 4

INDIAN FINANCIAL MARKETS

INTRODUCTION

The financial markets play a vital role in the modern economy by facilitating capital formation, enterprise growth, risk management, and free exchange of capital. Financial markets in particular help direct resources to their most valuable use, fueling innovation and employment. A well-regulated, transparent system allows both small investors and large corporations to raise money in public securities markets. This lowers the cost of capital for businesses while offering optionality and wealth growth opportunities. By incorporating myriad views into pricing, the exchanges also guide capital allocation decisions through information discovery.

Financial markets refer to the markets where buyers and sellers participate in the trade of assets like equities, bonds, currencies and derivatives. Financial markets provide a platform for investors to invest money in securities and for companies to raise money by issuing securities. The securities are traded on exchanges like the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in India. Stock market allows companies to raise capital by issuing shares to the public and investors to purchase shares of companies.

Financial markets are the organisations, systems, and venues that permit the buying and selling of financial assets like derivatives, stocks, bonds, currencies, and commodities. Financial markets' primary goal is to make it easier for money to move from savers to borrowers, giving people, businesses, and governments a way to invest and finance their endeavours. Financial markets are vital to the smooth operation of capitalist economies.

In other words, financial markets refer broadly to any marketplace where securities trading occurs, including the stock market, bond market, forex market, and derivatives market. Financial markets are vital to the smooth operation of capitalist economies.

Thus, the key points pertaining to the financial markets are-

- Financial markets refer broadly to any marketplace where the trading of securities occurs.
- There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets.
- These markets may include assets or securities that are either listed on regulated exchanges or trade over-the-counter (OTC).
- Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society.
- When financial markets fail, economic disruption, including recession and rising unemployment, can result.

The term "Indian financial market" refers to the country's system of institutions, instruments, and rules that play a key role in streamlining the exchange of money between market participants.

FUNCTIONS OF FINANCIAL MARKET

The following are the major functions of Financial Market:

1. **Facilitating capital formation:** Financial markets allow companies to raise fresh capital from investors to finance their operations or expansion plans. This helps businesses grow and create jobs, leading to economic growth.

2. **Price discovery:** Prices of all financial instruments are determined through market forces like supply-demand dynamics in these markets. This helps buyers and sellers determine fair prices for a given security or asset class at any given time.
3. **Allocating capital efficiently:** By allowing investors to allocate their capital across different classes of assets according to their risk appetite, financial markets help ensure that resources are allocated efficiently across various sectors of the economy.
4. **Risk management tools:** These markets also offer sophisticated risk management tools such as derivatives which can be used by institutions or individual traders seeking exposure without taking on too much risk or leverage levels beyond what they can manage effectively.

Financial markets are an essential part of the global economy. They provide a platform for investors to trade securities and commodities, helping allocate resources efficiently across different asset classes and countries. Financial markets have become increasingly interconnected in recent years, allowing capital to move more quickly worldwide and making it easier for businesses to access capital when needed.

Financial markets play an indispensable role in facilitating the transfer of capital, aiding in price discovery, and managing risks. Understanding the different types of financial markets and their functions is crucial for any business or individual seeking to participate in the global financial system.

Types of Financial Markets

1. Capital Market

Capital markets are marketplace where buyers and sellers engage in the trade of securities like bonds, stocks, and derivatives. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government, and individuals. Capital markets in India consist primarily of the stock exchanges like NSE and BSE where investors buy and sell shares, bonds, and derivatives. The main usage of capital markets is to allow Indian companies across sectors to raise long-term capital from investors across India. This capital is used to fund growth and projects for business expansion. It provides an alternative to limited bank lending. For investors, it provides an avenue to allocate savings into financial securities to build wealth over time.

- a) **Stock Market:** Stock markets allow companies to raise capital by issuing and selling shares or stock to investors. The two main stock exchanges in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Companies list and trade their shares on these exchanges to access equity financing from investors across the country. Stock markets provide an avenue for companies to access capital for business purposes like investing in new projects or acquisitions. It offers an alternative to traditional bank lending. For investors, it serves as a platform to allocate savings and build wealth.
- b) **Bond market:** Bond markets are used by organisations like governments and companies raise debt financing by issuing bonds that are purchased by investors. The bond market segments in India include the government bond market, corporate bond market, and municipal/local bonds.

The Indian bond market consists of both government and corporate bonds. Government securities, including treasury bills and bonds issued by the Reserve Bank of India (RBI) on behalf of the Government

of India, form a significant portion of the bond market. Corporate bonds are issued by companies to raise funds for various purposes, such as expansion, working capital, and debt refinancing. The bond market provides investors with fixed-income securities, offering regular interest payments and the return of principal upon maturity.

2. Commodity market

Commodity markets are markets that facilitate the trading of primary economic goods like agricultural products, metals, oil and natural gas. The main commodity exchanges in India are MCX and NCDEX. For example, NCDEX allows farmers, traders, and processors to trade in agricultural commodities like wheat, rice, cotton, spices, etc. through futures contracts. This provides price risk management in agri-commodities. Similarly, on MCX traders buy and sell futures contracts on metals like gold, silver, copper, natural gas, crude oil etc. Jewellers hedge their price risk on gold inventory using gold futures.

The main usage of commodity markets in India is to provide price discovery and price risk management for producers, consumers and traders of commodities. It helps integrate localised commodity markets across India into one national market. Commodity derivatives also allow better inventory planning for companies.

- a) *Soft commodities:* Soft commodities refer to agricultural commodities that are grown, rather than mined. They include crops like wheat, rice, pulses, spices, coffee, tea, cotton, rubber, fruits and vegetables. The National Commodity and Derivatives Exchange (NCDEX) in India provides a platform for trading in various soft commodities. For example, it allows futures trading in wheat, chana, soybean, mustard seed, cotton, cardamom, mentha oil, etc. This helps farmers, producers and exporters hedge against price risks.

The main usage of soft commodity trading in India is price discovery and risk management. It provides valuable information on demand, supply and prices to all participants. Farmers lock in future selling prices for their produce. Processors like flour mills hedge against raw material price changes. The efficient price signals lead to higher farm productivity and food security.

- b) *Hard commodities:* Hard commodities refer to natural resources that are mined or extracted, rather than grown agriculturally. They include precious metals like gold, silver, platinum, base metals like aluminium, copper, nickel, lead, zinc and energy commodities like crude oil, natural gas and coal.

In India, hard commodities are traded on exchanges like the Multi Commodity Exchange (MCX) and National Commodity and Derivatives Exchange (NCDEX). For example, MCX offers futures trading in gold, silver, copper, crude oil, natural gas, aluminium, nickel, mentha oil, cotton etc. This facilitates price discovery and hedging for producers, consumers and traders.

The key usage of hard commodity derivatives in India is managing price volatility and inventory risks. Mining companies hedge against fluctuations in global metal prices. Oil marketing companies lock in crude oil purchase costs in advance. Jewellers offset price risks in gold/silver inventory.

3. Money market

Money markets are short-term debt markets where participants borrow and lend for durations typically up to one year. Money market instruments in India include treasury bills, commercial paper, certificates of deposit, repo and reverse repo agreements.

For example, a manufacturing company sometimes issues commercial paper with 3 month maturity

to raise short-term working capital funds from investors instead of taking a bank loan. The investors purchasing this commercial paper will earn short-term returns while their money is parked for 3 months.

The main usage of *money markets in India* is to allow businesses, financial institutions, government and investors to borrow and lend for very short periods. It serves as an alternative to bank borrowing and provides short-term liquidity in the economy. For businesses, it offers flexibility in managing cash flows. For investors, it provides very liquid and low-risk short-term investment options like treasury bills. An active money market is essential for the Reserve Bank of India to conduct effective monetary policy.

4. Derivatives market

Derivatives markets provide instruments like futures, options, swaps etc. that derive their value from an underlying asset. They allow the transfer of risk from parties who want to hedge their risk exposure to parties more willing to bear that risk.

For example, an Indian farmer will be able to buy a futures contract to sell his crop at a future date for a predetermined price. This protects him from potential decrease in crop prices at harvest time. The speculator taking the opposite trade is bearing the price risk in exchange for a potential profit if prices rise.

The main usage of derivatives markets in India is to allow hedging and speculation on asset prices. For producers and businesses, it provides a means to hedge against commodity price risk, interest rate risk and currency rate risks. For investors, it provides avenues to speculate and profit from movements in underlying asset prices. India has active derivatives markets in equity, commodities and currencies. These markets impart liquidity and price discovery to the underlying cash markets.

- a) Futures: Futures markets provide standardised contracts that obligate the buyer to purchase an asset and the seller to sell an asset at a predetermined future date and price. The contracts are standardised by the exchanges on the quantity, quality and delivery specifications. The main usage of futures markets in India is to allow hedging and speculation on future asset prices. For producers like farmers, it provides price protection against potential adverse price movements. For speculators, it provides an opportunity to profit from correct bets on future price trends. India has active futures markets in equities, commodities, currencies and bonds. These provide price discovery of the underlying cash markets and improve their liquidity.
- b) Forward: The forward market is an over-the-counter market where two parties enter into customised contracts to buy or sell an asset at a specified price on a future date. The terms are agreed bilaterally unlike the standardised contracts traded on futures exchanges. The main usage of the forward market in India is to hedge against currency and commodity price risks. Exporters, importers and commodity producers use forward contracts to lock in future prices and mitigate risks. Speculators provide liquidity and absorb risks in the forward market. While smaller in size compared to futures markets, the forward market provides flexibility as terms are customised as per needs.
- c) Option: Option markets refer to derivatives exchanges where financial securities known as options are traded. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a predetermined price on or before a specific date.

For example, on the National Stock Exchange (NSE) in India, investors are able to buy or sell Nifty options that give the right to buy or sell the Nifty 50 index at a particular price by the expiry date.

The main usage of option markets in India is to allow investors to hedge stock portfolios or speculate on market direction. Options help limit downside risk in volatile markets, making option trading a preferred method for managing financial exposure. Traders use options to bet on expected moves in the broader market or individual stocks, with option trading offering a strategic tool for both hedging and speculation purposes.

- d) Swap: Swap markets refer to over-the-counter (OTC) markets where counterparties exchange financial instruments known as swaps. A swap is a derivative contract where two parties agree to exchange financial flows at certain intervals during the life of the swap. For example, an interest rate swap involves exchanging a fixed interest rate cash flow for a floating rate cash flow.

The main usage of swap markets in India is for corporates to hedge interest rate and currency risk on foreign borrowings. Swaps help convert floating rate loans to fixed rates or vice versa. Banks trading swaps earn fees while facilitating client hedging needs. Swaps also allow speculators to bet on the direction of interest rates and currencies.

5. Foreign exchange market

The foreign exchange market is a decentralised global market where participants trade currencies. It consists of banks, commercial companies, central banks, investment management firms, hedge funds and retail forex brokers and investors.

The Reserve Bank of India, for example, wants to intervene in the forex market to strengthen or weaken the rupee against the dollar. They will be able to do this by buying or selling rupees in the market.

Multinational corporations like Infosys use the forex market to pay overseas suppliers or staff in other countries. They need to convert their domestic currency into foreign currency through their bank.

The main usage of the foreign exchange market is to facilitate the conversion of one currency into another. It allows businesses, investors, travellers and governments to pay or receive currencies for goods, services, investments and other transactions globally.

6. Cryptocurrency market

The cryptocurrency market refers to the exchanges and over-the-counter platforms where various digital currencies or crypto tokens are traded. Cryptocurrencies like Bitcoin, Ethereum, and Cardano operate on blockchain networks as peer-to-peer decentralised digital money.

In India, investors purchase cryptocurrencies like Bitcoin on exchanges like WazirX, CoinDCX, and CoinSwitch Kuber. Retail investors buy cryptos as investments, while traders aim to profit from price fluctuations. The main usage of the cryptocurrency market is to facilitate the trading of crypto coins and tokens as an alternative digital asset class. It provides a venue for investors, traders and companies to access decentralised cryptocurrencies outside the traditional financial system. The cryptocurrency market aims to allow the transfer of digital value and enable various blockchain-based applications.

7. Spot market

The spot market, also known as the cash or physical market, refers to the buying and selling of financial instruments or commodities for immediate delivery. Commodities like gold and crude oil also have

active spot markets where buyers and sellers trade for immediate delivery. Gold jewellers or oil refiners sometimes use the spot market for their raw material needs. The main usage of the spot market is to facilitate the exchange of assets at current market prices for near-term requirements. It provides immediate liquidity, unlike derivatives contracts or bonds. Companies use the spot market to fulfil business needs, traders profit from price swings, and the spot prices determine derivatives pricing.

8. Interbank lending market

The interbank lending market refers to the system through which banks lend and borrow short-term funds from each other. It enables banks to meet temporary shortages or excesses in liquidity. For example, Bank A has surplus funds while Bank B faces a temporary deficit. Bank B borrows overnight funds from Bank A in the interbank market to square its books. The loans are made at the prevailing interbank interest rates.

Banks in India actively use the interbank market to fine-tune liquidity. The Clearing Corporation of India facilitates interbank lending and borrowing through its collateralized lending and borrowing mechanism. The key usage of the interbank market is to allow banks to efficiently manage their short-term liquidity needs. It provides a mechanism to channel funds from banks with surpluses to those facing deficits. This ensures the stability of the banking system by preventing liquidity crunches and helps optimise the use of available funds.

OVERVIEW OF INDIAN FINANCIAL ECOSYSTEM

The financial system of an economy is a crucial element for its economic development. It facilitates the flow of funds from the households (savers) to business organisations (investors), thereby assisting in the creation of wealth for the nation. Mainly, the financial system of a country is concerned with the following:

- (a) Allocation and mobilisation of savings.
 - (b) Provision of funds.
 - (c) Facilitating the financial transactions.
 - (d) Developing financial markets.
 - (e) Provision of legal financial structure.
 - (f) Provision of financial and advisory services.
- (a) **Allocation and mobilization of savings:** The financial system facilitates the efficient allocation of savings by directing funds from savers to borrowers. This process ensures that available capital is channelled towards productive investments, fostering economic growth and development.
 - (b) **Provision of funds:** Financial institutions such as banks, non-banking financial companies (NBFCs), and capital markets provide funds to individuals, businesses, and governments for various purposes, including consumption, investment, and infrastructure development.
 - (c) **Facilitating financial transactions:** The financial system enables the smooth execution of financial transactions, including payments, transfers, and settlements. It provides infrastructure, such as payment systems and electronic banking platforms, to facilitate secure and efficient transactions.

- (d) **Developing financial markets:** Financial markets, including stock markets, bond markets, and commodity markets, provide platforms for buying and selling financial assets. The financial system fosters the development of these markets, enhancing liquidity, price discovery, and access to capital for investors and issuers.
- (e) **Provision of legal financial structure:** The financial system operates within a legal framework established by regulatory authorities. This framework includes laws, regulations, and oversight mechanisms that govern financial institutions, transactions, and market participants, ensuring transparency, accountability, and investor protection.
- (f) **Provision of financial and advisory services:** Financial institutions offer a range of services, including banking, insurance, investment management, and financial advisory services. These services cater to the diverse needs of individuals, businesses, and governments, providing assistance in managing finances, mitigating risks, and achieving financial goals.

Components of Financial System

A system that allows money to be transferred between investors and borrowers is referred to as a financial system. An international, regional, or organisational level definition of a financial system is possible. The word "system" in "Financial System" refers to a collection of intricately intertwined economic institutions, agents, processes, markets, transactions, claims, and liabilities. The financial system is made up of five parts, which are described below:

1. Financial Institutions:

Making investors and borrowers meet guarantees the financial system runs well. With the employment of various financial instruments and the assistance of several financial service providers, they directly or indirectly mobilise investor savings through financial markets. They can be divided into four groups: intermediaries, non-intermediaries, regulators, and others. They provide services to businesses looking for guidance on a variety of issues, from restructuring to diversification plans. They provide a full range of services to businesses looking to raise capital from the market and manage their financial assets, such as deposits, securities, loans, etc.

2. Financial Markets:

The market where financial assets are created or moved is known as a financial market. A financial transaction entails the creation or transfer of a financial asset as opposed to a real transaction, which involves exchanging money for actual products or services. A claim to the payment of an amount of money in the future and/or a recurring payment in the form of interest or dividend is represented by financial assets or financial instruments. Here are the four elements of the financial market:

- I. **Money Market:** A wholesale debt market for highly liquid, short-term instruments with little risk. In this market, funds are offered for terms ranging from one day to one year. Generally speaking, the government, banks, and financial organisations control this market.
- II. **Capital Market:** The purpose of the capital market is to finance long-term investments. The duration of the transactions in this market will be longer than a year.
- III. **Foreign Exchange Market:** deals with the multicurrency needs that are satisfied through currency exchange. The transfer of funds occurs in this market based on the applicable

exchange rate. One of the most advanced and integrated markets on the planet is this one.

- IV. *Credit Market:* Short, medium and long-term loans to businesses and individuals are distributed in the credit market by banks, financial institutions (FIs), and non-banking financial companies (NBFCs).

3. **Financial Instruments:**

This is a crucial part of the financial system. Financial assets, securities, and other kinds of financial instruments are the goods that are traded on a financial market. Since the needs of investors and those looking for credit varied, there are many different securities available on the market. They represent a claim on the future repayment of principal or the regular payment of an amount, such as interest or dividends. Examples include equity shares, bonds, and debentures.

4. **Financial Services:**

It is made up of products and services offered by Asset Management and Liability Management Businesses. They assist in obtaining the necessary cash and ensure that they are invested effectively. They offer their expertise up to the stage of servicing lenders and help to decide the financing combination. They support lending and investing, making and authorising payments and settlements, buying and selling assets, managing risk exposures in financial markets, and borrowing. Leasing firms, mutual fund companies, merchant bankers, portfolio managers, bill discounting and acceptance businesses are a few examples. Many expert services are provided by the financial services industry, including credit rating, venture capital funding, mutual funds, merchant banking, depository services, book building, etc.

5. **Money:**

Money is defined as anything that is accepted as payment for goods and services or as a means of repaying debt. It serves as a store of value and a means of exchange. It makes it simpler to swap various commodities and services for cash.

KEY FACETS AND GROWTH OF FINANCIAL INSTITUTIONS IN INDIA

The significant characteristics of Indian financial system are as under:

1. Plays a pivotal role in accelerating the rate and volume of savings through the provision of different financial instruments and efficient mobilisation of savings.
2. It is playing a significant role in increasing the national output by providing funds to corporate customers to expand their business operations.
3. Safeguarding the interests of the investors by ensuring smooth financial transactions through regulatory bodies like, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) etc.
4. Contributes substantially towards the economic development and raising the standard of living of the people.
5. Promotes development of weaker sections of the society through rural development banks and cooperative societies.

6. Assist corporate customers to make better financial decisions by offering effective financial and advisory services.
7. Facilitates financial deepening and broadening. Financial deepening refers to an increase in financial assets as a percentage of GDP and financial broadening pertains to an increasing number of participants in the financial system.

Banking Sector

The banking sector was developed during the British era. British East India Company set up three banks: Bank of Bengal (1809); Bank of Bombay (1840) and Bank of Madras (1843). These three banks were later merged and called Imperial Bank, which was taken over by State Bank of India (SBI) in 1955. The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

July 19, 1969 was an important date in the history of Indian banking. As it is on this date that 14 major scheduled commercial banks having a deposit of more than INR 50 crore were nationalized. The 14 banks were Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Overseas Bank, Indian Bank, Bank of Baroda, Union Bank, Allahabad Bank, United Bank of India, UCO Bank and Bank of India.

The banking industry handles finances in a country including cash and credit. Banks are the institutional bodies that accept deposits and grant credit to the entities and play a major role in maintaining the economic stature of a country. Given their importance in the economy, banks are kept under strict regulation in most of the countries. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the monetary policy in the country.

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country.

Developments of Indian Banking Sector

The major developments of Indian banking sector is captured in the following table-

Years	Major Developments
1921	<ul style="list-style-type: none"> • Closed market • State-owned Imperial Bank of India was the only bank existing.
1935	<ul style="list-style-type: none"> • RBI was established as the central bank of country. • Quasi central banking role of Imperial Bank came to an end.

1936-1955	<ul style="list-style-type: none"> • Imperial Bank expanded its network to 480 branches. • In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India.
1956-2000	<ul style="list-style-type: none"> • Nationalisation of 14 large commercial banks in 1969 & 6 more banks in 1980. • Entry of private players such as ICICI intensifying the competition. • Gradual technology upgradation in PSU banks .
2000-2020	<ul style="list-style-type: none"> • In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted in to a bank
	<ul style="list-style-type: none"> • In 2009, the government removed the Banking Cash Transaction Tax which had been introduced in 2005.
2020 onwards	<ul style="list-style-type: none"> • Mega merger of Public Sector Banks <ul style="list-style-type: none"> – Oriental Bank of Commerce and United Bank of India merged with Punjab National Bank – Syndicate Bank merged with Canara Bank – Allahabad Bank merged with Indian Bank – Andhra Bank and Corporation Bank with Union Bank of India • Technological innovations resulting into marked improvements in efficiency, productivity, quality, inclusion and competitiveness in extension of financial services, especially in the area of digital lending. • Conceptualization of digitalization of Agri-finance jointly by the Reserve Bank of India and Reserve Bank Innovation Hub (RBIH) to enable delivery of Kisan Credit Card (KCC) loans in a fully digital and hassle-free manner. • In November 2022, RBI launched a pilot project on Central Bank Digital Currency (CBDC) • The year 2023 was a significant year for policy reforms and regulatory changes in India's banking sector. The Reserve Bank of India (RBI) played a critical role, with a series of policy rate adjustments aimed at balancing growth and inflation. The repo rate adjustments, which have been kept 6.5% by the Monetary Policy Committee (MPC), were carefully calibrated, reflecting the central bank's commitment to maintaining monetary stability while supporting economic recovery. • Regulatory changes introduced in 2023 had a profound impact on banking operations. The RBI's tightened norms on Non-Performing Assets (NPAs) reflected a stringent stance on asset quality. Moreover, the introduction of new guidelines for digital lending aimed at protecting consumer interests while fostering a healthy digital finance ecosystem. • The year 2023 also witnessed a push towards greater compliance with international banking standards, including Basel III norms. These regulatory measures were pivotal in enhancing the resilience and transparency of the banking system, ensuring a more stable financial environment.

- During 2023, the banking sector witnessed an unprecedented surge in online banking services, mobile banking apps, and digital payment solutions. Banks collaborated extensively with fintech companies, leveraging their technology to offer innovative services like instant loans, digital KYC, and AI-driven customer support.
- In July 2023, Housing Development Finance Corporation (HDFC) merged with its subsidiary HDFC Bank.
- In accordance with the Reserve Bank India (RBI) approval dated March 4, 2024, AU Small Finance Bank (AU SFB), India's largest SFB, announced the amalgamation of Fincare Small Finance Bank (Fincare SFB) with and into AU SFB, effective April 1st, 2024.

Other recent developments in the Indian banking sector:

1. In October 2024, India's Unified Payments Interface (UPI) reached a record high with 16.58 billion transactions worth approximately Rs. 23.5 trillion (US\$ 279.4 billion), marking the highest monthly figures since its launch in 2016.
2. BCG predicts that the proportion of digital payments in India will grow to 65% by 2026.
3. Indian Fintech industry currently is US\$ 111 billion and estimated to be at US\$ 421 billion by 2029. India has the 3rd largest FinTech ecosystem globally.
4. In the recent period, technological innovations have led to marked improvements in efficiency, productivity, quality.
5. Digital modes of payments have grown by leaps and bounds over the last few years. As a result, conventional paper-based instruments such as cheques and demand drafts now constitute a negligible share in both volume and value of payments. As on July 2024, there were 602 banks actively using UPI. The total number of digital transactions during December amounted to 15.08 billion, with a total value of Rs. 2.1 trillion (US\$ 25.27 billion).
6. In the Union Budget 2025-2026, it has been announced that the services of India Post Payment will be deepened and expanded in rural areas. Public sector banks will develop 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.

Public Sector Banks

Public sector banks are those in which the government holds more than 50% of the total stock. The government formulates all the financial guidelines for public sector banks. The public sector banks operate under the government to inspire trust in the depositors that their money is safe. PSBs play a crucial role in fulfilling the government's objectives related to financial inclusion, economic development, and social welfare. Public sector banks offer a wide range of banking services, including savings and current accounts, loans, credit facilities, and payment services. These banks play a significant role in providing banking services to underserved and remote areas, contributing to financial inclusion and rural development.

India's biggest public sector bank is the State Bank of India. Public sector banks constantly work in the public interest by introducing schemes for customers' benefit. They also charge less for their services than private banks. Besides working in the public interest, nationalised banks in India also earn huge profits.

Private Sector Banks

Private sector banks are those in which a major stake or equity is held by private shareholders. All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well. While the government does not have direct ownership or control over private sector banks, they are subject to regulatory oversight by the Reserve Bank of India (RBI) and other regulatory authorities. Private sector banks offer a wide range of banking and financial services, including savings and current accounts, loans, credit cards, wealth management, investment banking, and insurance products. Private sector banks often emphasize a customer-centric approach, focusing on delivering superior service, personalized solutions, and a seamless banking experience.

Private banks were recognized in the 1990s after the LPG policy came into existence. Amongst the oldest and most famous private banks, Axis Bank and IndusInd Bank are regarded as the oldest private banks in India started in 1993-94 when the government allowed them to launch such banks.

List of Scheduled Public Sector Banks in our country:

Sr. No.	Name of the Bank
1	Bank of Baroda
2	Bank of India
3	Bank of Maharashtra
4	Canara Bank
5	Central Bank of India
6	Indian Bank
7	Indian Overseas Bank
8	Punjab National Bank
9	Punjab & Sind Bank
10	Union Bank of India
11	UCO Bank
12	State Bank of India

List of Scheduled Private Sector Banks in our country:

Sr. No.	Name of the Bank
1	Axis Bank Ltd.
2	Bandhan Bank Ltd.
3	CSB Bank Ltd.
4	City Union Bank Ltd.
5	DCB Bank Ltd.

6	Dhanlaxmi Bank Ltd
7	Federal Bank Ltd.
8	HDFC Bank Ltd
9	ICICI Bank Ltd.
10	IndusInd Bank Ltd
11	IDFC First Bank Ltd
12	Jammu & Kashmir Bank Ltd.
13	Karnataka Bank Ltd.
14	Karur Vysya Bank Ltd
15	Kotak Mahindra Bank Ltd.
16	Lakshmi Vilas Bank Ltd.
17	Nainital Bank Ltd.
18	RBL Bank Ltd.
19	South Indian Bank Ltd.
20	Tamilnad Mercantile Bank Ltd.
21	YES Bank Ltd.
22	IDBI Bank Ltd.

INDUSTRIAL FINANCE CORPORATION OF INDIA AND SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Industrial Finance Corporation of India

At the time of independence in 1947, the Indian Capital Markets were relatively less developed. The demand for capital was growing rapidly, however, there was a dearth of providers of capital. The commercial banks that existed were not equipped well enough to provide for long term capital needs in any significant manner. Against this backdrop and to bridge the demand supply gap for capital needs of the economy, the Government of India established The Industrial Finance Corporation of India (IFCI) on July 1, 1948 by way of an IFC Act 1948.

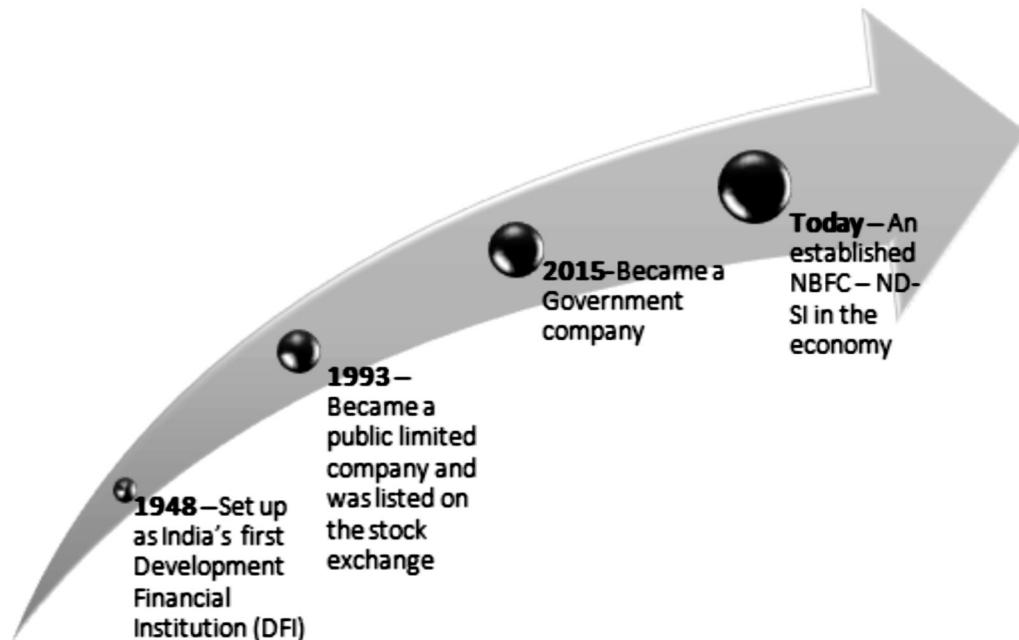
IFCI was the first Development Financial Institution of India set up to propel economic growth through the development of infrastructure and industry. Since then, IFCI has contributed significantly to the economy through its incessant support to projects in all the three spheres of growth & development – manufacturing, infrastructure & services and agriculture allied sectors. The Liberalisation of the Indian Economy in 1991 made significant changes in the Indian Capital Markets & Financial System. To aid in raising funds directly through capital markets, the constitution of IFCI was changed from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was changed to 'IFCI Limited' with effect from October 1999.

Since its inception, IFCI has witnessed and sustained all business economic cycles. IFCI has been able to maintain the financial sustainability with the consistent support and cooperation of all its stakeholders and particularly the Government of India. In addition to its core competence in long term lending to industrial and infrastructure sectors, IFCI has also developed competence in providing advisory services and has been a nodal agency for providing advisory services to various Govt. of India schemes such as Sugar Development Fund, M-SIPS, Production Linked Incentive (PLI) Scheme and Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS). Further, IFCI also enhanced its organizational value through optimising value of core and non-core assets & investments. Over the years, IFCI has played a pivotal role in establishment of various entities (including some of its subsidiaries & associates) that are respected in their fields today, namely Stock Holding Corporation of India Ltd (SHCIL), National Stock Exchange Ltd (NSE), LIC Housing Finance Ltd, Tourism Finance Corporation of India Ltd (TFCI), ICRA Ltd, among many others. With the changes in the markets over a period of time, a few of the subsidiaries were divested and currently IFCI Group has the following subsidiaries-

1. Stock Holding Corporation of India Ltd,
2. IFCI Venture Capital Fund Ltd,
3. IFCI Factors Ltd,
4. IFCI Infrastructure Development Ltd,
5. IFCI Financial Services Ltd,
6. MPCON

Besides above subsidiaries, IFCI also setup up following institutions under its social sector initiatives :-

1. Management Development Institute
2. Institute of Leadership Development'
3. Rashtriya Gramin Vikas Nidhi



What IFCI is?

- IFCI is a Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC-ND-SI) in the public sector. Established in 1948 as a statutory corporation, IFCI is a public limited company listed on BSE and NSE. IFCI has six number of subsidiaries and one associate under its fold.
- IFCI is having mandate to provide financial support for the diversified growth of Industries across the spectrum. The financing activities cover various kind of projects such as airports, roads, telecom, power, real estate, manufacturing, services sector and such other allied industries. During its 75 years of existence, mega projects like Adani Mundra Ports, GMR Goa International Airport, Salasar Highways, NRSS Transmission, Raichur Power Corporation, to name a few, have been setup with financial assistance of IFCI.
- IFCI also provides Government Advisory services and Corporate Advisory services. In Government Advisory, IFCI is appointed as a Project Management Agency (PMA) for various Production Linked Incentive (PLI) schemes launched under the aegis of "Atmanirbhar Bharat" by the Government of India. These schemes are aimed at boosting domestic manufacturing and to attract large investment in the identified sectors. IFCI is also the Verifying & Monitoring Agency for various capital subsidy schemes. Under Corporate Advisory, IFCI is offering financial advisory, ESG advisory and other Project advisory services to the Corporate & Government sectors. IFCI is also the Nodal Agency for monitoring loans of Sugar Development Fund (SDF) since 1984.
- IFCI is also the Nodal Agency for monitoring loans of Sugar Development Fund (SDF) since 1984.
- The company has played a pivotal role in setting up various market intermediaries of repute in several niche areas like stock exchanges, entrepreneurship development organizations, consultancy organizations, educational and skill development institutes across the length and breadth of the country.
- The Govt. of India has placed a Venture Capital Fund of Rs. 200 crore for Scheduled Castes (SC) with IFCI with an aim to promote entrepreneurship among the Scheduled Castes (SC) and to provide concessional finance. IFCI has also committed a contribution of Rs.50 crore as lead investor and Sponsor of the Fund. IFCI Venture Capital Funds Ltd., a subsidiary of IFCI Ltd., is the Investment Manager of the Fund. The Fund has been operationalized since FY 2014-15 and IVCF is continuously making efforts for meeting the stated objective of the scheme.
- Further, in March 2015, Ministry of Social Justice and Empowerment, Government of India has designated IFCI as a nodal agency for implementing the "Credit Enhancement Guarantee Scheme for Scheduled Castes" with an objective to encourage entrepreneurship amongst the Scheduled Castes, by providing Credit Enhancement Guarantee to Member Lending Institutions viz. banks who are providing financial assistance to these entrepreneurs belonging to scheduled castes community.

Corporate Strategy of IFCI

1. To be a solution provider to various financial needs of the industry.
2. To remain competitive, competent and sensitive to the economic growth of the country.
3. To design customer focused solutions.
4. To enhance the reputation and image of IFCI

Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities.

SIDBI's initiatives have remained aligned to the national goals of poverty alleviation, employment generation, kindling entrepreneurship and fostering competitiveness in MSME sector.

Some of SIDBI's key initiatives over more than the past 25 years of tirelessly promoting the growth of MSMEs, include-

- (i) Providing a cumulative assistance of around INR 5.40 lakh crore channelized into MSME segment.
- (ii) Directly impacting over 360 lakh persons/enterprises through its branch network of around 80 offices spread across the country as well as through the network of banks / institutions (having more than 1.25 lakh branches) across the country.
- (iii) Extending loans, equity and quasi-equity aggregating to INR 13,689 crore benefitting 356 lakh disadvantaged people, mostly women, through its Micro Finance operations.
- (iv) Deepening its outreach by nurturing and evolving more than 100 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.
- (v) Supporting more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling initiatives.
- (vi) Facilitating Institutions Building by adopting a SIDBI Plus approach and creating its Subsidiary and Associate Institutions for providing impetus to the growth of MSME ecosystem.
- (vii) Developing a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category, for serving the needs of the dynamic and consistently evolving MSME Sector.

SIDBI's Historical Journey

Years	Developments
1990	Small Industries Development Bank of India (SIDBI) set up on April 2, 1990.
1992	Introduced (Bills Discounting) of MSME vendors
1994	Launched Micro Credit Scheme
1999	Established SIDBI Venture Capital Limited
2000	Established CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises)
2005	Established SMERA (now <u>Acuité</u> Ratings & Research Limited)
2008	Established ISARC (ISARC is the country's first ARC supported by a large number of public sector banks and undertakings. It will strive for speedier resolution of NPAs with a focus on MSME sector).
2010	Launched NTREES (National Trade Exchange for Electronic Securities)

Years	Developments
2012	Launched PSIG (Poorest States Inclusive Growth (PSIG) Program)
2013	Established MUDRA (Micro Units Development & Refinance Agency Ltd.)
2016	Launched RXIL TReDS and Standupmitra Platform
2017	Launched Udyamimitra Portal
2018	Launched PSB loans in 59 minutes, MSME Pulse, CriSidEx and Swalamban
2019	Launched Microfinance Pulse
2020	Launched Fintech Pulse and Industry Spotlight
2021	Digitisation of Lending Process
2023	Launch Udyam Assist Platform (UAP) & FIT Rank

Source: <https://www.sidbi.in/en/about>

Regional Rural Banks (RRBs)

Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September, 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result, Five Regional Rural Banks were set up on 2nd October, 1975, Gandhi Jayanti. These were set up on the recommendations of The Narshimham committee Working Group during the tenure of Indira Gandhi's Government with a view to include rural areas into the economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2nd October, 1975, Gandhi Jayanti with the forming of the first RRB, the Prathama Bank, Head Office at Moradabad (U.P.) with an authorised capital of Rs 5 crore at its starting. As on 2nd October, 1975 Out of the remaining four RRBs in the country one was Set up at Malda in West Bengal under the name of Gour Gramin Bank, which was the first RRB in the Eastern Region of India.

The current structure of RRBs is that Central Government owns 50%, Sponsorship Bank holds 35% and State Government holds 15%.

Regional Rural Banks(RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too.

The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions. RRBs perform various functions in the following heads:

- (a) Providing banking facilities to rural and semi-urban areas.
- (b) Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.

- (c) Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking, UPI etc.
- (d) Small financial banks.

India is eyeing a mega revamp of its regional rural banks (RRBs) and the plan includes consolidation of these lenders for better operational efficiencies in line with the government's big rural focus.

CO-OPERATIVE BANKS

Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

History of Cooperative Banking in India

Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means."

Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit. These organisations were- (a) A union, consisting of primary societies; (b) the central banks; and (c) provincial banks.

Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre-independence period. Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

Types of Cooperative Bank

There are 4 types of co-operative banks in India:

1. Central Co-Operative Banks:

These banks are organized and operated at the district level and can be of two types:

- (a) Co-operative Banking Union
- (b) Mixed control Co-operative Bank

At the first, the members of the bank are the co-operative societies only. However, in the second, the members can be co-operative societies as well as individuals. The central co-operative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. State Co-Operative Banks:

These banks are organized and operated at the district level and rest at the top of the hierarchy in the co-operative credit structure. With the help of State Co-operative

Banks (SCBs), the RBI funds the co-operative institutions. These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.

3. Primary Co-Operative Banks:

These offer credit services in urban and semi-urban regions. Thus, they are not considered as agricultural credit societies. Primary Co-Operative Banks receive concessional refinance services from RBI and IDBI from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. Land Development Banks:

The land development banks are divided into three tiers which are primary, state, and central. These offer credit services to the farmers for developmental purposes. They used to be regulated by the RBI as well as the state governments. However, this responsibility was recently transferred to the National Bank for Agricultural and Rural Development (NABARD).

NON-BANKING FINANCIAL COMPANIES (NBFCs)

Non-Banking Financial Companies (NBFCs) are an integral part of the financial sector and play a significant role in the Indian economy. With the increasing demand for credit and financial services, the NBFC sector has witnessed rapid growth in recent years.

NBFCs are financial institutions that provide various financial services and products, including loans, insurance, and asset management, but do not have a banking license. Unlike banks, NBFCs do not have the authority to accept deposits from the public. However, they can accept deposits from a select group of individuals, such as directors, shareholders, and relatives.

Types of NBFCs**(i) Asset Finance Company (AFC)**

An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as the aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

(ii) Investment Company (IC)

IC means any company which is a financial institution carrying on as its principal business the acquisition of securities. Investment Companies primarily invest in securities such as stocks, bonds, debentures, and other marketable instruments. These companies mobilize funds from investors and deploy them in various financial assets to generate returns through capital appreciation, dividends, and interest income.

(iii) Loan Company (LC) :

LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company. LC various types of loans, including personal loans, business loans, consumer loans, and microfinance loans, catering to diverse borrowing needs.

(iv) **Infrastructure Finance Company (IFC)**

Infrastructure Finance Companies specialize in financing infrastructure projects such as roads, highways, ports, airports, power plants, and urban infrastructure. IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs. 300 crore, c) has a minimum credit rating of 'A' or equivalent d) and a CRAR of 15%. IFC provide long-term funding for infrastructure development, supporting the government's initiatives to build critical infrastructure and boost economic growth.

(v) **Systemically Important Core Investment Company (CIC-ND-SI)**

Such types of NBFCs have assets worth ₹100 Crore and above and deploy at least 90% of its assets to invest in debt instruments, shares or loans in group companies.

(vi) **Infrastructure Debt Fund**

Non-Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through the issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

(vii) **Non-Banking Financial Company Micro Finance Institution (NBFC-MFI)**

NBFC-MFI needs to deploy at least 85% of its assets in the form of micro-finance to be given as loans to those with an annual income of ₹120,000 (in urban areas) and ₹60,000 (in rural areas). These loans need to be sanctioned without collateral; should not exceed ₹50,000 and should not have a loan tenure of less than 24 months. The borrower has to repay the loan in weekly, monthly or fortnightly installments or as agreed.

(viii) **Non-Banking Financial Company – Factors (NBFC-Factors)**

NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

(ix) **Mortgage Guarantee Companies (MGC)**

MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs. 100 crore.

(x) **NBFC- Non-Operative Financial Holding Company (NOFHC)**

Is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

Services offered by NBFCs

NBFCs offer a wide range of financial services, including:

- Personal loans
- Home loans
- Vehicle loans

- Gold loans
- Microfinance
- Leasing and hire-purchase services
- Credit card services
- Insurance services
- Investment and asset management services

Differences between NBFCs and banks?

Although NBFCs lend money and make investments, just like banks do, there are a few distinct differences between them.

- NBFCs cannot accept demand deposits
- NBFCs cannot issue cheques drawn on itself
- Unlike in case of banks, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs
- NBFCs do not form part of the payment and settlement system

BASICS OF CAPITAL MARKET

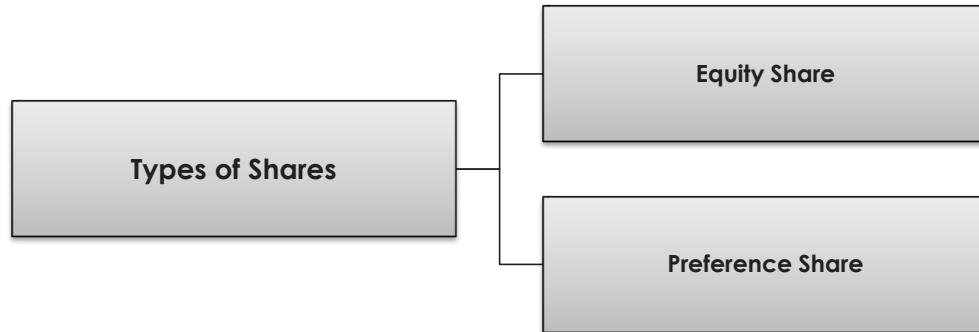
The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading centres were Bombay(now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre wherein bank shares were the major trading stock.

During the American Civil War (1860-61), Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was a tremendous slump in share prices.

Trading was at that time limited to a dozen brokers, their trading place was under a banyan tree in front of the Town Hall in Bombay. These stockbrokers organized an informal association in 1875-Native Shares and Stock Brokers Association. Bombay. The stock exchanges in Calcutta and Ahmedabad, also industrial and trading centres; came up later. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925.

India remained largely inactive till the 1970s. Partial liberalisation of the economy and pro-capital market policies during the 1980s infused some life into the markets, but it was only the economic liberalisation of the 1990s that provided a lasting impetus. Today, segments of India's capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency (price discovery), tradability (low impact cost), resilience (co-movement of rates across product classes and yield curves), and stability. In particular, their ability to withstand several periods of stress, notably the Asian financial crisis in 1997-98, the global financial crisis in 2007-09 and the "taper tantrum" episode in 2013, is a sign of their increasing maturity.

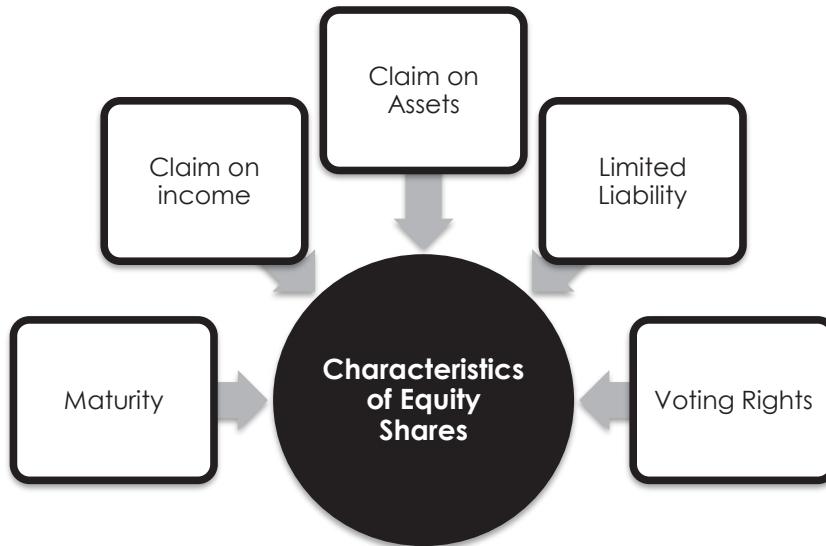
TYPES OF SHARES AND DEBENTURES



Equity Share

Equity shares, also known as ordinary shares or common shares represent the owners' capital in a company. The holders of these shares are the real owners of the company. They have a control over the working of the company. The rate of dividend on these shares depends upon the profits of the company. They may be paid a higher rate of dividend if the profit of the company is high or they may not get anything if the profit of the company is not sufficient. Equity shareholders are paid dividend after paying dividend to the preference shareholders.

Characteristics of Equity Shares



An equity share carries the following characteristic:

1) Maturity:

Equity shares provide permanent capital to the company and cannot be redeemed during the life time of the company. Under the Companies Act, 1956, a company cannot purchase its own shares. Equity shareholders can demand refund of their capital only at the time of liquidation of

a company. Even at the time of liquidation, equity capital is paid back after meeting all other prior claims including that of preference shareholders.

2) Claim on Income:

Equity shareholders have a residual claim on the income of a company. They have a claim on income left after paying dividend to preference shareholders.

3) Claim on Assets:

Equity shareholders have a residual claim on company's assets. In the event of liquidation of a company, the assets are utilized first to meet the claims of creditors and preference shareholders and if there is any balance left that can be claimed by equity shareholders.

4) Voting Rights:

Equity shareholders enjoy the benefit of voting rights in the meetings of the company and have a control over the working of the company.

5) Limited Liability:

Although, equity shareholders are the real owners of the company but their liability is limited to the value of shares they have purchased. For example if a shareholder has purchased 1,000 shares of Rs. 100 each; he is liable to pay only Rs. 1,00,000. This is another distinct feature of equity shares.

Advantages of Equity Shares

Advantages to the Company:

The company enjoys the following advantages by issuing the preference shares:

- Equity shares provide permanent capital to the company so there is no liability to return the money during the life time of company.
- The rate of dividend is not fixed on the equity shares so there is no fixed burden of dividend, i.e., if there are more profits the company distributes dividend at a higher rate and when there are less profits the company distributes dividend at a lower rate.
- There is no charge of equity share capital on assets of the company so all the assets are available for security for raising debt capital.
- Raising capital through equity shares is a cheap and convenient source of finance as compared to other sources of finance like debentures and loans.

Advantages to the Investors:

The following are the advantages of equity shares to the investors:

- As the income of the company increases, the equity shareholders get more dividends because the rate of dividend is not fixed on these shares. Shareholders get dividend at higher rate in boom period that increases the income of shareholders.
- The equity shareholders have a right of management and control of the company. They use their voting right and elect directors of their choice to manage the affairs of the company.
- The market price of equity shares of the company increases with the increase in profits of the company and result in capital gain to the investors if they sell their shares in the market.

- The equity shareholders are the owners of the company, so they take interest in company's activities.

Disadvantages of Equity Shares

Following are the disadvantages of equity shares to the company and investors:

Disadvantages to the Company:

- Equity dividends are paid to the shareholders out of after-tax profits, these dividends are not tax deductible.
- The equity share capital has the highest specific cost of capital among all the sources.
- The new issue of equity capital may reduce the earning per share because of increase in the number of equity share, and thus may have an adverse effect on the price of the equity share.
- The equity shareholders have right to vote it limits the power of the directors of the company.
- If the company gets its whole capital through equity shares then the equity shareholders are not able to get advantage of trading on equity.
- Equity shares are irredeemable, if a company facing the situation of over-capitalization it is difficult to remove it because it is not possible to decrease the number of equity shares while in case of preference shares, they can be redeemed.

Disadvantages to the Investors:

Following are the disadvantages of equity shares to the investors:

- The rate of dividend is not fixed on the equity shares. If there is less profit, fewer dividends will be given to the shareholders. Sometimes they get no dividend if the company is having no profit.
- The income of equity shareholders is not only irregular but also uncertain. If the company has profit, it is not necessary that the company should announce dividend and then distribute it to the shareholders. The management of company can decide not to distribute any dividend and keep the profits invested in the company.
- In times of recession, the prices of equity shares fall, hence resulting in capital loss to the investors.
- At the time of liquidation the equity shareholders are paid at the last if there is any balance remains after payment of loans, liabilities and payment of preference shareholders. If nothing is left, they get nothing.

PREFERENCE SHARES

Preference share can be defined as "A preference share is a share which carries preferential rights as to the payment of dividend at a fixed rate either free or subject to income tax and as to the payment of capital at the time of liquidation prior to equity shareholders."

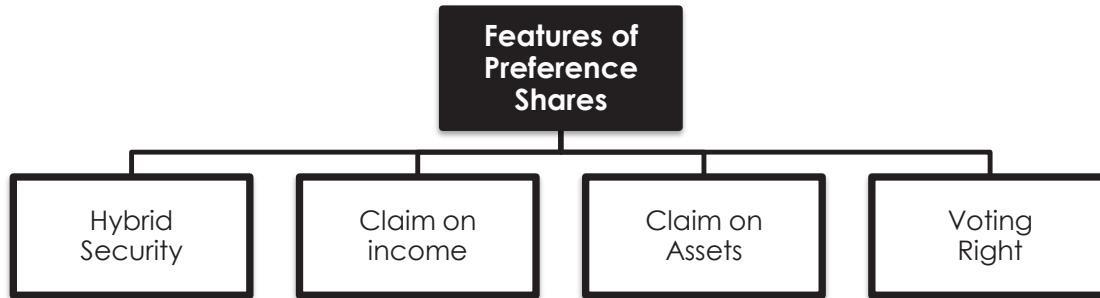
In simple words we can say that preference shares have certain preferences as compared to other types of shares. These preferences are given below:

- 1) The first preference is for payment of dividend.

- 2) The second preference for these shares is the repayment of capital at the time of liquidation of the company.

A company can issue preference shares of varying dividend rates at a time viz. 10% Preference Shares, 12% Preference Shares etc. these % are showing the fixed rate of dividend which is payable to the preference shareholders.

Features of Preferences Shares



Preferences shares carry four characteristics / features:

1) Hybrid Security:

Preference share is hybrid kind of security, possessing some characteristics of debt and some of equity. Legally, it is part of a company's equity base and preference dividend is not a tax-deductible expense. Preference shares carry a fixed dividend rate and this fixed rate plus the preferred prior claims to income and assets, make it resemble to debt.

2) Claim on Income:

A fixed rate of dividend is payable on preference shares. Preference shareholders have prior claim on income (dividend) over equity shareholders. Whenever the company has distributable profits, the dividend is first paid on preference share capital. After paying the fixed rate of dividend they have no right to share extra income. But, if the preference shares are participating shares, then the preference shareholders are entitled to participate in the balance of profits in agreed proportion along with equity shareholders after paying them a reasonable dividend.

3) Claim of Assets:

Generally the preference shareholders have no right in the surplus assets of the company. However, a company may issue participating preference shares which entitle its holders a right to participate even in the surplus assets of the company at the time of liquidation in agreed ratio.

4) Voting right:

Preference shareholders do not have the voting rights to participate in the management of the company like equity shareholders. However they have been given right to vote on resolutions which directly affect the rights attached to preference shares.

Advantages of Preference Shares

Advantage to the company

The company enjoys the following advantages by issuing the preference shares:

- Preference shares required no collateral or mortgage as in the case of debt.
- Preference shares provide a long-term capital for the company.
- The cost of capital of preference shares is less than that of equity shares.
- Redeemable preference shares have the added advantage of repayment of capital whenever there are surplus funds with the company.
- As a fixed rate of dividend is payables on preference shares, so the company has fixed financial commitment.
- Preference shares do not carry voting rights as described in section 87 under normal circumstances and hence there is no dilution of control.

Advantage to the Investors:

The preference shares re advantageous for the investors for the following viewpoints:

- Investors receive regular fixed income in the form of dividend.
- It is a superior security over equity shares in repayment of capital at the time of winding up of the company.
- It provides preferential rights in regard to payment of dividends.
- Although preference shares carry no voting rights, the holders of such shares can vote on matters directly affecting their rights as well as on all resolutions if the dividend due on their shares is remaining unpaid.

Disadvantages of Preference Shares

Disadvantages to the Company

- It is an expensive source of finance as compared to debt.
- If the company is earning return less than the cost of preference share capital, then it will decrease the earning per shares of the equity shareholders.
- Although there is no legal obligation of a company to pay dividend on preference shares, yet frequent delays or non-payment adversely affects the market position of the company and may reduce the market price of the share.
- Preference share dividend is not a deductible expense while calculating tax, interest is a deductible expense. Thus, there is a tax disadvantage to the company.

Disadvantages to the Investors

- As the preference shareholders, ordinarily, do not have any voting rights.
- The rate of dividend on preference shares is usually lower as compared to the equity shares.
- Preference shareholders do not have any charge on the assets of the company while debentures, usually, provide a charge on all the assets of the company.

- In case of winding up of a company, the preference shareholders only get the invested value of their capital. They cannot participate in the surplus.

Types of Preference Shares: The followings are the various types of shares which a company can issue.

1. Cumulative Preference Shares
2. Non-Cumulative Preference Shares
3. Redeemable Preference Shares
4. Participating Preference Shares
5. Non-participating Preference Shares
6. Convertible Preference Shares
7. Non-convertible Preference Shares

1. Cumulative Preference Shares:

Preference dividend is payable if the company earns an adequate profit. However, cumulative preference shares carry additional features which allow the preference shareholders to claim unpaid dividends of the years in which dividend could not be paid due to insufficient profit.

2. Non-Cumulative Preference Shares:

The holders of non-cumulative preference shares will get preference dividend if the company earns sufficient profit but they do not have the right to claim unpaid dividend which could not be paid due to insufficient profit.

3. Redeemable Preference Shares:

Redeemable preference shares are those shares which are redeemed or repaid after the expiry of a stipulated period.

4. Participating Preference Shares:

Participating preference shareholders are entitled to share the surplus profit and surplus assets of the company in addition to the preference dividend.

5. Non-participating Preference Shares:

Non-participating preference shareholders are not entitled to share surplus profit and surplus assets like participating preference shareholders.

6. Convertible Preference Shares:

The holders of convertible preference shares are given an option to convert whole or part of their holding into equity shares after a specific period of time.

7. Non-convertible Preference Shares:

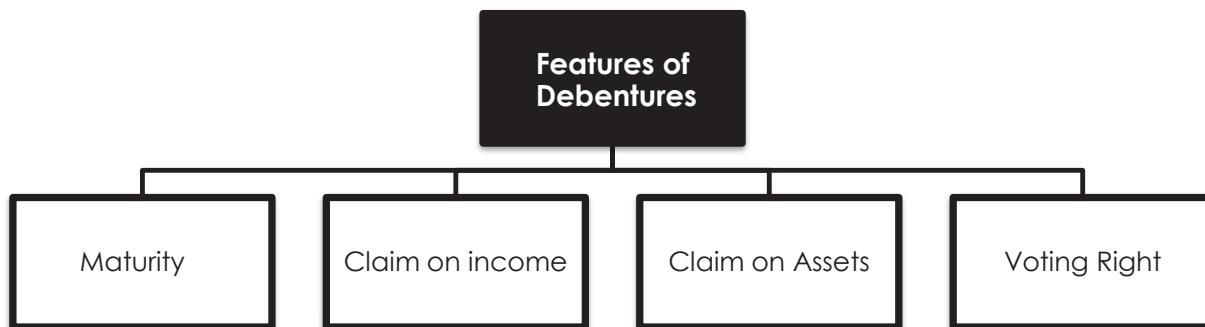
The holders of non-convertible preference shares do not have the option to convert their holding into equity shares i.e. they remain as preference share till their redemption.

DEBENTURE

The word ‘debenture’ has been derived from a Latin word ‘debere’ which means to borrow. Section 2(30) of the Companies Act, 2013 define “debenture” which includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

A debenture holder is a creditor of the company. A fixed rate of interest is paid on debentures. The interest due on debentures is a charge on the profit and loss account of the company. The debentures are generally given a floating charge over the assets of the company.

Features of Debentures



The debenture carries the following features:

1) Maturity:

Although debentures provide long-term funds to a company, they mature after a specific period. Generally, the debentures are to be repaid at a definite time as stipulated in the issue. The company must pay back the principal amount on these debentures on the given date otherwise the debenture holders may force winding up of the company as creditors.

2) Claim on Income:

A fixed rate of interest is payable on debentures. Unlike shares, a company has a legal obligation to pay the interest on due dates irrespective of its level of earnings. Even if a company makes no earnings or incurs loss, it is under an obligation to pay interest to its debenture holders. The default in payment of interest may cause forfeiture of assets or winding up of the company.

3) Claim on Assets:

Even in respect of claim on assets, debenture holders have priority of claim on assets of the company. They have to be paid first before making any payment to the preference or equity shareholders in the event of liquidation of the company. However, they have a claim for the principal amount and interest due only and do not have any share in the surplus assets of the company, if any.

4) Voting Rights:

Since debenture holders are creditors of the company and not its owners, they do not have any control over the management of the company. They do not have any voting right to elect the directors of the company nor any other matters.

Advantages of Debentures

Advantages to the Company

The company enjoys the following advantages by issuing the debentures:

- The rate of interest payable on debentures is, usually, lower than the rate of dividend paid on share.
- The interest on debentures is a tax-deductible expense and hence the effective cost of debentures (debt-capital) is lower as compared to ownership securities where dividend is not a tax-deductible expense.
- Debentures have no voting rights so there can be no dilution of control.
- A company can trade on equity by mixing debentures in its capital structure and thereby increase its earnings per share.
- Debentures provide a hedge against the inflation because the interest payment as well as the principal repayment is fixed in monetary terms.

Advantages to the Investors:

The investors enjoy the following advantages:

- Debentures are the safest source of income for an investor because it provides a fixed, regular and stable income to the debenture holder.
- Debentures are issued against the security, so they are safe.
- The payment date of debentures is fixed at the time of issue of debentures, because of a definite maturity period investors like debentures more than shares.
- The interest of debenture holders is protected by various provisions of the debenture trust deed and the guidelines issued by the Securities and Exchange board of India in this regard.

Disadvantage of Debenture

From the Company's Point of View:

The following are the disadvantages of debentures from Company's point of view:

- The fixed interest charges and repayment of principal amount on maturity are legal obligations of the company.
- Debenture finance reduces the credit standing of the company. Banks and other financial institutions show an unfavorable attitude towards a company whose capital structure is loaded with debentures.
- The use of debt financing usually increases the risk perception of investors in the firm. This enhanced financial risk increases the cost of equity capital.
- Cost of raising finance through debenture is also high because of high stamp duty.

From the Investors Point of View:

The following are the disadvantages of debentures from Investor's point of view:

- Debentures do not carry any voting rights and hence its holders do not have any controlling power over the management of the company.

- Debenture holders do not have any right to claim on the surplus assets and profits of the company beyond the fixed interest and their principal amount.
- The prices of debentures in the market fluctuate with the changes in the interest rates.
- Uncertainty about redemption also restricts certain investors from investing in such securities.

Types of Debentures

1. Secured Debentures
2. Unsecured Debentures
3. Redeemable Debentures
4. Irredeemable Debentures
5. Fully Convertible Debentures
6. Partly Convertible Debentures
7. Non-Convertible Debentures

Secured Debentures:

These are debentures that are secured against an asset/assets of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

Unsecured Debentures:

These are not secured by any charge against the assets of the company, neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

Redeemable Debentures:

These debentures are payable at the expiry of their term. Which means at the end of a specified period they are payable, either in the lump sum or in instalments over a time period. Such debentures can be redeemable at par, premium or at a discount.

Irredeemable Debentures:

Such debentures are perpetual in nature. There is no fixed rate at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long-time interval.

Fully Convertible Debentures:

These shares can be converted to equity shares at the option of the debenture holder. So, if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

Partly Convertible Debentures:

Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

Non-Convertible Debentures:

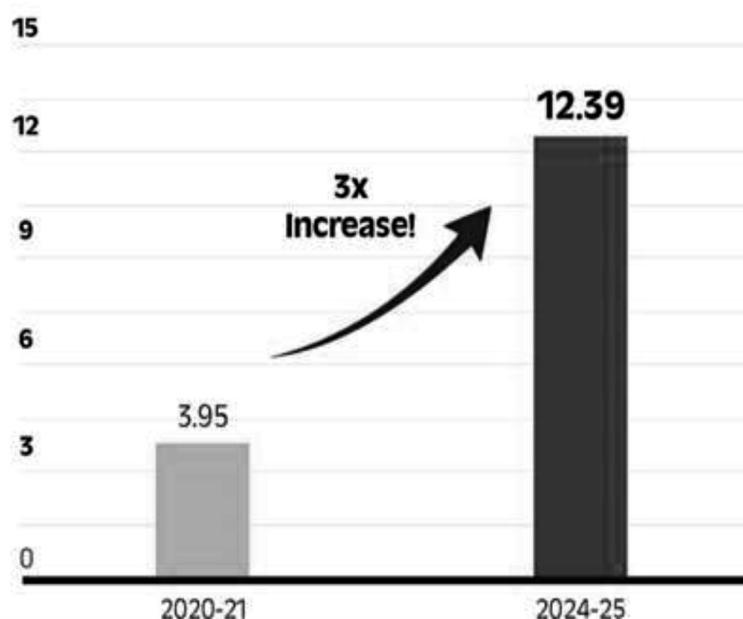
As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

FINANCIAL ASSISTANCE SCENARIO FOR SMALL AND MEDIUM ENTERPRISES AND STARTUPS

As a vital contributor to India's industrial landscape, the MSME sector plays a crucial role in manufacturing, exports, and employment. With 5.93 crore registered MSMEs employing more than 25 crore people, these enterprises generate a significant share of the country's economic output. In 2023-24, MSME-related products accounted for 45.73% of India's total exports, reinforcing their role in positioning the country as a global manufacturing hub. The new budgetary provisions aim to build on this strong foundation by fostering innovation, enhancing competitiveness, and ensuring better access to resources. Through these steps, the government seeks to equip MSMEs with the tools needed to expand their reach and strengthen their contribution to India's economic growth.

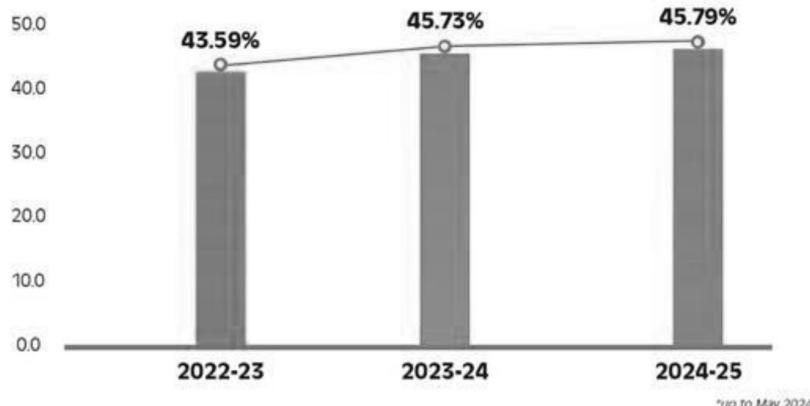
Exports from MSMEs have seen substantial growth, rising from ₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in 2024-25. The number of exporting MSMEs has also surged, increasing from 52,849 in 2020-21 to 1,73,350 in 2024-25. Their contribution to India's total exports has steadily grown, reaching 43.59% in 2022-23, 45.73% in 2023-24, and 45.79% in 2024-25 (up to May 2024). These trends underscore the sector's increasing integration into global trade and its potential to drive India's position as a manufacturing and export hub.

Growth of MSME Exports (In ₹ Lakh Crore)



Source: Press Information Bureau (PIB)

Share of Export of MSME related products in All India Export



Source: Press Information Bureau (PIB)

Government Initiatives for MSMEs

The Government of India has implemented a robust array of initiatives aimed at bolstering the Micro, Small, and Medium Enterprises (MSME) sector, recognizing its pivotal role in the economy. These efforts range from financial support and procurement policies to capacity building and market integration. Key initiatives include the Udyam Registration Portal, PM Vishwakarma scheme, PMEGP, SFURTI, and the Public Procurement Policy for MSEs, all aimed at fostering entrepreneurship, enhancing employment, and integrating informal sectors into the formal economy. These initiatives reflect the government's commitment to supporting MSMEs and driving inclusive economic growth nationwide.

- i) PM Vishwakarma: The 'PM Vishwakarma' scheme, launched by the Government of India, aims to enhance the quality and reach of products and services by artisans and craftspeople, integrating them into domestic and global value chains. Announced in the 2023-24 Budget and launched on September 17, 2023, this scheme seeks to provide comprehensive support to Vishwakarmas, improving their socio-economic status and quality of life. PM Vishwakarma is fully funded by the Government of India with an initial outlay of Rs. 13,000 crores for 2023-24 to 2027-28.

Since its launch, the PM Vishwakarma scheme has achieved significant milestones, with over 2.65 crore applications submitted and 27.13 lakh applications successfully registered. Registered applicants will undergo a 5-day 'Basic Training' program, and those opting for credit support will receive collateral-free credit. These accomplishments highlight the scheme's early success in empowering artisans and craftspeople nationwide.

- 1. Financial Assistance Scenario for Small and Medium Enterprises in India
- ii) Udyam Registration Portal: Launched on July 1, 2020, the Udyam Registration Portal serves as a pivotal platform for facilitating the registration of enterprises across India. The portal encourages enterprises previously registered under the Udyog Aadhaar Memorandum and Entrepreneurship Memorandum-II to migrate to this new system. It offers a free, paperless, and self-declaration-based registration process, eliminating the need for document uploads, thus simplifying the formalization of businesses.

In a significant step towards integrating informal micro-enterprises into the formal economy, the Government introduced the Udyam Assist Platform on November 11, 2023. This initiative aims to bring these micro-enterprises under the formal sector, enabling them to access benefits such as Priority Sector Lending, which is essential for their growth and sustainability.

As of February 4, 2025, the Udyam Portal boasts an impressive total of 5,93,38,604 registered MSMEs, with the vast majority classified as micro-enterprises. Beyond their economic contributions, these MSMEs have generated substantial employment opportunities, providing jobs to over 25.18 crore individuals. This extensive employment generation underscores the sector's crucial role in driving economic development and enhancing social stability by offering livelihoods to millions across the country.

- iii) Prime Minister's Employment Generation Programme (PMEGP): Prime Minister's Employment Generation Programme (PMEGP) is a credit linked subsidy scheme for providing employment opportunities through establishment of micro-enterprises in the non-farm sector. Under the Scheme, Margin Money (Subsidy) is provided to beneficiaries availing loan from banks for setting up new enterprises. The maximum project cost admissible for setting up of new project is Rs. 50 lakhs in manufacturing sector and Rs. 20 lakhs in Service Sector
- iv) Scheme of Fund for Regeneration of Traditional Industries (SFURTI): Launched in 2005-06, the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) aims to organize traditional artisans into collectives or clusters, facilitating product development, diversification, and value addition. The scheme promotes traditional sectors and seeks to sustainably increase the income of artisans. SFURTI was revamped in 2014-15 to further enhance its impact and reach.

The primary objective of SFURTI is to organize artisans and traditional industries into clusters to improve competitiveness, create employment opportunities, and enhance the marketability of their products. By bringing artisans together, the scheme helps them leverage collective resources and skills, leading to better income prospects and sustained growth.

Achievements:

- Since 2014-15, SFURTI has approved the formation of 513 clusters and 376 clusters have successfully become functional.
 - A total grant of ₹1,336 crore has been extended to support these clusters.
 - Sustainable employment opportunities have been generated for around 2,20,800 artisans in 376 functional clusters (as on 12 Dec 2024).
- v) Public Procurement Policy for Micro and Small Enterprises: The Ministry of MSME, Government of India, notified the Public Procurement Policy for Micro and Small Enterprises (MSEs) in 2012. This policy mandates that 25% of annual procurement by Central Ministries, Departments, and Central Public Sector Enterprises (CPSEs) must be sourced from MSEs. Within this 25%, 4% is reserved for MSEs owned by Scheduled Castes/Scheduled Tribes (SC/ST), and 3% is reserved for MSEs owned by women entrepreneurs. Additionally, 358 items are exclusively reserved for procurement from MSEs.

Achievements:

In 2023-24, Central Ministries, Departments, and CPSEs procured a total of ₹74,717 crore worth of goods and services from MSEs, which constituted 43.71% of their total procurement.

This policy benefitted 2,58,413 MSEs, ensuring they had access to significant business opportunities and support through government procurement.

(For further details on Schemes for MSMEs, please refer <https://msme.gov.in/sites/default/files/MSMESchemebooklet2024.pdf>)

Key Measures for MSMEs in Union Budget 2025-28

The Union Budget 2025-26 introduces a series of measures aimed at strengthening the MSME sector by enhancing credit access, supporting first-time entrepreneurs, and promoting labour-intensive industries.

- i) *Revised Classification Criteria:* To help MSMEs scale operations and access better resources, the investment and turnover limits for classification have been increased by 2.5 times and 2 times, respectively. This is expected to improve efficiency, technological adoption, and employment generation.

Rs. in Crore	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

Source: Press Information Bureau (PIB)

- ii) Enhanced Credit Availability:
 - The credit guarantee cover for micro and small enterprises has been increased from ₹5 crore to ₹10 crore, enabling additional credit of ₹1.5 lakh crore over five years.
 - Startups will see their guarantee cover double from ₹10 crore to ₹20 crore, with a reduced fee of 1% for loans in 27 priority sectors.
 - Exporter MSMEs will benefit from term loans up to ₹20 crore with enhanced guarantee cover.
- iii) Credit Cards for Micro Enterprises: A new customised Credit Card scheme will provide ₹5 lakh in credit to micro enterprises registered on the Udyam portal, with 10 lakh cards set to be issued in the first year.
- iv) Support for Startups and First-Time Entrepreneurs:
 - A new Fund of Funds with ₹10,000 crore will be established to expand support for startups.
 - A scheme for 5 lakh first-time women, Scheduled Caste, and Scheduled Tribe entrepreneurs will provide term loans up to ₹2 crore over five years, incorporating lessons from the Stand-Up India scheme.
- v) Focus on Labour-Intensive Sectors:
 - A Focus Product Scheme for the footwear and leather sector will support design, component manufacturing, and non-leather footwear production, expected to create 22 lakh jobs and generate a turnover of ₹4 lakh crore.

- A new scheme for the toy sector will promote cluster development and skill-building, positioning India as a global toy manufacturing hub.
 - A National Institute of Food Technology, Entrepreneurship and Management will be established in Bihar to boost food processing industries in the eastern region.
- vi) Manufacturing and Clean Tech Initiatives:
- A National Manufacturing Mission will provide policy support and roadmaps for small, medium, and large industries under the Make in India initiative.
 - Special emphasis will be given to clean tech manufacturing, fostering domestic production of solar PV cells, EV batteries, wind turbines, and high-voltage transmission equipment.

RECAPITULATION

- Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers).
- Bearer Debentures are those which are payable to the bearer thereof. These can be transferred merely by delivery. Interest is paid to the person who produces the interest coupon attached to such debentures.
- Registered Debentures are those which are payable to the persons who appear in the Register of Debenture holders. These can be transferred only by executing a transfer deed. Interest is paid to the registered holder.
- Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society. When financial markets fail, economic disruption including recession and unemployment can result.
- A mutual fund is an investment security that enables investors to pool their money together into one professionally managed investment. Mutual funds can invest in stocks, bonds, cash or a combination of those assets.
- With the rise in fintech companies, the concept of Buy Now Pay Later (BNPL) has revolutionized the banking ecosystem in India.

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LESSON 5

INDIAN ECONOMY

INTRODUCTION

The Indian economy is one of the largest and fastest-growing economies in the world, characterized by its diverse sectors, significant population, and ongoing economic reforms. India has transitioned from being a primarily agrarian economy to a more diversified one, with significant contributions from sectors such as services, industry, and manufacturing. India has undertaken significant economic reforms since the early 1990s to liberalize its economy, promote private sector participation, attract foreign investment, and enhance competitiveness. Key reforms include the dismantling of the license raj, reduction of trade barriers, privatization of state-owned enterprises, deregulation of industries, and simplification of tax and regulatory frameworks.

Dividing an economy into different sectors helps economists analyse the economic activity within those sectors. A sector is an area of the economy in which businesses share the same or related business activity, product, or service. We can divide the economy into the following three sectors:

- Primary sector companies are directly engaged in activities utilizing natural resources, such as mining and agriculture.
- Secondary sector companies produce goods derived from the products within the primary sector and include manufacturing.
- Tertiary and quaternary sectors represent the services and knowledge-based economy and include retail and information technology.

Now, we will discuss all the three sectors in detail.

PRIMARY (AGRICULTURE AND ALLIED ACTIVITIES)

The primary sector is that which is involved in obtaining raw materials or natural resources from the planet. The kind of economic activities that can exist in a location depend on its characteristics. This industry produces goods that are offered or sold to the general population. Utilising the Earth's natural resources, like water, minerals, vegetation, etc., it is able to carry out its economic activities. Despite its declining share in GDP, agriculture remains a vital sector, employing a significant portion of the population and contributing to food security and rural livelihoods.

There are two categories of primary industries:

Genetic Industry

This industry involved the extraction or gathering of raw materials, which can then be enhanced through labour-intensive manufacture. Agriculture, forestry, fisheries, and livestock management are a few examples of the primary sector's genetic industry. These industries are susceptible to advances in renewable resource technology and science.

Extractive Industry

This category includes the extraction or manufacture of finite raw materials that cannot be replaced or replenished by agriculture. In the extractive industries, stone is quarried, mineral fuels are extracted, and mineral ores are mined.

Primary Sector Classifications

Primary industries include the following:

Farming: Farmers cultivate plants and raise animals that may be utilised to produce food or other items on their property. Agriculture is a primary-sector industry. It is the ability to make raw food using agricultural methods.

Rough materials and textiles are separated from food and fuel to form four distinct product groups. The food category includes egg yolks, milk, vegetables, meats, and oils. Cotton is a raw material used in agriculture to produce clothes.

Mining: The extraction of raw materials from the ground, such as rock, sand, metals, clay, gemstones, and minerals, is known as mining. A mining company's most valuable assets are its reserves and resources. Ore resources are located, the profit potential is assessed, and precious metals are extracted.

Mining is also a significant source of raw materials for the secondary sector, used to manufacture and create various imported goods. Natural gas, petrol, and water are examples of non-renewable resources included in the concept of mining.

Fishing: Fishing is one of the world's most critical primary businesses. You'll be responsible for everything from shipping and promoting fish goods to preserving them and processing them. Industrial fish farming is the fastest-growing food production technology globally, and fish farms presently provide about half of the world's seafood.

Forestry: The forest products business makes a substantial contribution to world economies. For various sectors, forestry is a crucial supplier of raw materials. All forms of forest sector goods help address some of the needs of contemporary civilization while also improving worldwide human well-being.

However, Indian forests are facing a silent crisis. Rising temperatures, erratic rainfall and deforestation are weakening their ability to absorb carbon dioxide (CO₂), a vital role in combating global warming. This poses a major threat to the country's ambitious climate goal of creating "an additional carbon sink of 2.5-3 billion tonnes of CO₂ equivalent through additional forest and tree cover by 2030", as per its Nationally Determined Contributions, updated in August 2022.

Difference between Primary, Secondary and Tertiary Sectors

Primary	Secondary	Tertiary
The agricultural and allied sector services are known as the Primary Sector.	The manufacturing sector is known as the Secondary Sector.	The service sector is known as the Tertiary Sector.
Raw materials for goods and services are provided for the Primary Sector.	Secondary sector changes one goods into another by building more from it	This sector provides services to both the primary and secondary sector
The primary sector uses traditional techniques and is mostly unorganised.	The secondary sector uses more reliable methods of production and is organised.	This sector uses modern-day logistics methods to execute its functions and is well organised.

Primary	Secondary	Tertiary
This sector consists of forestry, agriculture and mining activities.	It involves manufacturing units, large firms, small scale units and multinational organisations.	Insurance trade, Banking and communications come under this sector.
In comparison to other developed nations, India has a large workforce employed.	The employment rate is in balance, as a specific set of skills is needed to find a workforce in this sector	This sector's employment share has developed in the ensuing years.

Major Investments

The highlights of the Union Budget 2025 – 2026 are summarized below:

- An outlay of ₹1.5 lakh crore proposed for the 50-year interest free loans to states for capital expenditure and incentives for reforms.
- A plan for 2025-30 to plough back capital of ₹10 lakh crore in new projects announced.
- Urban Challenge Fund: An Urban Challenge Fund of ₹ 1 lakh crore announced to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation', allocation of ₹ 10,000 crore proposed for 2025-26.
- Nuclear Energy Mission for research & development of Small Modular Reactors (SMR) with an outlay of ₹20,000 crore to be set up, 5 indigenously developed SMRs to be operational by 2033.
- A Maritime Development Fund with a corpus of ₹ 25,000 crore to be set up, with up to 49 per cent contribution by the Government, and the balance from ports and private sector.
- ₹20,000 crore to be allocated to implement private sector driven Research, Development and Innovation initiative announced in the July Budget.
- FDI in Insurance Sector: The FDI limit for the insurance sector to be raised from 74 to 100 per cent, for those companies which invest the entire premium in India.

Agriculture Sector Union Budget 2025-26

Government of India is committed to the welfare of farmers. This is evident from the fact that in the fiscal year 2013-14, when the Ministry of Cooperation, Department of Animal Husbandry and Dairying, and Department of Fisheries were integral parts of the Ministry of Agriculture and Farmers Welfare, the total budget allocation was a mere Rs. 27662.67 crore. In the Union Budget 2025, the Ministry of Consumer Affairs, Food, and Public Distribution received Rs 2.16 lakh crore. The Ministry of Agriculture and Farmers Welfare was allocated Rs 1.38 lakh crore. The Ministry of Rural Development was allocated Rs 1.90 lakh crore.

Some of the recent changes are as follows:

- The Union Cabinet approved the Revised National Program for Dairy Development (NPDD) with an additional budget of ₹1,000 crore.
- The Union Cabinet has also approved the Revised Rashtriya Gokul Mission (RGM) to boost the livestock sector, with an additional outlay of ₹1,000 crore.

- The Union Budget 2025-26 has emphasized agriculture as the foremost engine of India's development.
- On January 1, 2025, the Union Cabinet approved continuation of the Pradhan Mantri Fasal Bima Yojana and Restructured Weather Based Crop Insurance Scheme till 2025-26.
- On January 1, 2025, the Union Cabinet approved the extension of One-time Special Package on Di-Ammonium Phosphate (DAP) for the period from 01.01.2025 till further orders.
- The Union Cabinet, on November 25, 2024, approved the launching of the National Mission on Natural Farming (NMNF) with a total outlay of Rs.2481 crore.
- On October 3, 2024, the Union Cabinet approved the rationalization of all Centrally Sponsored Schemes (CSS) operating under Ministry of Agriculture and Farmer's into two-umbrella Schemes viz. Pradhan Mantri Rashtriya Krishi Vikas Yojana (PM-RKVVY), and Krishonati Yojana (KY).
- On October 3, 2024, the Union Cabinet approved the National Mission on Edible Oils – Oilseeds with a financial outlay of Rs 10,103 crore.

The Government planned to implement a comprehensive range of central sector as well as centrally sponsored schemes and programmes for the welfare of farmers in the country. These schemes encompass entire spectrum of agriculture including credit, insurance, income support, infrastructure, crops including horticulture, seeds, mechanization, marketing, organic and natural farming, farmer collectives, irrigation, extension, procurement of crops from farmers at minimum support prices, digital agriculture etc.

The details of list of Missions / Schemes implemented by the Department of Agriculture & Farmers Welfare can be accessed from the following link: <https://pib.gov.in/PressReleasePage.aspx?PRID=2113351#>

Current Scenario of Agriculture and allied activities in India

AGRICULTURE HAS BEEN CONSIDERED AS THE 1ST ENGINE OF DEVELOPMENT IN THE UNION BUDGET 2025-2026

- *Prime Minister Dhan-Dhaanya Krishi Yojana - Developing Agri Districts Programme:* The programme to be launched in partnership with the states, covering 100 districts with low productivity, moderate crop intensity and below-average credit parameters, to benefit 1.7 crore farmers.
- *Building Rural Prosperity and Resilience:* A comprehensive multi-sectoral programme to be launched in partnership with states to address under-employment in agriculture through skilling, investment, technology, and invigorating the rural economy. Phase-1 to cover 100 developing agri-districts.
- *Aatmanirbharta in Pulses:* Government to launch a 6-year "Mission for Aatmanirbharta in Pulses" with focus on Tur, Urad and Masoor. NAFED and NCCF to procure these pulses from farmers during the next 4 years.
- *Comprehensive Programme for Vegetables & Fruits:* A comprehensive programme to promote production, efficient supplies, processing, and remunerative prices for farmers to be launched in partnership with states.

- *Makhana Board in Bihar:* A Makhana Board to be established to improve production, processing, value addition, and marketing of makhana.
- *National Mission on High Yielding Seeds:* A National Mission on High Yielding Seeds to be launched aiming at strengthening the research ecosystem, targeted development and propagation of seeds with high yield, and commercial availability of more than 100 seed varieties.
- *Fisheries:* Government to bring a framework for sustainable harnessing of fisheries from Indian Exclusive Economic Zone and High Seas, with a special focus on the Andaman & Nicobar and Lakshadweep Islands.
- *Mission for Cotton Productivity:* A 5-year mission announced to facilitate significant improvements in productivity and sustainability of cotton farming, and promote extra-long staple cotton varieties.
- *Enhanced Credit through KCC:* The loan limit under the Modified Interest Subvention Scheme to be enhanced from ₹ 3 lakh to ₹ 5 lakh for loans taken through the KCC.
- *Urea Plant in Assam:* A plant with annual capacity of 12.7 lakh metric tons to be set up at Namrup, Assam.

Indian food industry has come a long way since the time of Independence in 1947. From a ship to mouth existence, India has emerged as a food basket for the world. Today, India is the largest country in terms of food production, processing, supply, and consumption. India's food market is ranked 6th in the world, with 70% of sales and 5th in production, consumption, and export. India is today the largest producer of F&V, milk, sugar, pulses, spices, oilseeds etc. During the last two decades, the food consumption pattern has significantly changed and that had led to the growth of a gigantic size food processing industry. Today the size of Indian food retail market is valued over \$800 billion with a growth rate of 11% AGCR.

With the rapid growth of the Indian economy, a shift is also being seen in the consumption pattern of the country, from cereals to more varied and nutritious diet of fruits and vegetables, milk, fish, meat and poultry products. All these efforts have considerably enhanced the status of the Food Processing Industries. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India. It contributes around 14 per cent of manufacturing Gross Domestic Product (GDP), 13 per cent of India's exports and six per cent of total industrial investment.

India's Food Processing sector is identified as sunrise sector with projected size \$535 billion by 2025-26. India's food ecosystem offers huge opportunities for investments with stimulating growth in the food retail sector, favorable economic policies, and attractive fiscal incentives. The sector, however, needs technologies, investments and global partnerships to unlock its full potential.

The organic food segment in India is expected to grow at a CAGR of 10% during 2015-25 and was estimated to reach Rs. 75,000 crore (US\$ 10.73 billion) by 2025 from Rs. 2,700 crore (US\$ 386.32 million) in 2015. The processed food market in India was forecasted to grow to Rs. 3,451,352.5 crore (US\$ 470 billion) by 2025, from Rs. 1,931,288.7 crore (US\$ 263 billion) in FY20 on the back of government initiatives such as planned infrastructure worth US\$ 1 trillion and Pradhan Mantri Kisan Sampada Yojna. The food processing industry employs about 1.77 million people. The sector allows 100% FDI under the automatic route.

SECONDARY (MANUFACTURING)

The secondary sector consists of processing, manufacturing, and construction companies. The secondary sector produces goods from the natural products within the primary sector.

Types of secondary sector industries:

- a) **Heavy industry:** Involves large-scale production with heavy machinery, such as steel and automobiles manufacturing.
- b) **Light industry:** Typically involves less capital-intensive, consumer-oriented manufacturing, like clothing and small electronics.
- c) **Craft industry:** Small-scale production focusing on handmade goods.
- d) **Processing industry:** Converts raw materials into a finished product, like oil refining or food processing.

Performance of Secondary Sector of Indian Economy

Based on the Economy Survey of 2024-2025, the performance of some industries covered under the secondary sector is as under:

- i) **Cement industry:** Currently, India is the second largest cement producer in the world after China⁷. The Indian cement industry comprises 159 integrated large cement plants, 128 grinding units, five clinkerization units and 62 mini cement plants.

The current annual installed capacity of the cement industry is about 639 million tonnes, with cement production of around 427 million tonnes in FY24. Most of the cement plants in India are located in proximity to the raw material source.

About 87 per cent of the cement industry is concentrated in the States of Rajasthan, Andhra Pradesh, Telangana, Karnataka, Madhya Pradesh, Gujarat, Tamil Nadu, Maharashtra, Uttar Pradesh, Chhattisgarh, Odisha, Meghalaya and West Bengal. The industry has adequate capacity to meet the domestic cement demand. Domestic cement consumption is around 290 kg per capita against a global average of 540 kilograms per capita.

The government's focus on mega projects like highways, railways, and housing schemes, coupled with rural development and industrial growth, is expected to fuel significant cement demand against a global average of 540 kilograms per capita. The government's focus on mega projects like highways, railways, and housing schemes, coupled with rural development and industrial growth, is expected to fuel significant cement demand.

The cement industry carries an environmental footprint. The industry has been actively working to reduce its carbon emissions of cement by 2070.

- ii) **Steel industry:** In April-November of FY25, the country's crude steel and finished steel production registered a growth of 3.3 per cent and 4.6 per cent. There has been an overall upward trend in steel production and consumption during April-November FY25 despite some month-on-month fluctuations.

The sustained growth in steel sector was fuelled by ongoing development projects and increased public infrastructure spending. The primary drivers of steel demand included expansion in end-user sectors and the implementation of policies like the National Steel Policy and Production-

Linked Incentive schemes. Government initiatives on housing, urban and rural infrastructure also contributed to the rising demand.

Driven by an infrastructure-focused growth strategy, steel demand in India is expanding at a strong pace. This growth is further bolstered by significant advancements in key user industries, particularly building & construction, and infrastructure. In FY24, construction, and infrastructure accounted for an estimated 68 per cent of total steel consumption, followed by engineering and packaging at 22 per cent and automobiles at nine per cent. India has been a net importer of steel from April to November FY25. The decline in India's export of finished steel during FY25 was mainly driven by gaps between international and domestic prices. The low price in the international market during this period resulted in a low margin on exports and cheaper imports.

The government's Steel's Scrap Recycling Policy encourages efficient recycling of scrap. The total domestic consumption of steel scrap in India is approximately 30 Million Tonnes (MT), of which around 5 MT is imported. Ensuring the availability of high-quality scrap in sufficient quantities is crucial for transitioning to green steel and supporting the future growth of the steel industry. In addition, the use of scrap significantly reduces specific energy consumption. It also reduces the water consumption by 40 per cent, and greenhouse gas emissions by 58 per cent.

- iii) **Chemical and Petrochemical sector:** The share of chemicals and chemical products sector in the GVA of manufacturing sector (at 2011-12 prices) was 9.5 per cent during FY23. The country is a net importer of these products, with a dependence on imports of around 45 per cent of petrochemical intermediates. Reducing the gap between domestic demand and supply is a high priority.
- iv) **Capital Goods:** The production of capital goods fluctuated between FY20 and FY23, before recording a robust growth in FY24. Yet, the growing reliance on the import of such goods poses a challenge. Due to technology gaps, this sector imports the high-end machines required for manufacturing. There is an urgent need to address the technology, skill and infrastructure gaps. The government has notified phase II of the Scheme for Enhancement of Competitiveness of the Capital Goods Sector.

The objective of Phase II of the Scheme is to expand and enlarge the impact created by its Phase I. Phase II of the scheme promotes identification of technologies through technology innovation portals, setting up of new advanced centres of excellence and common engineering facility centres among others for enhancing the global competitiveness of capital goods sector.

The government has been actively promoting Smart Manufacturing and Industry 4.0, supporting the establishment of Smart Advanced Manufacturing and Rapid Transformation Hub (SAMARTH) Udyog centres at various institutions. These centres aim to foster an ecosystem where manufacturing industries, especially SMEs, can learn about and adopt new technologies.

- v) **Automobile industry:** The Indian automobile industry is a significant driver of economic growth, offering a diverse range of domestically produced vehicles. In FY24, the industry recorded automobile domestic sales growth of 12.5 per cent.
- vi) **Electronics industry:** India's electronics sector has been dynamic regarding domestic production, exports and imports in the last decade. The domestic production of electronic goods has increased substantially from ₹1.90 lakh crore in FY15 to ₹9.52 lakh crore in FY24, growing at a CAGR of 17.5 per cent.

The country has also drastically reduced its dependence on smartphone imports, with 99 per cent now manufactured domestically. In FY24, the country produced approximately 33 crore mobile phone units, with over 75 per cent of the models being 5G enabled. The key drivers of growth have been the large domestic market, the availability of skilled talent, and low-cost labour.

Programmes such as Make in India and Digital India, along with improved infrastructure, ease of doing business, and various incentives, have boosted domestic manufacturing and drawn foreign investments. However, India's electronics market represents 4 per cent of the global market. The industry has largely focused on assembly, with limited progress in design and component manufacturing.

- vii) **Textiles:** The textile industry is a major employment generator and it accounts for about 11 per cent of India's manufacturing GVA. India is a leading producer of jute and ranks second globally in cotton, silk, and man-made fibre production. India is the sixth largest exporter of textiles and apparel and has a share of about 4 per cent of the global trade in this segment. The share of textiles and apparel, including handicrafts, in India's total merchandise exports stood at about 8 per cent in FY24.

After having recorded a high of USD 44.44 billion in FY22, India's export of textiles and apparel, including handicrafts, stood at USD 35.87 billion in the FY24, compared to export of USD 36.69 billion in FY23. India is looking to diversify its export market to other regions. India has traditionally focused on cotton textiles. Globally, manmade fibre (MMF) consumption is dominant. Hence, in order to move towards a higher global MMF share, it is essential to simultaneously focus on MMF along with cotton textiles.

Technical textiles are another area of potential growth. India's technical textile industry is rapidly growing, ranking fifth globally. Indian technical textiles market stands at US\$26.8 billion in FY24. India is a net exporter of technical textiles, with exports valuing US\$2.58 billion in FY24. To assist the technical textiles manufacturing ecosystem, the government has introduced several initiatives, including the Production Linked Incentive (PLI) scheme. To ensure quality and standardisation of the technical textiles, 68 items have been brought under regulation through quality control order in various segments.

Despite possessing a complete value chain, textiles face several challenges. The dominance of MSMEs limits scale and efficiency, while its fragmented nature increases logistical costs. India's reliance on cotton, unlike the global shift towards MMF, limits its competitiveness in the worldwide market. The sector has attracted limited foreign direct investment, hindering technological advancements and reliance on imported textile machinery. A significant skill gap persists, hindering productivity and innovation. Addressing these challenges is crucial for India to realise its full potential as a global textile powerhouse.

- viii) **Pharmaceuticals:** The Indian pharmaceutical industry is the world's third-largest by volume. The industry boasts of a diverse product portfolio encompassing generic drugs, bulk drugs, over-the-counter medications, vaccines, biosimilars, and biologics, establishing a strong global presence. The total output of the pharmaceuticals, medicinal and botanical products industry in FY23, at constant prices, reached ₹4.56 lakh crore, with a value-added of ₹1.76 lakh crore.

The total annual turnover of pharmaceuticals in FY24 was ₹4.17 lakh crore, growing at an average rate of 10.1 per cent in the last five years. Exports account for 50 per cent of the total turnover, with its value at ₹2.19 lakh crore in FY24. The total import of pharmaceuticals was worth about ₹58,440.4 crore.

The government has taken various measures to support the sector like PLI scheme and Strengthening of Pharmaceuticals Industry (SPI) among others. PLI scheme aims to attain self-reliance and reduce import dependence in critical Key Starting Materials (KSMs)/Drug Intermediates and Active Pharmaceutical Ingredients (APIs). SPI addresses the demand to support the existing pharma clusters and MSMEs across the country to improve their productivity, quality and sustainability.

The medical devices industry in India is experiencing rapid growth, with a CAGR of approximately 15 per cent. Currently, India holds an estimated 1.5 per cent share of the global medical devices market. Within Asia, India ranks fourth in terms of market size, following Japan, China, and South Korea. On a global scale, India is recognised as one of the top twenty medical device markets.

India is making significant strides in the area of cell and gene therapy. In October 2023, the Central Drugs Standard Control Organisation approved India's first indigenously developed CAR-T cell therapy. To expedite the availability of newer drugs, such as gene therapy products, orphan drugs, drugs representing significant therapeutic advantage, in the country, the Central Drugs Standard Control Organisation under the rule 101 of the New Drugs and Clinical Trials Rules, 2019, has notified the United States of America, United Kingdom, Japan, Australia, Canada and the European Union, enabling waiver of local clinical trial for new drugs that are already approved and marketed in the notified countries. The overall pharma landscape of India points towards a need to focus on innovation, new drug development and biopharmaceuticals, as R&D spending still lags behind global leaders.

The secondary sector includes the following business activities:

- 1. Automotive Manufacturing:** This industry involves the production of automobiles, including cars, trucks, and other vehicles. It encompasses various processes such as assembly, painting, and quality control.
- 2. Electronics Manufacturing:** Electronics manufacturing involves the production of electronic components and devices such as semiconductors, consumer electronics, and communication equipment. This industry often requires precision engineering and advanced technology.
- 3. Metalworking and Metallurgy:** Metalworking encompasses a range of activities, including metal fabrication, forging, casting, and machining. Metallurgy involves the study of metals and their properties, as well as the production of alloys and metallic materials.
- 4. Construction and Infrastructure:** The construction industry involves the development of buildings, infrastructure, and other physical structures. This sector includes activities such as residential and commercial construction, civil engineering, and infrastructure projects like roads, bridges, and utilities.
- 5. Food Processing and Packaging:** Food processing involves the transformation of raw agricultural products into food products suitable for consumption. This includes activities such as sorting, cleaning, processing, and packaging of food items.
- 6. Chemical Manufacturing:** Apart from chemical engineering, chemical manufacturing involves the production of a wide range of chemicals, including industrial chemicals, pharmaceuticals, fertilizers, and specialty chemicals for various applications.
- 7. Machinery and Equipment Manufacturing:** This sector involves the production of machinery and equipment used in various industries, such as agricultural machinery, construction equipment, industrial machinery, and manufacturing tools.

8. **Paper and Pulp Industry:** The paper and pulp industry involves the production of paper, cardboard, and other paper-based products. It includes processes such as pulping, papermaking, and paper finishing.
9. **Plastics and Rubber Manufacturing:** Plastics and rubber manufacturing involve the production of plastic and rubber products for various applications, including packaging, automotive parts, consumer goods, and industrial components.
10. **Textile Machinery Manufacturing:** While textiles are already mentioned, textile machinery manufacturing is a crucial industry that produces machinery and equipment used in textile production processes such as spinning, weaving, knitting, dyeing, and finishing.

Major Investments

With the help of Make in India drive, India is on the path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and increasing purchasing power.

India has become one of the most attractive destinations for investments in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- MSMEs have been considered as the 2nd Engine of Development in the Union Budget 2025 - 2026
- Revision in classification criteria for MSMEs: The investment and turnover limits for classification of all MSMEs to be enhanced to 2.5 and 2 times respectively.
- Credit Cards for Micro Enterprises: Customized Credit Cards with ₹ 5 lakh limit for micro enterprises registered on Udyam portal, 10 lakh cards to be issued in the first year.
- Fund of Funds for Startups: A new Fund of Funds, with expanded scope and a fresh contribution of ₹ 10,000 crore to be set up.
- Scheme for First-time Entrepreneurs: A new scheme for 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs to provide term-loans upto ₹ 2 crore in the next 5 years announced.
- Focus Product Scheme for Footwear & Leather Sectors: To enhance the productivity, quality and competitiveness of India's footwear and leather sector, a focus product scheme announced to facilitate employment for 22 lakh persons, generate turnover of ₹ 4 lakh crore and exports of over ₹ 1.1 lakh crore.
- Measures for the Toy Sector: A scheme to create high-quality, unique, innovative, and sustainable toys, making India a global hub for toys announced.
- Support for Food Processing: A National Institute of Food Technology, Entrepreneurship and Management to be set up in Bihar.
- Manufacturing Mission - Furthering "Make in India": A National Manufacturing Mission covering small, medium and large industries for furthering "Make in India" announced.

Major Government Initiatives

The recent major government initiatives announced are as under:

1. Transforming India's agricultural and dairy sectors:

On March 19, 2025, the Union Cabinet took two key decisions to further the development of agriculture, dairying and animal husbandry in India. Agriculture, animal husbandry, and dairying are the cornerstone of India's economy. The Union Cabinet approved the Revised National Program for Dairy Development (NPDD), a Central Sector Scheme, with an additional budget of ₹1,000 crore, bringing the total to ₹2,790 crore for the 15th Finance Commission period (2021-22 to 2025-26).

Key Objectives of the Revised NPDD:

- Improved milk procurement, processing capacity, and quality control.
- Enhanced market access for farmers and better pricing through value addition.
- Strengthening of the dairy supply chain to increase rural income and development.

Components of the Revised NPDD:

- a) Component A: Focuses on improving dairy infrastructure.
- b) Component B: Dairying through Cooperatives (DTC) in partnership with Japan International Cooperation Agency (JICA).

Expected Outcomes of Revised NPDD:

- Establishment of 10,000 new Dairy Cooperative Societies.
- Additional 3.2 lakh employment opportunities, 70% benefiting women.

2. The Union Cabinet has also approved the Revised Rashtriya Gokul Mission (RGM) to boost the livestock sector, with an additional outlay of ₹1,000 crore, bringing the total budget to ₹3,400 crore for the 15th Finance Commission period (2021-22 to 2025-26).

Key Additions to the Revised RGM:

- a) **Heifer Rearing Centres:** One-time assistance of 35% of capital cost for setting up 30 housing facilities for 15,000 heifers.
- b) **Support for High Genetic Merit (HGM) Heifers:** 3% interest subvention on loans taken by farmers to purchase HGM IVF heifers from milk unions/financial institutions.

3. Government Scales Up PLI Budget to Accelerate Manufacturing

India's manufacturing sector is undergoing a transformative shift, driven by visionary policies aimed at redefining its global standing. At the heart of this transformation is the Production Linked Incentive (PLI) Scheme, a cornerstone of the government's strategy to establish India as a global manufacturing powerhouse while promoting innovation, efficiency, and competitiveness across key industries.

In a strong push to accelerate industrial growth, the Government has significantly increased budget allocations for key sectors under the PLI Scheme in 2025-26, reaffirming its commitment to strengthening domestic manufacturing. Several sectors have witnessed substantial hikes, with allocations for Electronics and IT Hardware soaring from ₹5,777 crore (revised estimate for 2024-25) to ₹9,000 crore, and Automobiles and Auto Components seeing a remarkable jump from ₹346.87 crore to ₹2,818.85

crore. The Textile sector has also received a major boost, with its allocation surging from ₹45 crore to ₹1,148 crore.

PLI Schemes with the Highest Budget Allocation (2025-26)		
Name of the Scheme	Revised Estimates 2024-25 (₹ Crores)	Budget Estimates 2025-26 (₹ Crores)
Production Linked Incentive (PLI) Scheme in electronics manufacturing and IT hardware.	5777.00	9000.00
PLI for Automobiles and Auto Components	346.87	2818.85
PLI for Pharmaceuticals	2150.50	2444.93
PLI for Textile	45.00	1148.00
PLI for White Goods (ACs and LED Lights)	213.57	444.54
PLI for Specialty Steel	55.00	305.00
PLI for National Programme on Advanced Chemistry Cell (ACC) Battery Storage	15.42	155.76

Launched in 2020, the PLI Scheme is more than just a policy; it is a strategic leap toward self-reliance. By targeting industries like electronics, textiles, pharmaceuticals, and automobiles, the initiative offers financial incentives tied directly to measurable outcomes such as higher production and incremental sales. This performance-driven approach not only attracts investments from domestic and global players but also encourages businesses to embrace cutting-edge technologies and achieve economies of scale.

Mobile Manufacturing and Specified Electronic Components

Critical Key Starting Materials/Drug Intermediaries & Active Pharmaceutical Ingredients

Manufacturing of Medical Devices

Automobiles and Auto Components

Pharmaceutical Drugs

Specialty Steel

Telecom & Networking Products

Electronic/Technology Products

White Goods (Air Conditioners and LEDs)

Food Products

Textile Products: MMF Segment and Technical Textiles

High Efficiency Solar PV Modules

Advanced Chemistry Cell (ACC) Battery

Drones and Drone Components

The following steps have been taken in the Union Budget 2025-2026

- Saksham Anganwadi and Poshan 2.0: The cost norms for the nutritional support to be enhanced appropriately.
- Atal Tinkering Labs: 50,000 Atal Tinkering Labs to be set up in Government schools in next 5 years.
- Broadband Connectivity to Government Secondary Schools and PHCs: Broadband connectivity to be provided to all Government secondary schools and primary health centres in rural areas under the Bharatnet project.
- Bharatiya Bhasha Pustak Scheme: Bharatiya Bhasha Pustak Scheme announced to provide digital-form Indian language books for school and higher education.
- National Centres of Excellence for Skilling: 5 National Centres of Excellence for skilling to be set up with global expertise and partnerships to equip our youth with the skills required for "Make for India, Make for the World" manufacturing.
- Expansion of Capacity in IITs: Additional infrastructure to be created in the 5 IITs started after 2014 to facilitate education for 6,500 more students.
- Centre of Excellence in AI for Education: A Centre of Excellence in Artificial Intelligence for education to be set up with a total outlay of ₹ 500 crore.
- Expansion of medical education: 10,000 additional seats to be added in medical colleges and hospitals next year, adding to 75000 seats in the next 5 years.
- Day Care Cancer Centres in all District Hospitals: Government to set up Day Care Cancer Centres in all district hospitals in the next 3 years, 200 Centres in 2025-26.
- Strengthening urban livelihoods: A scheme for socio-economic upliftment of urban workers to help them improve their incomes and have sustainable livelihoods announced.
- PM SVANidhi: Scheme to be revamped with enhanced loans from banks, UPI linked credit cards with ₹ 30,000 limit, and capacity building support.
- Social Security Scheme for Welfare of Online Platform Workers: Government to arrange for identity cards, registration on e-Shram portal and healthcare under PM Jan Arogya Yojna, for gig-workers.

- To support manufacturing, a National Manufacturing Mission has been announced, further strengthening the 'Make in India' vision with a budgetary allocation of INR 100 crore for 2025-2026.
- Public Private Partnership in Infrastructure: Infrastructure-related ministries to come up with a 3-year pipeline of projects in PPP mode, States also encouraged.
- Support to States for Infrastructure: An outlay of ₹1.5 lakh crore proposed for the 50-year interest free loans to states for capital expenditure and incentives for reforms.
- Asset Monetization Plan 2025-30: Second Plan for 2025-30 to plough back capital of ₹ 10 lakh crore in new projects announced.
- Jal Jeevan Mission: Mission to be extended until 2028 with an enhanced total outlay.
- Urban Challenge Fund: An Urban Challenge Fund of ₹ 1 lakh crore announced to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation', allocation of ₹ 10,000 crore proposed for 2025-26.
- Nuclear Energy Mission for Viksit Bharat: Amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act to be taken up. Nuclear Energy Mission for research & development of Small Modular Reactors (SMR) with an outlay of ₹20,000 crore to be set up, 5 indigenously developed SMRs to be operational by 2033.
- Shipbuilding: The Shipbuilding Financial Assistance Policy to be revamped. Large ships above a specified size to be included in the infrastructure harmonized master list (HML).
- Maritime Development Fund: A Maritime Development Fund with a corpus of ₹ 25,000 crore to be set up, with up to 49 per cent contribution by the Government, and the balance from ports and private sector.
- UDAN - Regional Connectivity Scheme: A modified UDAN scheme announced to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years. Also to support helipads and smaller airports in hilly, aspirational, and North East region districts.
- Greenfield Airport in Bihar: Greenfield airports announced in Bihar, in addition to the expansion of the capacity of Patna airport and a brownfield airport at Bihta.
- Western Koshi Canal Project in Mithilanchal: Financial support for the Western Koshi Canal ERM Project in Bihar.
- Mining Sector Reforms: A policy for recovery of critical minerals from tailings to be brought out.
- SWAMIH Fund 2: A fund of ₹ 15,000 crore aimed at expeditious completion of another 1 lakh dwelling units, with contribution from the Government, banks and private investors announced.
- National Geospatial Mission: A National Geospatial Mission announced to develop foundational geospatial infrastructure and data.
- Gyan Bharatam Mission: A Gyan Bharatam Mission for survey, documentation and conservation of our manuscript heritage with academic institutions, museums, libraries and private collectors to be undertaken to cover more than 1 crore manuscripts announced.

- Export Promotion Mission: An Export Promotion Mission, with sectoral and ministerial targets, driven jointly by the Ministries of Commerce, MSME, and Finance to be set up.
- Bharat Trade Net: 'BharatTradeNet' (BTN) for international trade to be set-up as a unified platform for trade documentation and financing solutions.
- National Framework for GCC: A national framework to be formulated as guidance to states for promoting Global Capability Centres in emerging tier 2 cities.

Stress on manufacturing sector

India's manufacturing sector is entering a defining phase. The Union Budget 2025-26 presents a blueprint that aligns policy, infrastructure, and capital to position India as a powerhouse for high value industrial production. With a clear mandate to strengthen domestic manufacturing, drive innovation, and enhance global competitiveness, this budget lays the groundwork for a more agile, resilient, and advanced industrial economy.

National Manufacturing Mission: The government has launched the National Manufacturing Mission, an initiative designed to elevate India's manufacturing capabilities. This mission integrates policy reforms, capital incentives, and technology acceleration into a structured framework. It provides:

- Scale and efficiency through streamlined business processes
- Technology infusion to support next generation industries
- MSME empowerment with enhanced credit access
- Workforce transformation through high precision skill development

With global supply chains evolving and manufacturing strategies shifting, this initiative strengthens India's role in the new industrial landscape.

Support For MSMEs and Startups

- MSMEs contribute a substantial share of industrial output and exports. Recognizing their impact, the budget expands credit access and financial flexibility for enterprises poised for growth.
- MSME Classification Enhanced:
- Investment and turnover limits have been increased by 2.5 times, enabling companies to expand operations while retaining MSME benefits.
- Expanded Credit Guarantees
- **Financial support has been strengthened across categories:**
 - ₹10 crore limit for micro and small enterprises
 - ₹20 crore limit for startups and exporters

Udyam Credit Cards: A new credit instrument offers ₹5 lakh limits for micro enterprises, ensuring access to working capital without traditional barriers.

Industrial Technology and Clean Energy Manufacturing: Advanced industries require a strong foundation in clean technology, precision manufacturing, and materials engineering. The budget introduces focused initiatives to strengthen India's position in these domains.

Strategic Investments and Exemptions in Clean Tech: Solar PV cells, electrolyzers, and high-efficiency motors receive increased financial backing to strengthen local supply chains. Additionally, exemptions on 35 capital goods for EV batteries and 28 capital goods for mobile phone batteries.

Grid Scale Energy Systems: New incentives are set to accelerate the production of high voltage transmission equipment, smart grid solutions, and industrial energy storage systems.

High Performance Manufacturing: A new emphasis on advanced materials, semiconductor fabrication, and automation systems establishes India as a competitive player in complex manufacturing.

Taxation and Duty Framework for Industrial Expansion: Cost structures influence industrial growth. This budget streamlines tariffs, taxation, and financial incentives to optimize capital efficiency and production economics.

Customs Duty Rationalization: Revisions across industrial components, electronics, and manufacturing equipment correct duty structures, making high value domestic production more cost effective.

Electronics and Semiconductor Manufacturing: Adjustments in duty exemptions for lithium ion batteries, printed circuit board assemblies, and display components make India a more attractive destination for electronics manufacturing.

Startup and Manufacturing Tax Benefits:

- Extended tax incentives for startups incorporated before 2030
- Expanded exemptions for International Financial Services Center (IFSC) units engaged in industrial leasing and high tech manufacturing
- By reducing operational costs and enhancing fiscal predictability, the government is creating an industrial climate that encourages capital investment and production scaling.

Infrastructure and Strategic Investment: A powerful manufacturing ecosystem requires reliable logistics, smart utilities, and well integrated production clusters. The budget advances critical investments in these areas.

Public Private Partnerships in Industrial Infrastructure: Key ministries are developing three year investment pipelines, ensuring long term capital planning for industrial zones and logistics corridors.

Special Economic Zones and Export Facilities: Warehousing and supply chain networks are being optimized for high value air cargo, perishable goods, and industrial exports, enabling faster global market access.

Power and Connectivity for Industry: New incentives drive state level grid modernization, industrial power distribution improvements, and enhanced manufacturing electrification, reducing operational constraints.

Sectoral Growth Initiatives: India's industrial strength comes from a diverse set of high impact sectors. This budget introduces specific initiatives to elevate key industries.

Electronics and Semiconductor Ecosystem:

- Direct incentives for semiconductor packaging, display fabrication, and component miniaturization
- Expansion of AI enabled industrial automation and smart factory systems

Electric Vehicles and Next Generation Mobility:

- Strategic incentives for battery chemistry innovation and high performance electric drivetrains
- Expansion of hydrogen fuel cell research and production infrastructure

Textiles and Advanced Materials:

- Focus on technical textiles, geotextiles, and medical textiles with integrated supply chain support
- High efficiency production incentives for natural and synthetic fibers

Specialized Manufacturing Clusters:

- A global hub for high quality toy manufacturing, leveraging design, materials innovation, and production technology

Expansion of leather processing zones and value chain digitization for enhanced exports:

- With targeted strategies in high impact industries, this budget strengthens India's role in global industrial supply chains. A new 10,000 cr deep-tech fund has also been introduced

Industrial Export Acceleration:

- Access to global markets is a defining factor for manufacturing success. The budget introduces mechanisms that enhance India's export competitiveness, trade facilitation, and supply chain integration.

Export Promotion Mission: A specialized framework focuses on:

- Easier access to export financing and credit lines
- Dedicated support for global supply chain participation
- Sectoral facilitation teams to streamline overseas market entry

BharatTradeNet (BTN) Digital Infrastructure: A unified trade documentation and financing platform aligns India with international best practices, reducing administrative overhead for industrial exporters.

Strengthened Air Cargo and Warehousing Facilities:

- New investments in high value export logistics ensure faster and more efficient delivery for precision engineering products, electronics, and specialty goods.
- These structural enhancements create a frictionless export environment, making India a preferred partner in global manufacturing networks.

Shaping a Manufacturing Powerhouse: The Union Budget 2025-26 establishes a clear trajectory for industrial transformation. By aligning policy, capital, technology, and infrastructure, the government is creating an industrial environment that enables sustained growth.

TERTIARY (SERVICES)

Tertiary Sector, also known as the service sector, is one of the three sectors of the economy. The tertiary sector of the economy is responsible for providing services to both businesses and final consumers. Service sector includes transportation, distribution, and sale of commodities from a producer to a customer, as in wholesaling and retailing, or providing of a service.

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Market of Services Sector

The services sector is not only the dominant sector in India's GDP but has also attracted significant foreign investment, has contributed significantly to exports and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. To enhance India's commercial services exports, share in the global services market from 3.3% and permit a multi-fold expansion in the GDP, the government is also making significant efforts in this direction. India's IT and business services market is projected to reach US\$ 19.93 billion by 2025.

The share of the services sector accounted for 57% of the total GVA in FY24 (April-September) as per advance estimates. The services category ranked first in FDI inflows, as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT). India is a unique emerging market in the globe due to its unique skills and competitive advantage created by knowledge-based services. The Indian services industry, which is supported by numerous government initiatives like smart Cities, clean India, and digital India is fostering an environment that is strengthening the services sector. The sector has the potential to open up a multi-trillion-dollar opportunity that might stimulate symbiotic growth for all nations. Service providers in India continued to signal positive demand trends in June, which underpinned a stronger increase in new business volumes and further job creation.

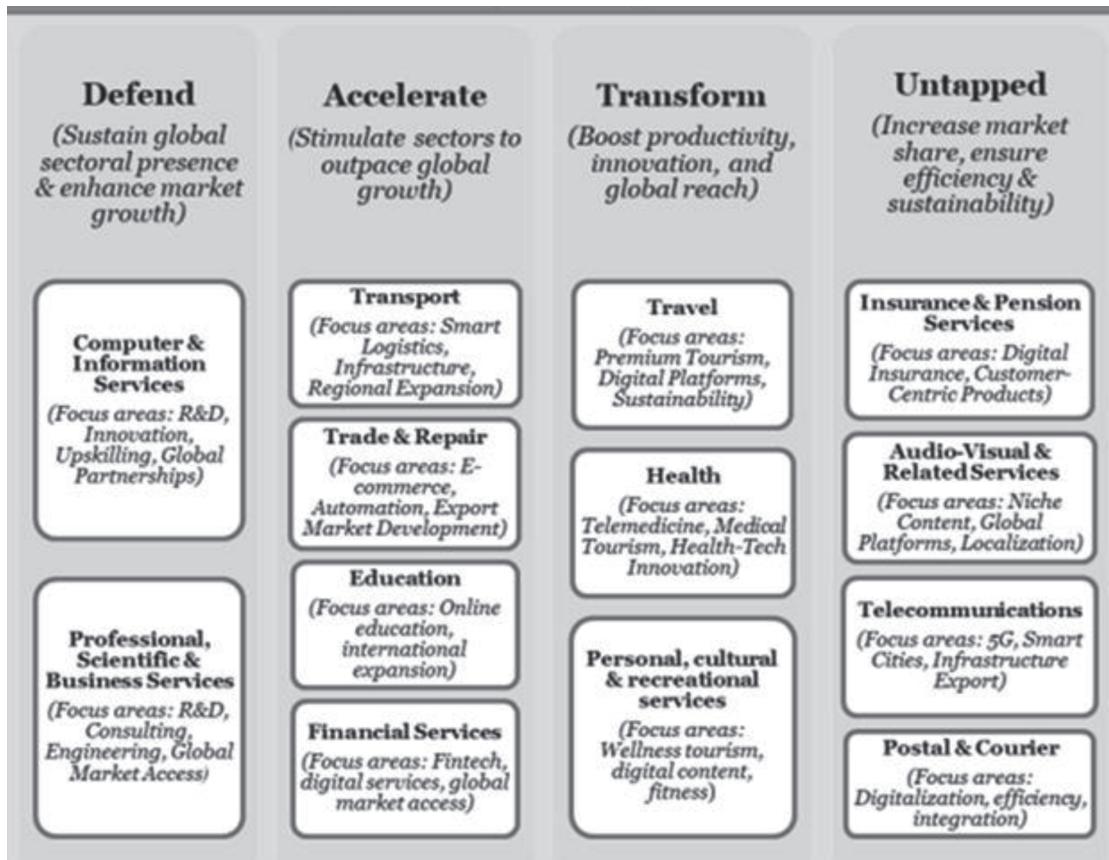
India's service exports stood at US\$ 163.94 billion, whereas imports stood at US\$ 88.89 billion in (April-September) 2023-24. The services trade surplus for 2023-24 (April-September) was expected to be US\$ 75.05 billion.

CURRENT SCENARIO OF SERVICE SECTOR IN INDIA

- India's service sector has continued its strong growth trajectory in 2025, demonstrating a notable recovery in February. The **HSBC India Services Purchasing Managers' Index (PMI)**, compiled by S&P Global, rose to 59.0 from 56.5 in January, which had marked its lowest level in over two years. The service PMI report published on March 5, 2035, attributes this resurgence to a sharp rise in new business orders, both domestically and internationally, driving increased output and a significant boost in employment.
- India's central government has made a note of its service sector's positive performance. As of January 2025, the sector contributes over 50 percent to India's gross value added (GVA), amounting to approximately US\$1.4 trillion in FY2022-23. This share is projected to increase to 56 percent by 2047, driven by continued investment in technology, infrastructure, and skill development.
- India's think tank agency, NITI Aayog, has said that the country's services sector is shifting toward high-tech digital solutions, including e-commerce, fintech, cloud computing, and AI-driven services. This surge in adoption of high-tech digital solutions can be attributed to the rise

in establishment of global capability centers (GCC), which provide outsourced technology and business functions.

- NITI Aayog working paper on "Identifying Potential Service Sub-Sectors: Insights from GVA, Exports, and Employment Data" studies the potential of services in transforming the Indian economy from various dimensions such as the contribution to output /value added, employment and exports. Based on the analysis of the performance of the various service sub-sectors on these key dimensions, the Survey classifies services into four categories, each with its own set of policy recommendations: defend, accelerate, transform, and untapped.



- According to Goldman Sachs, the potential for India's share of global insurance and financial services is likely to rise by 2030. Indian states are registering record GVA growth in sectors like computer, transport, and professional services, with Maharashtra, Karnataka, and Tamil Nadu leading the way.
- The central government-backed AI and digital infrastructure initiatives, such as the INR 5 billion (US\$57.2 million) investment in AI Centers of Excellence and the National Geospatial Mission, are also reportedly influencing India's position as a leader in digital services.
- India's services sector continues to attract strong foreign investments, solidifying its position as a key driver of economic growth. According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows reached US\$40.67 billion in FY2024-25 (April-December), with the services sector accounting for US\$7.22 billion of the total.

- From April 2000 to December 2024, India's total FDI amounted to US\$719.65 billion, of which the service sector contributed US\$116.72 billion, approximately 16 percent of the overall FDI inflow in the country. This significant investment underscores the growing confidence of foreign investors in India's economic potential and the increasing importance of the service sector in driving growth.
- To further attract foreign investments into India's service sector, the Union Budget FY2025-26 introduced a key reform in the insurance sector, raising the FDI cap from 74 percent to 100 percent. This policy change makes market entry easier for global players and enhances capital inflows into the sector.
- India's share in global services exports has been steadily rising for the last two decades. This has helped compensate the impact of oscillation in the share of merchandise exports in global merchandise exports to some extent. India ranks seventh globally, representing a 4.3% share in the global services export.
- India's Global Capability Centres (GCCs) are emerging as strategic hubs reshaping the Indian corporate landscape while influencing global business dynamics. The number of GCCs in India has grown from approximately 1430 in FY19 to over 1700 in FY24. As of FY24, GCCs in India employ nearly 1.9 million professionals.
- India's telecom sector is expanding with the smart phone boom, surging data consumption, and the advent of technologies like 5G. India stands as the second largest telecommunications market, with over 1.18 billion telephone subscribers, an overall teledensity of 84%, and 941 million broadband users as of 31st October, 2024. The country also leads in mobile data consumption per subscriber and offers the world's most affordable data rates. The average monthly wireless data usage per user in FY24 grew to 19.3 GB, up from 12.1 GB in FY21.
- As per annual survey of unincorporated sector enterprises 2022-23, the number of estimated enterprises belonging to the unincorporated sector stands at 6.5 crore. 72.6% of these enterprises operate in the service sector. These enterprises, though contributing to the overall development of the economy in terms of employment and income, are losing out on benefits normally offered by incorporation, the Survey says.

Challenges to be addressed in Service Sector

Despite the positive growth of India's service sector over the past decade, several challenges hinder its full potential. One of the concerns is the workforce skill gap in the country, where a disconnect between industry demands and the availability of skilled professionals in IT, artificial intelligence (AI), and financial services poses a constraint on growth.

Another significant challenge is regulatory complexity, as frequent policy changes and varying taxation and compliance requirements across states create uncertainties for businesses. These regulatory inconsistencies can slow investment and expansion efforts.

Additionally, infrastructure bottlenecks remain a key issue, particularly in major business hubs such as Bengaluru. Urban congestion, inadequate digital infrastructure and limited resources can hamper business operations and restrict scalability.

One may note that the sector also faces global market risks, with a high dependence on outsourcing and exports, making it vulnerable to geopolitical disruptions and protectionist policies in major markets.

Strategic recommendations for businesses

1. Indian companies must evaluate the possibility of expanding digital service exports beyond traditional markets such as the U.S. and Europe. Tapping into emerging economies in Southeast Asia, Africa, and Latin America can unlock new opportunities. Additionally, fostering global partnerships in AI, fintech, and IT-enabled services will drive innovation and enhance competitiveness.
2. The private sector must invest in workforce development in the country by aligning corporate training programs with government-led STEM education initiatives. This includes providing training to employees with future-ready skills through advanced learning platforms, including AI-driven training modules.
3. Leveraging public-private collaboration is also essential. Strong partnerships between businesses and central and state government agencies in sectors such as transport, education, and healthcare can accelerate business growth. Investments in infrastructure and smart-city projects will integrate digital and physical services more effectively.
4. Furthermore, businesses must expand beyond metro-cities to capitalize on emerging opportunities in Tier 2 and Tier 3 cities. With central government initiatives like BharatNet and rural connectivity programs, expanding operations into these regions can unlock new markets and foster inclusive economic development.

GOVERNMENT INITIATIVES

- Centre has formulated an 'Action Plan for Champion Sectors in Services' to give focused attention to 12 identified Champion Services Sectors.
- India's tourism and hospitality sector may earn US\$ 50.9 billion as visitor exports by 2028.
- As per University Grants Commission (UGC) statistics of 2023, there are a total of 1,074 universities in the country, including 460 state universities, 128 deemed to be universities (a status of autonomy granted to high-performing institutes and universities by the Department of Higher Education), 56 central universities (established by the Department of Higher Education), and 430 private universities.
- The Government of India has adopted a few initiatives in the recent past, some of these are as follows: As of November 9, 2022, the number of bank accounts opened under the government's 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' scheme reached 47.39 crore and deposits in Jan Dhan bank accounts totalled Rs. 1.76 lakh crore (US\$ 21.59 billion).
- In October 2021, the government launched a production-linked incentive (PLI) scheme to boost manufacturing of telecom and networking products in India. The scheme is expected to attract an investment of ~Rs. 3,345 crore (US\$ 446.22 million) over the next four years and generate additional employment for >40,000 individuals.
- In October 2021, the government launched phase II of the Mahatma Gandhi National Fellowship to empower students and boost skill development. The Mahatma Gandhi National Fellowship (MGNF) is an opportunity for young, dynamic individuals to contribute to enhancing skill development and promote economic development.

The two-year Fellowship seeks to combine classroom sessions (Academic Module) at host IIMs

with an intensive field immersion at the district level (District Immersion) to create credible plans and identify barriers in raising employment and economic output, and promoting livelihoods in rural areas.

MGNF is a Certificate Programme in Public Policy and Management offered by IIMs. It has been designed at the initiative of the Ministry of Skill Development and Entrepreneurship (MSDE), Government of India (GoI), and implemented in collaboration with State Skill Development Missions (SSDMs).

- In October 2021, the PM Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) was launched by the government, to strengthen the critical healthcare network across India in the next four to five years. More than 1.64 lakh Ayushman Arogya Mandirs operationalised under NHM (National Health Mission).

PM-Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) was launched by Hon'ble Prime Minister of India with an outlay of Rs.64,180 crore. The measures under the PM-ABHIM focus on developing capacities of health systems and institutions across the continuum of care at all levels, primary, secondary and tertiary, to prepare health systems in responding effectively to the current and future pandemics /disasters.Under PM-ABHIM provision have been made for construction and strengthening of 730 Integrated Public Health Labs (IPHLs), 3382 Block Public Health Units (BPHU) and 602 Critical Care Blocks (CCBs) during the scheme period.

- Tourism for employment-led growth: Top 50 tourist destination sites in the country to be developed in partnership with states through a challenge mode.
- Research, Development and Innovation: ₹20,000 crore to be allocated to implement private sector driven Research, Development and Innovation initiative announced in the July Budget.
- Deep Tech Fund of Funds: Deep Tech Fund of Funds to be explored to catalyze the next generation startups.
- PM Research Fellowship: 10,000 fellowships for technological research in IITs and IISc with enhanced financial support.
- Gene Bank for Crops Germplasm: 2nd Gene Bank with 10 lakh germplasm lines to be set up for future food and nutritional security.
- FDI in Insurance Sector: The FDI limit for the insurance sector to be raised from 74 to 100 per cent, for those companies which invest the entire premium in India.
- Credit Enhancement Facility by NaBFID: NaBFID to set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.
- Grameen Credit Score: Public Sector Banks to develop 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.
- Pension Sector: A forum for regulatory coordination and development of pension products to be set up.
- High Level Committee for Regulatory Reforms: A High-Level Committee for Regulatory Reforms to be set up for a review of all non-financial sector regulations, certifications, licenses, and permissions.

- Investment Friendliness Index of States: An Investment Friendliness Index of States to be launched in 2025 to further the spirit of competitive cooperative federalism announced.
- Jan Vishwas Bill 2.0: The Jan Vishwas Bill 2.0 to decriminalize more than 100 provisions in various laws.

List of Government Schemes Proposed in Union Budget 2025

The Union Budget 2025-26, presented by Finance Minister Nirmala Sitharaman introduced several new government schemes and modifications to existing programs to drive economic growth, rural development, social welfare, and technological advancement. The budget explained agriculture, MSMEs, housing, social security, infrastructure, and research to ensure inclusive progress for all sections of society. This article provides a detailed breakdown of the newly launched and revised schemes, discussing their objectives and key features.

1. Strengthening Agriculture and Rural Development

Prime Minister Dhan-Dhaanya Krishi Yojana

Objective: Improve agricultural productivity and promote sustainable farming.

Key Features:

- Covers 1.7 crore farmers across 100 districts with low productivity.
- Encourages crop diversification and sustainable farming techniques.
- Establishes post-harvest storage infrastructure at the panchayat level.
- Improves irrigation facilities and access to short-term and long-term credit.

Aatmanirbharta in Pulses

Objective: Achieve self-sufficiency in pulse production.

Key Features:

- 6-year National Mission focused on Urad, Tur, and Masoor pulses. Procurement by NAFED and NCCF for farmers registered under the scheme. Emphasis on climate-resilient seeds with higher protein content.
- Improved post-harvest storage management and assured price support.

Rural Prosperity and Resilience Programme

Objective: Address underemployment in rural areas and boost economic activity. Key Features:

- Targets young farmers, small landholders, landless families, and rural women. Investment in agriculture technology, skilling, and business development. Promotes financial independence for rural women through enterprise development.
- Modernizes warehousing infrastructure and productivity enhancements.

2. Empowering MSMEs and Entrepreneurs

Scheme for First-Time Entrepreneurs

Objective: Provide financial support for women, Scheduled Castes (SC), and Scheduled Tribes (ST) entrepreneurs.

Key Features:

- Rs. 2 crore term loans for 5 lakh new entrepreneurs over five years.
- Special capacity-building programs to strengthen entrepreneurial skills.
- Encourages participation in high-growth sectors.

Credit Guarantee Fund for MSMEs & Startups

Objective: Enhance credit access for small businesses and startups.

Key Features:

- Credit guarantee increased from Rs. 5 crore to Rs. 10 crore for Micro and Small Enterprises.
- Startups now eligible for credit guarantee up to Rs. 20 crore.
- Customised credit cards with a Rs. 5 lakh limit for micro-enterprises registered on the Udyam portal.

Fund of Funds for Startups

Objective: Promote early-stage startup funding and innovation.

Key Features:

- New Rs. 10,000 crore Fund of Funds to boost venture capital investment in startups.
- Focuses on high-growth industries to strengthen India's startup ecosystem.

3. Strengthening Social Security and Housing Social Security Scheme for Online Platform Workers

Objective: Provide gig and platform workers with social security benefits.

Registration and issuance of ID cards through the e-Shram portal. Healthcare coverage under PM Jan Arogya Yojana for gig workers. Expected to benefit 1 crore platform workers across various sectors.

Saksham Anganwadi and Poshan 2.0

Objective: Improve nutrition for children, pregnant women, and lactating mothers. Key Features:

- Targets 8 crore children, 1 crore lactating mothers, and 20 lakh adolescent girls.
- Cost norms enhanced for nutritional programs in aspirational districts.

SWAMIH Fund 2 (Affordable Housing)

Objective: Complete stalled middle-class housing projects.

Key Features:

- Rs. 15,000 crore fund to complete 1 lakh housing units.
- Supports stressed housing projects for families paying EMIs and rent.

Expanding Infrastructure and Regional Connectivity Jal Jeevan Mission

Objective: Ensure potable water access to all rural households.

Key Features:

- Extended to 2028 to cover 100% of rural households.

- Focus on operations, maintenance, and infrastructure quality improvements.

UDAN – Regional Connectivity Scheme

Objective: Improve air connectivity to remote and underserved regions.

Key Features:

- 120 new destinations to be added.
- Expansion of small airports and helipads in aspirational districts.

PM Gati Shakti

Objective: Modernize infrastructure planning using geospatial technology.

Key Features:

- Launch of National Geospatial Mission to develop urban planning and land records.
- Access to real-time geospatial data for infrastructure projects.

4. Education, Innovation, and Research

Bharatiya Bhasha Pustak Scheme

Objective: Promote regional language education.

Key Features:

- Digital books in Indian languages for school and higher education.
- Aims to enhance comprehension and learning outcomes.

Atal Tinkering Labs

Objective: Cultivate scientific thinking and innovation in schools.

Key Features:

- 50,000 new Atal Tinkering Labs to be established in government schools.
- Encourages STEM learning and problem-solving skills.

Employment-Led Growth in Tourism

Objective: Generate employment through tourism development.

Key Features:

- MUDRA loans to support homestay businesses.
- Improved connectivity and enhanced e-visa facilities.

Agricultural and Industrial Policies of India

(A) Agricultural Policies

Agricultural policy of a country is mostly designed by the Government for raising agricultural production and productivity and also for raising the level of income and standard of living of farmers within a definite time frame. This policy is formulated for all round and comprehensive development of the agricultural sector.

In India, the main objectives of agricultural policy are to remove the major problems of agricultural sector related to improper and inefficient uses of natural resources, predominance of low-value agriculture, poor cost-benefit ratio of the sectoral activities and insignificant progress of cooperative farming and other self-help institutions.

The agricultural development policies during five-year plans are as under:

(1) Five-year plan (1951-56) :

The highest priority was accorded to increase of agricultural production. Nearly one third or 31 per cent of total plan funds were allocated to agriculture sector. River valley projects were taken up. Irrigational facilities and fertilizer plants were established. Consequently, production of food-grains increased by 36 per cent in a short span of five years.

(2) Second five-year plan (1956-61) :

It focused on industrial growth and only 20 per cent of plan allocation was devoted to agriculture. Still food-grains production exceeded the target due to extension of irrigation facilities and use of chemical fertilizers.

(3) Third Five Years Plan (1961-66) :

The priorities were on self-sufficiency in food grains, meeting the raw material needs of industries and increase in ex-ports. During this period, Green Revolution programme was started on a small scale. But this plan failed to meet the target due to Chinese aggression (1962), Indo-Pak war (1965) and severe and prolonged drought during 1965-66. There were a great crisis of food that forced the Prime Minister L. B. Shatri to appeal to people to observe fast once a week. During next three annual plans (1966-69) agriculture recorded 6-9 per cent annual growth under the impact of Green Revolution. The production of food grain touched 94 million tonnes.

(4) Fourth Five Years Plan (1969-74) :

It aimed at 5 per cent annual growth in food grains. High Yielding Variety (HYV) of seeds, fertilizer use, new agriculture techniques and irrigation facilities provided to expand area of Green Revolution. The production of wheat increased sharply but growth in rice, oilseeds and coarse grains were nominal resulting in only 3 per cent annual growth against the target of 5 per cent.

(5) Fifth Five Years Plan (1974-79) :

It emphasised on self-sufficiency in food production and poverty eradication. Stress was laid on the extension of irrigation, expansion in cultivated area under HYV seeds and grant of loans and subsidies to farmers. Dry farming was propagated. This plan achieved its target successfully with 4.6 per cent growth. Almost all food grains except pulses witnessed increase in production.

(6) Sixth Five Years Plan (1980-85) :

It emphasised on land reforms, use of HYV seeds, chemical fertilisers and groundwater resources and improving post harvest technology as well as marketing and storage facilities. The annual growth rate was 6 per cent, highest ever during plan periods. The food-grain production reached 152 million tonnes.

(7) Seventh Five Year Plan (1985-90) :

During this period, the highest growth in foodgrain, pulses and coarse cereals was recorded showing over all annual growth rate of 4 per cent. The areas of Green Revolution were expanded during the period.

(8) Eight Five Year Plan (1992-97) :

This witnessed a tendency of stagnation in foodgrain production while oilseed registered a rapid growth.

(9) Ninth Five Year Plan (1997-02) :

The ninth five year plan witnessed a mixed success. There were fluctuations in the foodgrain production. During this plan period National Agricultural Policy, 2000, was framed and several measures were announced including, watershed management, development of horticulture, agricultural credits and insurance scheme for crops.

(10) Tenth Five Year Plan (2002-07) :

In the Tenth Plan (2002-2007) focus was placed on (i) sustainable management of water and land resources, (ii) development of rural infrastructure to support agriculture, (iii) dissemination of agriculture technology, (iv) credit flow to agriculture sector, and (v) agricultural marketing reforms. The New Agricultural Policy the Government of India has announced (28th July 2000) a new National Agricultural policy, 2000, in the light of changes arising out of economic liberalization and globalization. The main aims of the policy were:

- (i) achieving more than 4 per cent per annum growth rate in agriculture sector,
- (ii) growth based on efficient use of resources and conservation of soil, water and biodiversity,
- (iii) growth with equity in region and among the farmers,
- (iv) growth that caters to domestic market and maximizes benefits from exports of agricultural products, and
- (v) technologically, environmentally, and economically sustainable growth.

(11) Eleventh Five Year Plan (2007-12) :

The 11th Five Year Plan (2007-12) emphasised 'Inclusive growth' to achieve a target growth of 4 per cent per annum in GDP from agriculture and allied services. Globally, studies indicate that a higher GDP in agriculture is more effective in alleviating poverty in comparison with higher GDP in other sectors.

To achieve 'Inclusive growth', the 11th plan aimed at the following:

- (i) Improving accessibility of technology to farmers to increase production and ensure optimum use of natural resources.
- (ii) Attracting higher public investments and ensuring efficacy of such investments.
- (iii) Promoting diversification for higher value crops and livestock.
- (iv) Addressing issues pertaining to food security.

- (v) Decentralising decision making to come up with customised solutions to specific local problems and to improve the accessibility of land, credit, skills and scale to the poor.

One of the major accomplishments of Eleventh Five Year Plan was launching of National Food Security Mission (NFSM) launched in 2007 and introduction of Rashtriya Krishi Vikas Yojana (RKVY) in financial year 2008.

National Food Security Mission (NFSM) : In 2007, the Government of India launched the National Food Security Mission (NFSM) initiative to improve the country's overall crop production, especially that of rice, wheat and pulses. The primary objective of NFSM is to introduce technological components that include farm machines/implements as well as improved variants of seeds, soil ameliorants, plant nutrients and plant protection measures.

The government aimed to increase production of rice, wheat and pulses by 10 million tons, eight million tons and two million tons, respectively, by end 2012. It had allocated Rs 4,883 crore (US\$ 915.7 million) to NFSM, of which Rs 3,381 crore (US\$ 634 million) was spent until 31 March 2011. Through NFSM, 25 million tonnes of additional food grain was produced in the 11th Five Year Plan.

The following are the major achievements of the initiative:

Rashtriya Krishi Vikas Yojana (RKVY): In FY08, the government introduced Rashtriya Krishi Vikas Yojana (RKVY), with an outlay of Rs 25,000 crore (US\$ 4.7 billion), to encourage states to increase public investment in agriculture and allied services. The programme enables adoption of national priorities as sub schemes, thereby providing flexibility in project selection and implementation to state governments. Various sub schemes under RKVY are as follows:

- (a) Green revolution in the Eastern region.
- (b) Combining development of 60,000 pulses villages in rain fed areas.
- (c) Encouraging the use of palm oil.
- (d) Initiative on vegetable clusters.
- (e) Nutri cereals.
- (f) National Mission for Protein Supplements initiative.
- (g) Accelerated Fodder Development Programme.
- (h) Rain fed Area Development Programme.
- (i) Saffron Mission.

(12) Twelfth Five Year Plan (2012-17)

Agriculture sector grew by an average 1.6 percent per annum in first four years as against the targeted 4 percent annual growth due to lower production. However, Government of India took several steps for increasing investment in agriculture sector such as enhanced institutional credit to farmers, promotion of scientific warehousing infrastructure for increasing shelf life of agriculture produce, setting up of agri-tech infrastructure fund for making farming competitive and profitable, developing

commercial organic farming.

However, it was realized that action is required on numerous fronts including provision of basic support services such as technology and irrigation infrastructure, access to credit, good and reliable seeds and improved post-harvest technology. The latter is particularly important since the bulk of the acceleration in growth will come from diversification towards horticulture, animal husbandry and fisheries.

The greatest potential for improving productivity was identified in the rain-fed areas, which accounted for 55 per cent of net sown area and where most of the poor live. Land productivity was low in these areas, but a combination of effective water management combined with better seeds, promotion of soil health and critical on farm investments combined with public sector efforts to improve infrastructure was expected to make a big difference.

Drawbacks of agricultural planning in India

1. Self-Complacency:

The First 5-Year Plan wisely gave a top priority to agriculture, but the Second 5-Year Plan failed to give agriculture a proper place. It appears, the success of the First 5-year Plan, which was primarily due to a series of favourable Monsoons created a sense of self-complacency.

2. Quick-Yielding Projects not given sufficient importance:

Projects having a long gestation period were given undue importance and those with a short fruition lag were not given sufficient importance. Minor irrigation works did not receive the attention they deserved. More attention was given to expansion of irrigation potential and less to maintenance of existing works so that increase in irrigation potential was neutralized by loss of irrigation potential.

3. Unproductive Expenditure:

Unnecessarily large sums were provided for unproductive expenditure.

4. Inadequate Provision for Rural Credit:

The annual credit requirements of the Indian farmers have been estimated at Rs. 10,000-12,000 mn. whereas the provision is not even for Rs. 3500 mn. Without adequate credit facilities agriculture cannot progress.

5. No Provision for Agricultural Inputs:

There has had been co-ordinated provision for the simultaneous production of agricultural inputs like fertilizers, pesticides, cement, etc.

6. New Farming Techniques Not Enforced:

In agricultural planning in India, no concrete steps were taken for the adoption of new agricultural technique and for standardizing farming practices.

7. Lack of Suitable Price Policy:

Unless farm output programmes are backed by a suitable agricultural price policy

providing price support and incentives to the growers, things might go wrong and they have actually gone wrong in India.

8. Morale Neglected:

India is passing through a crisis of confidence. The planners did not provide for any concrete measure to keep up the morale of the people.

9. Unrealistic Planning:

The failure to achieve targets indicates the unrealistic element in agricultural planning in India. The physical targets have proved, to be "paper targets" treating irrigated area from all sources alike and to put all types of food grains superior and inferior together and above all to split up minutely the total allotment: under, different headings assigned to different authorities, are a few, instances of unrealistic planning.

10. Delay in Land Reforms:

Land reforms have not been implemented and whichever implemented have been delayed much.

Major Initiatives of NITI Aayog in Agriculture Sector

- 1. Agriculture Transformation Index:** NITI Aayog is working on an Agriculture Transformation Index, which will measure the performance of States across six pillars: inputs, sustainability, productivity and diversification, policy, preservation, processing and exports, and farmers' income and welfare. The index is aimed at capturing the new policy paradigm in agriculture, at the core of which are sustainable intensification and increasing farmers' income.
- 2. Farm-to-Table: Driving India's Agriculture Sector Digitally:** A meeting of private-sector experts was convened by NITI Aayog to draw a roadmap for the digital transformation of India's agriculture sector. The group, led by ITC, presented its ideas and a roadmap for the implementation of 'Krishi Neev' to the Hon'ble Prime Minister in August 2020. Four pilots are currently underway and expected to be completed soon. The pilots include farm-advisory services, price prediction and blockchain for quality certification.
- 3. Agriculture Dashboard:** The development of a dynamic agriculture dashboard is underway that will track State-wise data on select indicators such as weather, production, arrivals, etc. The dashboard will aggregate existing sources of agriculture and will be dynamically updated through APIs.
- 4. Documenting Initiatives of States in Adopting Agri-Reforms:** NITI Aayog, in collaboration with the Ministry of Agriculture and Farmers' Welfare, is tracking the implementation status of marketing reforms by State Governments, to identify issues hampering their adoption.
- 5. Promotion of Agroforestry and Wasteland Greening:** A policy paper on identifying bottlenecks in the development of agroforestry in the existing National Agroforestry Policy is currently being prepared. The recommendations are being made through a consultative process, involving international institutes, think tanks and Line Ministries.
- 6. Bamboo as an Alternative Source of Wood:** Research over the past decades has

demonstrated bamboo as a viable alternative to wood and other traditional materials in construction and infrastructure works. A policy paper is being prepared to promote the development of the bamboo industry, identifying bottlenecks and offering policy recommendations.

7. **Roadmap for Self-Sufficiency in Oilseeds:** Through data analysis, interaction with experts and review of literature, NITI Aayog has formulated a draft roadmap for self-sufficiency in oilseeds. The findings have been shared with the Ministry of Agriculture and Farmers' Welfare for finalisation of the policy.
8. **Research Study on Waste to Wealth:** NITI Aayog, in collaboration with ICAR-IARI, is conducting a comprehensive research study to develop technologies to convert crop bio-waste into farm compost, which is economically viable, to reduce stubble-burning.

Industrial Policies

Industrial policy is a statement of objectives to be achieved in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy thus formally indicates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity.

(1) Industrial Policy Resolution 1948

After having attained independence, the Government of India declared its first Industrial Policy on 6th April, 1948.

Salient Features of Industrial Policy, 1948

Under this policy, the large industries were classified in four categories viz. Strategic Industries, Basic / Key industries, Important Industries and other industries which respectively referred to Public Sector; Public-cum-Private Sector; Controlled Private Sector and Private & Cooperative sector.

(i) Strategic Industries (Public Sector) :

This category included three industries in which Central Government had monopoly. These included Arms and ammunitions; Atomic energy and Rail transport.

(ii) Basic / Key Industries (Public-cum-Private Sector) :

Six industries viz. coal, Iron and Steel, Aircraft manufacturing, Ship-building, Manufacture of telephone, telegraph and wireless apparatus, and Mineral oil were designated as "Key Industries" or "Basic Industries". It was decided that the new industries in this category will henceforth only be set-up by the Central Government. However, the existing private sector enterprises were allowed to continue.

(iii) Important Industries (Controlled Private Sector) :

Eighteen industries were kept in the "Important Industries" category. Such important industries included heavy chemicals, sugar, cotton textile and woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc. These industries will continue to remain under private sector however, the central government, in consultation with the state government, will have general control over them.

(iv) Other Industries (Private and Co-operative Sector) :

All other industries which were not included in the above mentioned three categories were left open for the private sector. However, government could impose controls on these industries also if any of them was not working satisfactorily.

(2) The Industries (Development and Regulation) Act, 1951

Industries (Development and Regulation) Act, 1951 was passed by parliament in Oct, 1991 to control and regulate industrial development in the country. Its objectives were:

- The regulation of industrial investment and production according to planned priorities and targets
- The protection of small entrepreneurs against the competition from larger industries
- Prevention of monopoly and concentration of ownership industries
- Balanced regional development with the view to reduce the disparity level of development of different regions of the country

Provisions of the Act

The act laid down two provisions:

- **Restrictive provisions:** Under this category, all the measures were designed to curb the unfair practices adopted by industries
 - Registration and licensing of industrial undertakings
 - Enquiry of listed industries
 - Cancellation of registration license
- **Reformative provisions:**
 - Direct regulation and control by government
 - Control on price, distribution and supply
 - Constructive measures

(3) Industry Policy Resolution (IPR), 1956

Industrial Policy Resolution, 1956 replaced the IPR, 1948. It stressed on:

- Speeding up the pace of industrialization, particularly heavy industries.
- Expansion of public sector and growth of co-operative sector.
- State to take up the responsibility of setting up new industrial set up and development of transport facilities.
- Prevent private monopolies and concentration of economic process in hands of few number of individuals.

(4) New Industrial Policy of India, 1991

The new Industrial Policy was announced in July, 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy-**1. Strengthening of Private Sector**

- Abolition of licensing system for large number of industries
- Greater role of private sector envisaged
- Contraction in field of operations for public sector

2. Dismantling of controls**3. Dispersing Industries**

- Policy to shift industries away from big, congested cities to rural and backward areas
- Incentives were brought to attract industries to village and backward regions.
- Favoured agro-based industries near the farming areas.

4. Limiting role of public sector

- Policy pointed out the grey area which were not fit for PSUs and needs to be vacated by them

5. Liberalization of foreign investments

- Foreign investment in the form of FDI allowed up to 50% with automatic approval
- Foreign investment in export promotion activities

6. Foreign technology had been made easy by allowing automatic approvals for technology related agreements**7. Promotion of Small Scale Industries (SSI)**

- It ensured adequate supply of credit these industries based on their needs
- To enable modernization and technical up gradation, the policy allows equity participation by other non-SSI undertakings in SSI sector
- Limited partnership was allowed to enhance the supply of risk capital to the SSI sector
- It ensured the speedy payment towards the sale of products by SSI sector

8. Domestic Regulatory Reforms

- Reduced the number of reserves industries
- Security and Industries of strategic concern were reserved for public sector.

9. Abolition of Industrial Licensing:

It abolished industrial licensing system for all industries except few such as security and strategic concerns, social concerns, related to safety and manufacture of hazardous industries.

Industry-I (NITI Aayog):

The Industry-I Vertical focuses on the continuous growth of trade and industry by developing new policies. The Vertical envisages holistic development of the industrial and mineral sector in India, encouraging optimum mineral exploitation, decreasing the import of various minerals, and strengthening the supply chain by means of value addition. The Vertical also plays a crucial role in enabling active engagement of the States and relevant stakeholders in achieving milestones for the industrial and economic development of India. It aims to bring together innovation, technology, and efficient management at the core of policy formulation and implementation.

Core functions of Industry-I

- The Vertical deals with policies related to revenue, commerce, corporate affairs, industry and internal trade, and mines and minerals.
- It actively engages with DPIIT, Department of Commerce, Department of Revenue, Ministry of Mines, and Ministry of Corporate Affairs for effective policy formulation.
- The Vertical collaborates with research organisations and development partners for studies and development initiatives in the areas of industry, trade and commerce, revenue, corporate affairs and mines and minerals.
- Analyzing and providing comments on the schemes and proposals of various Ministries/Departments of the Government of India on matters related to industry, trade and commerce, corporate affairs, revenue, and mines and minerals.
- Providing suitable policy suggestions/inputs to various government Departments/Ministries for promoting the overall agenda of industrial growth.

BALANCE OF PAYMENTS

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.

Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

A country's trade balance equals the value of its exports minus its imports.

The formula is

$$X - M = TB,$$

where:

X = Exports

M = Imports

TB = Trade Balance

Structure of Balance of Payments

There are three main components that form the basis of the structure of balance of payments. The financial account, capital account, and current account.

Current Account

The current account is useful for monitoring inflow and outflow of goods and services. Thus, this account covers all the payments and receipts that are made with respect to manufactured goods and raw materials. Furthermore, it also includes receipts from tourism, engineering, business services, transportation, etc.

Capital Account

The capital transactions that occur between the countries are monitored under the capital account. Thus, capital transactions include the sale and purchase of assets like properties. Furthermore, the capital account also includes the flow of taxes, sales and purchases of fixed assets for a migrant moving in or out of the country. The three major elements of the capital account are investments, foreign exchange reserves, and loans and borrowings.

Financial Account

The flow of funds to and from foreign countries via various investments in real estate, FDI, business ventures, etc. are monitored through the financial account. Also, this account measures the variation in foreign ownership. When you analyze this, you can understand whether a country is acquiring more or selling more.

Recent Facts of India's BoP

The cumulative value of merchandise exports during April-February 2024-25 was USD 395.63 Billion, as compared to USD 395.38 Billion during April-February 2023-24, registering a positive growth of 0.06%

- The cumulative Non-Petroleum exports in April-February 2024-25 valued at USD 337.01 Billion registered an increase of 6.43% as compared to USD 316.64 Billion in April-February 2023-24
- Major drivers of merchandise exports growth in February 2025 include Electronic Goods, Rice, Mica, Coal & Other Ores, Minerals including processed minerals, RMG of all Textiles and Coffee
- Electronic Goods exports increased by 26.46% from USD 3 Billion in February 2024 to USD 3.79 Billion in February 2025
- RMG of all Textiles exports increased by 3.97 % from USD 1.48 Billion in February 2024 to USD 1.53 Billion in February 2025
- Rice exports increased by 13.21% from USD 1.05 Billion in February 2024 to USD 1.19 Billion in February 2025

- Marine products exports increased by 3.40% from USD 0.49 Billion in February 2024 to USD 0.51 Billion in February 2025
- Mica, Coal & Other Ores, Minerals including processed minerals exports increased by 24.25% from USD 0.40 Billion in February 2024 to USD 0.50 Billion in February 2025
- Coffee exports increased by 22.32% from USD 0.15 Billion in February 2024 to USD 0.18 Billion in February 2025
- India's total exports (Merchandise and Services combined) for February 2025* is estimated at USD 71.95 Billion, registering a positive growth of 3.16 percent vis-à-vis February 2024. Total imports (Merchandise and Services combined) for February 2025* is estimated at USD 67.52 Billion, registering a negative growth of (-)11.34 percent vis-à-vis February 2024.

Table 1: Trade during February 2025*

		February 2025 (USD Billion)	February 2024 (USD Billion)
Merchandise	Exports	36.91	41.41
	Imports	50.96	60.92
Services*	Exports	35.03	28.33
	Imports	16.55	15.23
Total Trade (Merchandise + Services)*	Exports	71.95	69.74
	Imports	67.52	76.15
	Trade Balance	4.43	-6.41

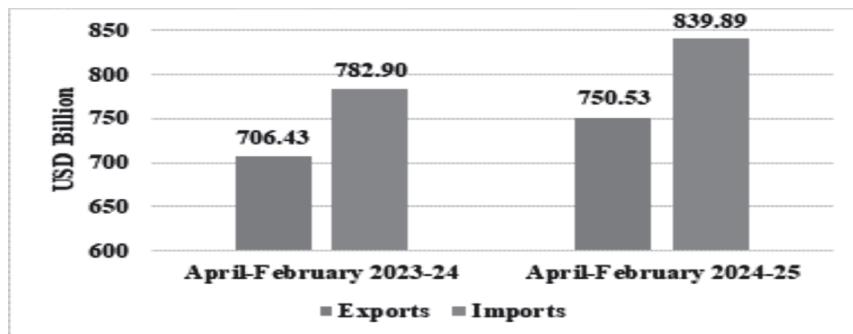
* Note: The latest data for services sector released by RBI is for January 2025. The data for February 2025 is an estimation, which will be revised based on RBI's subsequent release. (ii) Data for April-February 2023-24 and April-September 2024 has been revised on pro-rata basis using quarterly balance of payments data.

Table 2: Trade during April-February 2024-25*

		April-February 2024-25 (USD Billion)	April-February 2023-24 (USD Billion)
Merchandise	Exports	395.63	395.38
	Imports	656.68	621.19
Services*	Exports	354.90	311.05
	Imports	183.21	161.71

Total Trade (Merchandise +Services) *	Exports	750.53	706.43
	Imports	839.89	782.90
	Trade Balance	-89.37	-76.47

Fig 2: Total Trade during April-February2024-25*



Favourable and Unfavourable Balance of Trade

1. Favourable Balance of Trade:

When there is an excess of exports over imports, it is called favourable balance of trade. In 1976-77 in India the imports were of value of INR 5073 crore while exports were of value of INR 5142 crore. Thus, balance of trade was +INR 69 crore. Further, it assists in strengthening the economy of a country.

2. Unfavourable Balance of Trade:

When there is excess of imports over exports, it is called an unfavourable balance of trade. Generally, in India balance of trade remains unfavourable. Further, it creates problems for an economy.

India Trade Balance

Year	Billions of US \$	% of GDP
2022	\$-124.91B	-3.66%
2021	\$-83.13B	-2.64%
2020	\$-10.52B	-0.39%
2019	\$-73.07B	-2.58%
2018	\$-101.67B	-3.76%
2017	\$-83.76B	-3.16%
2016	\$-40.53B	-1.77%
2015	\$-48.31B	-2.30%
2014	\$-60.89B	-2.99%

Year	Billions of US \$	% of GDP
2013	\$-55.38B	-2.98%
2012	\$-122.91B	-6.72%
2011	\$-119.28B	-6.54%
2010	\$-74.62B	-4.45%
2009	\$-73.43B	-5.47%
2008	\$-62.02B	-5.17%
2007	\$-49.73B	-4.09%
2006	\$-29.98B	-3.19%
2005	\$-22.90B	-2.79%
2004	\$-12.66B	-1.79%
2003	\$-4.23B	-0.70%
2002	\$-5.05B	-0.98%
2001	\$-4.25B	-0.88%
2000	\$-4.25B	-0.91%
1999	\$-8.77B	-1.91%
1998	\$-7.01B	-1.66%
1997	\$-5.15B	-1.24%
1996	\$-4.55B	-1.16%
1995	\$-4.25B	-1.18%
1994	\$-0.99B	-0.30%
1993	\$0.05B	0.02%
1992	\$-2.15B	-0.75%
1991	\$0.00B	0.00%
1990	\$-4.49B	-1.40%
1989	\$-3.36B	-1.14%
1988	\$-4.21B	-1.42%
1987	\$-3.84B	-1.38%
1986	\$-4.55B	-1.83%
1985	\$-5.56B	-2.39%
1984	\$-3.06B	-1.44%
1983	\$-4.40B	-2.02%

Year	Billions of US \$	% of GDP
1982	\$-4.33B	-2.16%
1981	\$-5.10B	-2.64%
1980	\$-5.79B	-3.11%
1979	\$-2.17B	-1.42%
1978	\$-0.38B	-0.27%
1977	\$0.14B	0.12%
1976	\$0.59B	0.57%
1975	\$-0.98B	-1.00%
1974	\$-1.18B	-1.19%
1973	\$-0.44B	-0.51%
1972	\$0.23B	0.32%
1971	\$-0.23B	-0.34%
1970	\$-0.06B	-0.10%
1969	\$-0.19B	-0.32%
1968	\$-0.48B	-0.90%
1967	\$-0.96B	-1.91%
1966	\$-1.16B	-2.53%
1965	\$-1.13B	-1.90%
1964	\$-1.11B	-1.96%
1963	\$-0.79B	-1.63%
1962	\$-0.79B	-1.86%
1961	\$-0.65B	-1.65%
1960	\$-0.88B	-2.37%

Source: <https://www.macrotrends.net/global-metrics/countries/IND/india/trade-balance-deficit>

Union Budget 2025-2026: Measures to strengthen International Trade

1. Tax Benefits and the Production-Linked Incentive (PLI) Schemes: The Union Budget 2025-26 introduced a series of incentives and structural reforms aimed at enhancing India's role in global trade. With a strong emphasis on export-oriented growth, the government is prioritizing domestic manufacturing to reduce import dependency while simultaneously strengthening export incentives through tax benefits, subsidies and the Production-Linked Incentive (PLI) schemes. A key focus of the budget is on expanding Free Trade Agreements (FTAs) with major trade partners to boost market access for Indian exporters.

To support this agenda, the government has allocated ₹2,250 crore under the Export Promotion Mission to facilitate Indian businesses in international markets. Additionally, ₹1,615 crore has been earmarked for the pharmaceutical industry to enhance India's global standing in the sector, while ₹2,300 crore has been directed towards the Biotechnology Research, Innovation and Entrepreneurship Development (Bio-RIDE) program, aimed at fostering biotech exports. These measures are expected to strengthen India's global trade competitiveness and accelerate its transition into a leading export-driven economy.

2. *Strategy to Balance Exports and Imports:* In line with its export-driven strategy, the budget also places a strong emphasis on reducing the trade deficit by strategically managing imports while boosting exports in high-value sectors such as pharmaceuticals, automobiles and information technology. To control the outflow of foreign exchange, the government has increased import duties on luxury goods and select raw materials, discouraging non-essential imports.

Simultaneously, the budget expands support for Micro, Small and Medium Enterprises (MSMEs) to strengthen their participation in global markets. Several key sectors, including engineering goods, textiles, electronics, semiconductors, pharmaceuticals and processed food products, are expected to benefit from export-friendly incentives and subsidies. On the import front, the government is actively reducing reliance on foreign goods by encouraging domestic manufacturing and improving supply chain infrastructure, ensuring that India moves towards a more self-reliant and resilient trade ecosystem. These measures collectively strengthen India's global trade positioning, making it a more competitive and sustainable player in the international market.

3. *Infrastructure Investments:* A strong trade infrastructure is essential for reducing logistics costs and improving export efficiency. Recognizing this, the budget has allocated ₹1.70 lakh crore to the National Highways Authority of India (NHAI) to improve road connectivity to ports, ensuring faster transportation of export goods.

Additionally, ₹31,239 crore has been allocated for metro projects, enhancing urban trade logistics and connectivity to industrial zones. A further ₹5,649 crore has been set aside for border infrastructure and connectivity projects, aimed at facilitating smoother trade with neighboring countries. The expansion of port infrastructure and logistics parks is expected to lower export costs, streamline trade operations and improve supply chain efficiency, making Indian goods more competitive in international markets.

4. *Export Growth through Small Businesses:* Recognizing the vital role of Micro, Small, and Medium Enterprises (MSMEs) in India's export ecosystem, the budget introduces measures to support their growth and global expansion. ₹9,000 crore has been allocated to the Guarantee Emergency Credit Line (GECL), ensuring working capital support for export-driven MSMEs. Additionally, the Prime Minister Employment Generation Programme (PMEGP) will receive ₹2,954 crore to help small businesses enter global markets, while ₹1,500 crore has been allocated under the Raising and Accelerating MSME Performance (RAMP) program to digitize trade operations and improve market access. These initiatives will enhance MSMEs' competitiveness, enabling them to participate more actively in global trade.
5. *Expanding Global Partnerships: Free Trade Agreements (FTAs) for Market Access:* The budget underscores India's commitment to strengthening bilateral and multilateral trade agreements. India is currently negotiating or implementing Free Trade Agreements (FTAs) with the European

Union, the United Kingdom, the United Arab Emirates and Australia, aiming to open new market opportunities for Indian exporters. The key benefits of these FTAs include lower tariffs on Indian exports, easier access to foreign markets and increased foreign direct investment (FDI) in key industries. Sectors such as textiles, information technology, and pharmaceuticals are expected to benefit the most, as these agreements will reduce trade barriers and make Indian goods more cost-competitive on the global stage.

6. *Driving India's Global Trade Renaissance:* The Union Budget 2025-26 sets the stage for a bold transformation in India's global trade strategy. By harmonizing policy reforms, financial incentives and infrastructure development, the government is crafting a dynamic and resilient trade ecosystem that aligns with evolving global economic realities. With targeted customs duty adjustments, expansion of PLI schemes and strategic investments in trade logistics, India is not just reacting to global trends but actively reshaping its role in international commerce.

Foreign Investments in India: Types and Flows

Any investment that is made in India with the source of funding that is from outside of India is a foreign investment. By this definition, the investments that are made by Foreign Corporates, Foreign Nationals, as well as Non-Resident Indians would fall into the category of Foreign Investment.

Types of Foreign Investments

Funds from foreign country could be invested in shares, properties, ownership / management or collaboration. Based on this, Foreign Investments are classified as below:

- **Foreign Direct Investment (FDI)**
- **Foreign Portfolio Investment (FPI)**
- **Foreign Institutional Investment (FII)**

Details on each of the foreign investment type can be found below :

Foreign Direct Investment (FDI)

FDI is an investment made by a company or individual who us an entity in one country, in the form of controlling ownership in business interests in another country. FDI could be in the form of either establishing business operations or by entering into joint ventures by mergers and acquisitions, building new facilities etc. A major monetary source, Foreign Direct Investment (FDI) in India is a key driver of the country's economic growth. Since the economic liberalization of 1991, foreign investments into the country has improved considerably. FDI norms and policies have been regularly eased over the years in order to attract and promote FDI in India. India is a favourable investment destination for foreign investors given its relatively lower wages and special investment privileges in the form of tax exemptions etc.

FDI offers advantages to both the investor and the foreign host country.

Benefits for businesses:

- Market diversification
- Tax incentives
- Lower labor costs

- Preferential tariffs
- Subsidies

Benefits for the host country:

- Economic stimulation
- Development of human capital
- Increase in employment.
- Access to management expertise, skills, and technology

Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) is an investment by foreign entities and non-residents in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The intention is to ensure a controlling interest in India at an investment that is lower than FDI, with flexibility for entry and exit. FPIs generally participate through the stock markets and gets in and out of a particular stock at much faster frequencies. Short term view is associated often with lower stake in companies.

Foreign Institutional Investment (FII)

Foreign Institutional Investment (FII) is an investment by foreign entities in securities, real property and other investment assets. Investors include mutual fund companies, hedge fund companies etc. The intention is not to take controlling interest, but to diversify portfolio ensuring hedging and to gain high returns with quick entry and exit. As defined by the European Union Foreign Institutional Investment is an investment in a foreign stock market by the specialized financial intermediaries managing savings collectively on behalf of investors, especially small investors, towards specific objectives in term of risk, return and maturity of claims.

FII is an institution like a mutual fund, insurance company, pension fund etc. According to SEBI, "an FII is an institution established or incorporated outside India which proposes to make investments in India in securities". FII is an institution who is registered under the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995. FIIs comprised of a pension fund, a mutual fund, investment trust, insurance company or a reinsurance company.

Following are the few types of FIIs investing in India:

- Hedge Funds
- Foreign Mutual Funds
- Sovereign Wealth Funds
- Pension Funds
- Trusts
- Asset management Companies
- Endowments, University Funds, etc.

Differences between FDI and FII

Basis for Comparison	FDI	FII
Meaning	When a company situated in one country makes an investment in a company situated abroad, it is known as FDI.	FII is when foreign companies make investments in the stock market of a country.
Entry and Exit	Difficult	Easy
What it brings?	Long term capital	Long/Short term capital
Transfer of	Funds, resources, technology, strategies, know-how etc.	Funds only.
Economic Growth	Yes	No
Consequences	Increase in country's Gross Domestic Product (GDP).	Increase in capital of the country.
Target	Specific Company	No such target, investment flows into the financial market.
Control over a company	Yes	No

Source: keydifferences.com

Difference between FDI and FPI

Basis for Comparison	FDI	FPI
Meaning	FDI refers to the investment made by the foreign investors to obtain a substantial interest in the enterprise located in a different country.	When an international investor, invests in the passive holdings of an enterprise of another country, i.e. investment in the financial asset, it is known as FPI.
Role of investors	Active	Passive
Degree of control	High	Very less
Term	Long term	Short term
Management of Projects	Efficient	Comparatively less efficient.
Investment in	Physical assets	Financial assets
Entry and exit	Difficult	Relatively easy.
Results in	Transfer of funds, technology and other resources.	Capital inflows

Source: keydifferences.com

OVERVIEW OF MSME SECTOR

- The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports.
- The MSMEs are further categorized based on investment in equipment and annual turnover as per the below criteria:



New MSME Classification Criteria as per Union Budget 2025

ENTERPRISE CATEGORY	CURRENT INVESTMENT LIMIT	REVISED INVESTMENT LIMIT	CURRENT TURNOVER LIMIT	REVISED TURNOVER LIMIT
MICRO ENTERPRISE	₹1 crore	₹2.5 crore	₹5 crore	₹10 crore
SMALL ENTERPRISE	₹10 crore	₹25 crore	₹50 crore	₹100 crore
MEDIUM ENTERPRISE	₹50 crore	₹125 crore	₹250 crore	₹500 crore

Source: <https://www.indiafilings.com/>

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B : BUSINESS ENVIRONMENT

LESSON 6

ENTREPRENEURSHIP SCENARIO

The growth and transformation of entrepreneurship in India began in the early times when the 'barter system' was a common means of exchange. However, before proceeding, let us understand what entrepreneurship is and who entrepreneurs are. Entrepreneurs are those individuals or groups who create new businesses and job opportunities. Entrepreneurship is the ability of an entrepreneur to run and operate a business with goal-oriented objectives.

Before exploring entrepreneurship, it will be of substantial academic interests to go through some definitions of entrepreneur.

According to Oxford Dictionary, an entrepreneur is "A person who sets up a business or businesses, taking on financial risks in the hope of profit".

According to the International Encyclopaedia, an entrepreneur is "An individual who bears the risk of operating a business in the face of uncertainty about the future conditions".

Schumpeter's Definition – "The entrepreneur, in an advanced economy is an individual who introduces something new in the economy – a method of production not yet tested by experience in the branch of manufacturing, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like".

Adam Smith's definition – "The entrepreneur is an individual, who forms an organization for commercial purpose. She/he is a proprietary capitalist, a supplier of capital, and at the same time a manager who intervenes between the labour and the consumer. "Entrepreneur is an employer, master, merchant but explicitly considered as a capitalist".

Peter F. Drucker's Views on Entrepreneurs – "An entrepreneur is the one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or different service".

The term entrepreneur is a French word, and is derived from the French word "entreprendre". It means "to undertake". It is commonly used to describe an individual who organizes and operates a business or businesses, taking on financial risk to do so.

Types of Entrepreneurs

The various types of entrepreneurs are as under:

1. **Innovative Entrepreneurs** – These entrepreneurs have the ability to think of newer, better, and more economical ideas for business organization and management. They are the business leaders and contributors to the economic development of a country.
2. **Imitating Entrepreneurs** – These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own. In our country also, a large number of such entrepreneurs are found in every field of business activity. The development of small shopping complexes is the work of imitating entrepreneurs. All the small car manufacturers now are imitating entrepreneurs.
3. **Fabian Entrepreneurs** – Fabian entrepreneurs are those individuals who do not show initiative in visualising and implementing new ideas and innovations. On the contrary, they like to wait for some development, which would motivate them to initiate unless there is an imminent threat to their very existence.

4. **Drone Entrepreneurs** – Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination to gain market leadership. In other words, drone entrepreneurs are 'die-hard conservatives' and even ready to suffer the loss of business.
5. **Social Entrepreneurs** – Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment, and enterprise development. Dr. Mohammed Yunus of Bangladesh who started Gramin Bank is a case of social entrepreneur.
6. **Agricultural Entrepreneur** – The entrepreneurs who undertake agricultural pursuits are called Agricultural Entrepreneurs. They cover a wide spectrum of agricultural activities like cultivation, marketing of agricultural produce, irrigation, mechanization, and technology.
7. **Trading Entrepreneur** – As the name itself suggests, the trading entrepreneur undertakes the trading activities. He/she procures the finished products from the manufacturers and sells these to the customers directly or through a retailer. These serve as the middlemen as wholesalers, dealers, and retailers between the manufacturers and customers.
8. **Manufacturing Entrepreneur** – The manufacturing entrepreneurs manufacture products. They identify the needs of the customers and, then, explore the resources and technology to be used to manufacture the products to satisfy the customers' needs.
9. **Women Entrepreneurs** – Women entrepreneurship is defined as the enterprises owned and controlled by a woman/women having a minimum financial stake of 51 per cent of the capital and giving at least 51 per cent of employment generated in the enterprises to women.
10. **Inventors and Challenger Entrepreneurs** – Inventor entrepreneurs with their competence and inventiveness invent new products. Their basic interest lies in research and innovative activities and Challenger entrepreneurs plunge into industry because of the challenges it presents. When one challenge seems to be met, they begin to look for new challenges.
11. **Life-Timer Entrepreneurs** – These entrepreneurs take business as an integral part of their life. Usually, family enterprises and businesses that mainly depend on the exercise of personal skill fall into this type/category of entrepreneurs.

At this juncture, it will be of immense academic interests to comprehend the definitions of entrepreneurship.

According to Peter F. Drucker "Entrepreneurship is defined as a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation".

According to Ricardo Cantillon "Entrepreneurship entails bearing the risk of buying at a certain price and selling at uncertain prices."

In the words of Joseph A. Schumpeter "Entrepreneurship is any kind of innovative function that could have a bearing on the welfare of an entrepreneur."

According to Robert K. Lamb "Entrepreneurship is that form of social decision making performed by economic innovators."

As per A.H.Cole "Entrepreneurship is the purposeful activity of an individual or a group of associated

individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services."

The concept of Entrepreneurship has also been defined as "a special skill or ability to mobilize the factors of production – Land, labour and capital and use them to produce new goods and services".

Entrepreneurship can also be described as a process of action, which an entrepreneur undertakes to establish his/her enterprise.

Types of Entrepreneurship

1. **Small business entrepreneurship:** Small business entrepreneurship is defined as an independent or solely owned company that is limited in size and revenue, depending on the industry. These companies primarily operate within a local community or region and focus on serving their nearby customers through personalized service and a deep understanding of the local market dynamics.

The best feature they have is to exhibit adaptability and their ability to respond quickly to local market shifts and customer preferences. One might not expect revolutionary innovations from these businesses but they brought up novel approaches within their niche or community.

Small businesses often struggle with the economy due to limited access to large audiences, making it challenging to scale their operations and increase their market approach compared to larger corporations or big brands within their niche. Also, there is a continuous threat of global economic fluctuations, which can significantly impact their stability and growth.

Small businesses create Social Stability, while they might not be major innovators, but they contribute to enhancing community well-being and a considerable percentage of job creation. The examples of small business entrepreneurship are local bakeries, salons, single-location restaurants, local grocery shops etc.

2. **Scalable Start-up Entrepreneurship:** Scalable start-up entrepreneurship can be defined as a profitable business model that has the potential for significant growth and expansion, with innovative technology or a unique approach to a market need, allowing them to quickly scale and dominate sectors, often transforming or creating entirely new industries.

Unique, innovative products or services and advanced technology are their best features. These core values distinguished them in the market with new and improvised solutions. These innovations can range from revolutionary software to groundbreaking products, providing solutions that meet unaddressed needs.

It is often noticed that scalable startups need a substantial initial investment to develop their product and services, to manage rapid scaling, marketing, research and development, and to ensure that they have the infrastructure and resources ready to grow quickly and sustainably.

Having a highly skilled team with the right approach to drive innovation and technology which ensures to bring out problem-solving products or services is the biggest challenge they face during their initial stage. Along with this, dealing with multiple regulatory and legal issues as they expand in different geographical markets can create complexities in their scalable business.

Scalable startups have the potential to disrupt existing markets by introducing lower prices and more choices for consumers. This directly benefits society by enhancing purchasing power and

economic stability. As these startups grow, they create new jobs, contributing to economic growth and providing employment opportunities to the people.

3. **Large Companies or Big Business Entrepreneurship:** Large Companies or Big Business Entrepreneurship can be defined as a commercial entity that has substantial market influence, extensive resources, and operates in multiple locations. These entities have huge annual revenue and a large number of employees to undertake large-scale projects, influence market trends, and drive significant economic growth.

Large companies usually have a global presence, operating across multiple countries, depending on the nature of their business. They emphasize on steady growth over a certain period of time rather than leading an overnight revolution.

Large companies are often at risk of disruption from newer, more innovative players that can move quickly to exploit emerging trends and technologies. The best example to understand this concept is how OYO Rooms, founded in 2013 shook up the hospitality industry and challenged major hotel chains like Taj, Oberoi, and ITC Hotels.

On the other side, these big corporations often set new industry standards, pushing the envelope of what's possible and encouraging industry-wide innovation contributing to a huge impact on society. Along with this, large firms have the resources to address major societal challenges through their entrepreneurial projects. For example, they can invest in sustainable technologies or healthcare innovations that have far-reaching societal impacts.

4. **Social Entrepreneurship :** In the broad sense, social entrepreneurship refers to innovative activity with a social objective in either the 'for-profit sector', such as in social-purpose commercial ventures or in the 'non-profit sector', or across sectors, such as hybrid structural forms which blend for profit and non-profit approaches.

Under the narrow definition, Social Entrepreneurship refers to the phenomenon of applying business expertise and market-based skills in the non-profit sector, such as when non-profit organizations develop innovative approaches to earn income and reinvest that capital for the betterment of society.

They explore new ideas, to make an impact as a socially aware organization. Not only do they have an idea that must be implemented, but also they know how to implement it and are realistic in their vision of implementing it. While traditional businesses often secure funding based on their innovative ideas and potential for profit, social enterprises must convince investors of the value of their social impact. Also, scaling a social enterprise can be challenging as it does not have a sustainable profit outcome.

Social entrepreneurship plays a critical role in driving social change, offering new avenues for addressing social issues by combining innovation, resourcefulness, and opportunity to create solutions that are sustainable, impactful, and capable of scaling to benefit society at large.

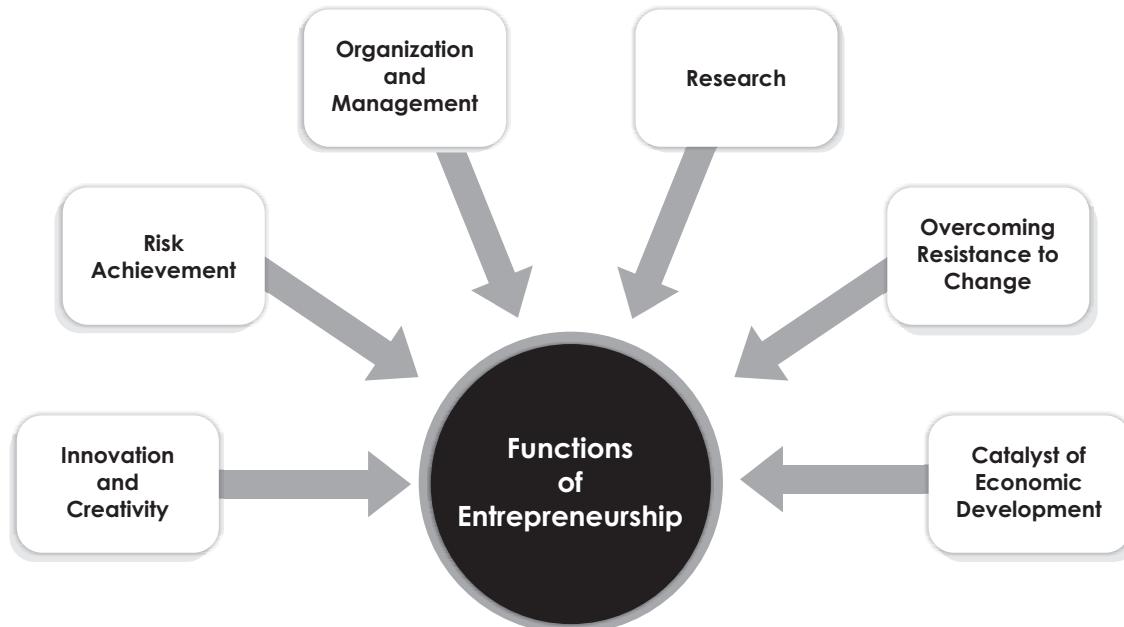
In a nutshell, the concept of entrepreneurship can be understood as follows:

1. Entrepreneurship involves decision-making, innovation, implementation, forecasting of the future, independency, and success.
2. Entrepreneurship is a discipline with a knowledge base theory and is an outcome of complex socio-economic, psychological, technological, legal, and other factors.

3. It is a dynamic and risky process.
4. It involves a fusion of capital, technology, and human talent.
5. Entrepreneurship is equally applicable to big and small businesses and to economic and non-economic activities.
6. Different entrepreneurs might have some common traits but all of them will have some different and unique qualities.
7. It is the purposeful and organized search for change, conducted after a systematic analysis of opportunities in the business environment.
8. Entrepreneurship is a philosophy and is the way one thinks, one acts, and therefore it can exist in any situation, be it business or government or in the field of education, science, and technology.
9. Entrepreneurship is a creative activity.
10. It is the ability to create and build something from practically nothing.
11. It is a knack of sensing opportunity where others see chaos and confusion.
12. Entrepreneurship is the attitude of the mind to seek opportunities, take calculated risks, and derive benefits by setting up a venture.

Functions of Entrepreneurship

The various functions of entrepreneurship are Innovation and creativity, risk-taking and achievement and organization and management, catalyst of economic development, overcoming resistance to change and market research. The functions of entrepreneurship have been provided in the diagram below -



Source: Taxmann.com

A brief description of the functions of entrepreneurship are as under:

1. **Innovation and Creativity** : Innovation generally refers to changing processes or creating more effective processes, products, and ideas. For businesses, this could mean implementing new ideas, creating dynamic products, or improving your existing services. Creativity is defined as "the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems and communicating with others. Creativity and innovation have always been recognized as a sure path to success. Entrepreneurs think outside of the box and explore new areas for cost-effective business solutions.
2. **Financial Risk taking and Achievement** : It is a process in which the entrepreneur establishes new job opportunities and firms, new Creative and growing organization which is associated with risk, new opportunities, and achievement. It results in introducing a new product or service to society. In general, entrepreneurs accept four types of risks namely financial risk, job risk, social and family risk, and mental and health risk, which are as follows:
 - a) *Financial Risk* : Most entrepreneurs begin by using their own savings and personal effects and if they fail, they have the fear of losing it. They take the risk of failure.
 - b) *Job Risk* : Entrepreneurs, not only follow the ideas as working situations but also consider the current risks of giving up the job and starting a venture. Several entrepreneurs have a history of having a good job, but gave it up, as they thought that they were not cut out for a job.
 - c) *Social and Family Risk* : The beginning of an entrepreneurial job needs a high energy which is time-consuming. Because of these undertakings, he/she may confront some social and family damages like family and marital problems resulting on account of absence from home and not being able to give adequate time to family.
 - d) *Mental Health Risk* : Perhaps the biggest risk that an entrepreneur takes is, the risk of mental health. The risk of money, home, spouse, child, and friends could be adjusted but mental tensions, stress, anxiety, and other mental factors have many destructive influences because of the beginning and continuing of entrepreneurial activity. This can even lead to depression when faced with failure.
3. **Organization and Management**: The entrepreneurial organization is a simple organizational form that includes, one large operational unit, with one or a few individuals in top management. Entrepreneurial management means the skills necessary to successfully develop and manage a business enterprise. A small business start-up under an owner-manager is an example of an entrepreneurial organization.

Here, the owner-manager generally maintains strict control over business operations. This includes directing the enterprise's core management functions. According to Mintzberg, these include interpersonal roles, informational roles, and decision-making roles. The smaller the organization, the more concentrated these roles are in the hands of the owner-manager.
4. **Market Research**: An entrepreneur is a practical dreamer and does a lot of groundwork before taking a leap in his/her ventures. In other words, an entrepreneur finalizes an idea only after considering a variety of options, analysing their strengths and weaknesses by applying analytical techniques, testing their applicability, supplementing them with empirical findings, and then

choosing the best alternative. It is then that he/she applies the ideas in practice. The selection of an idea, thus, involves the application of research methodology.

5. **Overcoming Resistance to Change :** New innovations are generally opposed by people because it makes them change their existing behaviour patterns. An entrepreneur always first tries new ideas at his/her level. It is only after the successful implementation of these ideas that an entrepreneur makes these ideas available to others for their benefit. His/her willpower, enthusiasm, and energy help him/her overcome society's resistance to change.
6. **Catalyst of Economic Development :** An entrepreneur plays an important role in accelerating the pace of economic development of a country, by discovering new uses of available resources and maximizing their utilization. Today, when India is a fast developing economy, the contribution of entrepreneurs has increased multiple-fold.

Stages of Entrepreneurial Process

Following are the steps involved in the entrepreneurial process:

1. *Market Research for a New Idea:* An entrepreneurial process begins with Market Research for a new Idea. Gathering, analyzing, and interpreting information about a market, including details about the target market, competition, and consumer preferences is a crucial factor before working a new innovative idea wherein the entrepreneur identifies and evaluates the business opportunities for him/her.
2. *Outlining Business Model:* The identification and evaluation of opportunities for a newly made Idea is a difficult task. Therefore, it is crucial to create a structure for a business model on how a company creates, delivers, and captures value. Once the outlining is done, the next step is to evaluate it.
3. *Detailed analysis of promising Idea:* An entrepreneur can evaluate the efficiency of an opportunity by continuously asking certain questions such as, whether the opportunity is worthy of investing, its attractiveness, proposed solutions feasibility, chances of competitive advantage, and various risks associated with it, etc. Above all, an entrepreneur must analyze his/her personal skills and capabilities to ensure realization of entrepreneurial goals.
4. *Selection of the most promising Idea:* Once the analysis is done at both the macro and micro level, then the entrepreneur selects the best possible option amongst the chosen few, on the basis of the key factors identified by him/her before idea generation.
5. *Assembling the Resource and Personnel:* The next step in the process is resourcing, wherein, the entrepreneur identifies the sources from where the finance and the human resource can be arranged. Here, the entrepreneur finds the investors for their new venture and the personnel to carry out the business activities.
6. *Determining the size of unit:* On the basis of the ability to manage resources, the entrepreneur determines the initial size of the business and the possibilities of expansion.
7. *Deciding the location of the Business and Planning Layout:* This is a significant decision. Entrepreneurs should ideally decide a location where there are Tax holidays and cheap labour and materials are available in abundance.

8. *Sound Financial Planning:* Once the funds are raised and the employees are hired, the business location and layout have been finalized, then efforts are made to do sound financial planning with the available financial resources in order to put it to optimum use.
9. *Launching the Enterprise:* Launching the enterprise by an entrepreneur can be a daunting adventure as the entrepreneur needs to stay focused and should always be open to suggestions. If he/she is a mission-driven entrepreneur, it must be remembered that building a truly great company is a marathon, not a sprint.
10. *Managing the Company:* Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals. First of all, an entrepreneur must decide the management structure or the hierarchy, which is required to solve the operational problems, as and when they arise.
11. *Harvesting:* The final step in the entrepreneurial process is harvesting, wherein, an entrepreneur decides on the future prospects of the business, such as its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is taken.

Entrepreneurship Scenario in India

The evolution of entrepreneurship in India may be studied under three periods, i.e., Medieval Age, Modern and Pre-independence era and Post-independence era.

- i) *Medieval Age:* To discuss the growth or development of entrepreneurship in India, you must understand that India has one of the oldest and most civilized business histories. During the Harappan civilizations around 2700 BC, there was an internal and external trade culture. Also, due to this, most foreign countries recognize Indian entrepreneurial skills.

Moreover, the increase in trade occurred during the era of Mughal rule. The popularity of Indian products, arts, crafts, Vedic tools, foods, and much more attracted attention from different parts of the world. The Arab mainland, western colonial counties and African countries were the major parties involved in the trade.

At the same time, different countries like UK, France and Portugal expanded their colonies in different parts of the world. However, a significant entrepreneurial change occurred when the East India Company started its business from the Bay of Bengal and later occupied parts of Bengal. It indirectly linked the entire Indian state into one business ecosystem.

There were some major downsides to the colonial mindset of England. However, it also played some good aspects in developing entrepreneurship in India.

- ii) *Modern and Pre-independence era:* This was the era of industrialization in India, where some of India's best entrepreneurs rise. The major events changed the face of entrepreneurship in India.
 - a) The first cotton textile mill was revolutionized in 1854 by an Indian entrepreneur, Kawasji Dover. It was one of India's boldest steps in the modern development of entrepreneurship development.
 - b) Jamsetji Tata founded the company Tata Group in the year 1868. With the foundation of the Tata Group, he has created a bar for entrepreneurship development in India.
 - c) 1874 Cotton Mill by JRD Tata, TISCO by Dorabji Tata, 1932 Tata Airlines, Tata Steel Plant, and

more were high-rate businesses in India. At the same time, it has also played a major role in various independence initiative

- iii) Post-independence era: Entrepreneurship in India, along with the national economy, was ground-breaking after independence. There was not much left in the Indian economy at that time. However, the government took major steps to support India's development which is as follows:

- Prime Minister Nehru adopted the economic structure line of the Soviet Union. It gave a major push to the New Industrial Policy of 1956. Similarly, this policy liberalized the bar and standards set by the British government, which were the ultimate impediment to industrial development.
- Economic reforms were carried out in the initial phase of governance. Also, prominent economists adopted the Mahalanobis model, which primarily aims to support entrepreneurs.

However, it may seem that most of the top entrepreneurs were already in business. But the reality was different. Economic policies were not giving much support to the entrepreneurs, due to which there was rough growth. However, the transformation of entrepreneurship began in 1990.

Transformation of Entrepreneurship in India

The major transformation of entrepreneurship in India began with the 'Economic Policy Reform' in 1991. The policy was further expanded in 2022. The New Economic Policy of 1991 was a huge turning point. This policy has included three major aspects, which are as follows-

Aspects	Role
Liberalization	Providing some provisions in different parts of the industry to boosts the private sector, including banks and the stock market
Privatization	Disinvestment of Public Firms to reduce the burden and promote the national entrepreneurs for good business
Globalization	Welcoming FDIs, and FPI Creating SEZ and Economic Corridor for foreign companies

These were the most important of all the major aspects involved in the new economic policy. However, all of them played an important role in developing entrepreneurship in India. Some of the benefits that this policy replaced are as follows-

- a) It gives a green signal to private banks and non-Indian banks to operate without any disruption. It was the only reason for the huge circulation of money in the economy. And finally, it increased loans and supported new entrepreneurs.
- b) Due to the policy, foreign companies can find the best option to invest their money. This boosted huge FDI and FPI in India and helped in understanding new and advanced technology.
- c) Rise of India as a tech hub in the startup world where Indian tech people were the best choice for US, UK, France and other country projects. At the same time, it also revolutionized the world of technology.

GOVERNMENT INITIATIVES TO FOSTER ENTREPRENEURSHIP

The Indian government has launched several initiatives and programs to foster entrepreneurship, promote innovation, and support the growth of startups. These initiatives aim to create a conducive ecosystem for entrepreneurs, provide them with resources, mentorship, and funding, and facilitate ease of doing business.

Few of the initiatives taken by the Government of India to strengthen entrepreneurship in India are as under:

1. **Make in India** : Businesses from across the globe, and not merely the Americas, consider Make in India as a breakthrough policy of the new India. The 'Make in India' programme was launched in September 2014 soon after the Modi Government came to power with the aim of transforming India into a global manufacturing hub and boosting entrepreneurship in the country.

Initiatives such as online business registration, single-window clearance, and digitization of government services aim to simplify procedures and reduce the burden of compliance on entrepreneurs. Make in India encourages entrepreneurship and manufacturing growth through sector-specific policies, incentives, and initiatives such as the National Manufacturing Policy, Automotive Mission Plan, Electronics Manufacturing Policies, and Textile Policy, provide targeted support and incentives to promote entrepreneurship and investment in key sectors.

As a national programme, the Make in India initiatives is aimed at transforming India into a global manufacturing hub, and contained a raft of proposals to attract investments from both local and foreign corporate houses in 25 key areas it has identified, such as:

- | | |
|-----------------------------|-----------------------------|
| (a) Automobile | (b) Automobile components |
| (c) Aviation | (d) Biotechnology |
| (e) Chemicals | (f) Construction |
| (g) Defence Manufacturing | (h) Electrical Machinery |
| (i) Electronic Systems | (j) Food Processing |
| (k) IT and BPM | (l) Leather |
| (m) Media and Entertainment | (n) Mining |
| (o) Oil and Gas | (p) Pharmaceuticals |
| (q) Ports and Shipping | (r) Railways |
| (s) Renewable Energy | (t) Roads and Highways |
| (u) Space | (v) Textile and Garments |
| (w) Thermal Power | (x) Tourism and Hospitality |
| (y) Wellness | |

With this scheme, the government has increased the FDI limit in various industries to attract foreign investment and participation.

It has established an investor facilitation centre to assist foreign businesses to locate partners and sites, while a slew of measures have been initiated for domestic companies, which were

revealed after Modi Government unveiled the 'Stand Up India' initiative in his Independence Day address in 2015.

2. Stand Up India : The key elements of the Stand-Up India scheme are as under:

- (i) *Title of the Scheme* : Stand-Up India Scheme for financing SC/ST and /or Women Entrepreneurs.
- (ii) *Objective* : The objective of the Stand-Up India scheme is to facilitate bank loans between INR 10 Lakh and INR 1 crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services, agri-allied activities or the trading sector in case of non-individual enterprises at least 51% of the shareholding and controlling stake should be either an SC/ST or woman entrepreneur.
- (iii) *Eligibility* : Eligibility under Stand Up India scheme are -
 - (a) SC/ST and /or woman entrepreneurs, above 18 years of age.
 - (b) Loans under the scheme is available for only greenfield project. GreenField signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.
 - (c) In case of non-individual enterprises, 51% of the shareholding and controlling stakes should be held by either SC/ST and/or women entrepreneur.
 - (d) Borrower should not be in default to any bank or financial institution.
- (iv) *Nature of loan* : Composite loan (inclusive of term loan and working capital) between INR 10 Lakh upto INR 100 Lakh.
- (v) *Purpose of loan* : For setting up a new enterprise in manufacturing, services, agri-allied activities or the trading sector by SC/ST women entrepreneur.
- (vi) *Size of loan* : Composite loan of 85% of the project cost inclusive of term loan and working capital. The stipulation of the loan being expected to cover 85% of the project cost would not apply if the borrower's contribution along with convergence support from any other schemes exceeds 15% of the project cost.
- (vii) *Interest rate* : The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3% + tenor premium).
- (viii) *Security*: Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India (CGFSIL) as decided by the banks.
- (ix) *Repayment* : The loan is repayable in 7 years with a maximum moratorium period of 18 months.
- (x) *Working capital* : For drawal of working capital upto INR 10 Lakh, the same may be sanctioned by way of overdraft. Working capital limit above INR 10 Lakh to be sanctioned by way of cash credit limit.
- (xi) *Margin Money* : The scheme envisages 15% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn

upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.

For more details, please visit: <https://www.standupmitra.in/>

3. **Startup India** : Startup India Scheme is an initiative by the Government of India for generation of employment and wealth creation. The goal of Startup India is the development and innovation of products and services and to increase the employment rate in India. Benefits of Start-up India Scheme are Simplification of Work, Finance support, Government tenders, Networking opportunities. Startup India was launched by Prime Minister Shri. Narendra Modi on 16th January 2016.

Benefits of Startup India

- (a) *Financial benefits* - Most of the start-ups are patent based. It means they produce or provide unique goods or services. In order to register their patents, they have to incur a heavy cost which is known as the patent cost.
Under this scheme, the government provides 80% rebate on the patent costs. Moreover, the process of patent registration and related is faster for them. Also, the government pays the fees of the facilitator to obtain the patent.
- (b) *Income Tax Benefits* - Start-ups enjoy a good amount of benefits under the Income Tax head. The government exempts their 3 years income tax post the incorporation year. But they can avail it only after getting a certificate from the Inter-Ministerial Board. Also, they can claim exemption from tax on capital gains if they invest money in specified funds.
- (c) *Registration Benefits* - Everyone believes that incorporation and registration of business are far more difficult than running it. It is because of the long and complex steps of registration. Under the Start-up India scheme, an application is there to facilitate registration. A single meeting is arranged at the Start-up India hub. Also, there is a single doubt and problem-solving window for them.
- (d) *Government Tenders* - Everyone seeks to acquire Government tenders because of high payments and large projects. But it is not easy to acquire the government tenders. Under this scheme, the start-ups get priority in getting government tenders. Also, they are not required to have any prior experience.
- (e) *Huge Networking Opportunities* - Networking Opportunities means the opportunity to meet with various startup stakeholders at a particular place and time. The government provides this opportunity by conducting 2 startups fests annually (both at the domestic as well as international level). Startup India scheme also provides Intellectual Property awareness workshop and awareness.

Government Initiatives to Promote Startups across India

The Government of India has taken various initiatives to promote startups across the country. The details of the various initiatives taken by Ministries/Departments of the Government to promote startups are as under:

A. Department for Promotion of Industry and Internal Trade (DPIIT) under Ministry of Commerce and Industry

The Government with intent to build a strong ecosystem for nurturing innovation and encouraging investments launched the Startup India initiative on 16th January 2016. As per eligibility conditions prescribed under G.S.R. notification 127 (E) dated 19th February 2019, entities are recognized as 'startups' under the Startup India initiative by the DPIIT. DPIIT has recognized 1,40,803 entities as startups as on 30th June 2024.

For attaining specific objectives, various programs are implemented by the Government under the Startup India initiative. All the steps undertaken by the Government under the initiative are inclusive and are implemented across age-groups, States/Union Territories (UTs), cities, towns, and rural areas.

Sustained efforts by the Government under the Startup India initiative have led to an increase in the number of recognised startups to 1,40,803 as on 30th June 2024. The recognized startups have reported to have created over 15.5 lakh direct jobs. There are recognized startups from every State and UT of the country,

B. Ministry of Micro, Small & Medium Enterprises (MSME)

Ministry of MSME, through Khadi and Village Industries Commission (KVIC), is implementing Prime Minister's Employment Generation Programme (PMEGP) for assisting entrepreneurs in setting up of new enterprises in the non-farm sector. It aims to provide employment opportunities to traditional artisans/ rural and urban unemployed youth at their doorstep.

PMEGP being a Central Sector Scheme assists General Category beneficiaries with Margin Money (MM) subsidy of 25% of the project cost in rural areas and 15% in urban areas. For beneficiaries belonging to Special Categories such as Scheduled Castes, Scheduled Tribes, OBCs, Minorities, Women, Ex-servicemen, Physically Handicapped, Transgenders, beneficiaries belonging to Northeastern Region, Hill and Border areas, and Aspirational Districts, the Margin Money subsidy is 35% in rural areas and 25% in urban areas. The maximum cost of project is Rs. 50 lakhs in the manufacturing sector and Rs. 20 lakhs in the service sector.

Also, own contribution of beneficiaries under Special Category including women is 05% and 10% for General Category beneficiaries.

Since 2018-19, existing PMEGP/REGP/MUDRA enterprises are also supported based on past good performances with 2nd loan for upgradation and expansion. Under 2nd Loan, maximum project cost admissible for Margin Money (MM) subsidy under Manufacturing sector is Rs. 1.00 crore and for Service sector is Rs. 25 Lakhs. Eligible subsidy on 2nd loan for all categories is 15% of project cost (20% for NER & Hill States).

Since inception i.e., FY 2008-09, more than 9.69 lakh micro enterprises have been assisted with Margin Money subsidy of more than Rs 25,500 Crore providing employment to an estimated ~79 lakh persons. Approximately, 50% of the units are set up by SC/ST/Women and 80% of the units are set up in rural area. During the next 2 years FY (2024-25 to 2025-26), Ministry has a target to set-up 1.6 lakh new enterprises with employment generation potential for 12.8 lakh persons.

C. Ministry of Rural Development (MoRD)

Ministry of Rural Development is implementing its flagship scheme Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM). DAY-NRLM aims to reduce poverty

by enabling poor households to access gainful self-employment and skilled wage employment opportunities resulting in sustainable and diversified livelihood options for the poor. The Startup Village Entrepreneurship Program (SVEP) is a sub component of DAY-NRLM. SVEP aims to support entrepreneurs in rural areas to set up local enterprises.

D. Department of Science and Technology (DST)

Department Science and Technology (DST), implements an umbrella program NIDHI (National Initiative for Developing and Harnessing Innovations) launched in 2016, which has various components to support innovation and entrepreneurship in academic setups. NIDHI facilitates setting up of incubation centers throughout the country, which provide handholding support to youth to become budding entrepreneurs and innovators. NIDHI support is also extended for proof of concept (PoC), prototyping, capacity building and early-stage seed fund which help in launching of new startups. This support leads to the development of indigenous technologies, which not only provide tech-based solutions/services for the benefit of the society but also lead to the economic development and employment generation in the country.

E. Ministry of Agriculture and Farmers' Welfare

The Government of India is committed to promote agri-startups by providing financial and technical support to agri-startups in agriculture and allied sectors. Ministry of Agriculture and Farmers' Welfare (MoA and FW) is implementing "Innovation and Agri-Entrepreneurship Development" programme under Rashtriya Krishi Vikas Yojana (RKVY) from 2018-19 with an objective to promote innovation and agri-entrepreneurship by providing financial and technical support for nurturing startups ecosystem in the country. So far, 5 Knowledge Partners (KPs) and 24 RKVY Agribusiness Incubators (R-ABIs) have been appointed for training and incubation of agri-startups and implementation of this programme. Under the programme, the financial support upto Rs. 5.00 lakh is provided at the idea/pre seed stage and up to Rs. 25 lakh at the seed stage to entrepreneurs/ startups in the field of agriculture and allied sector to launch their products, services, business platforms, etc. into the market and facilitate them to scale up their products and operations. Start-ups are trained and incubated by these Knowledge Partners (KPs) and RKVY Agribusiness Incubators (R-ABIs) appointed under the programme.

The agri-startups supported under the programme is providing employment generation directly or indirectly and contributing towards economic development in the country.

F. Ministry of Electronics and Information Technology (MeitY)

Start-ups, Innovation and Intellectual Property Rights (IPR) Division under the Ministry of Electronics and Information Technology (MeitY) has undertaken various initiatives and measures to promote a technology-led startups and innovation ecosystem in the country. This proactive approach builds from established best practices designed to strengthen and encourage the overall tech startup development infrastructure by overcoming persistent bottlenecks to work ground-up seamlessly. Some of the major initiatives are:

Technology Incubation and Development of Entrepreneurs (TIDE) 2.0 Scheme: TIDE 2.0 Scheme was initiated in the year 2019 to promote tech entrepreneurship through financial and technical support to incubators engaged in supporting Information and Communication Technology (ICT) startups using emerging technologies such as IoT (Internet-of-Things), AI,

Block-chain, Robotics etc. The scheme aims to provide comprehensive support to tech-startups in seven thematic areas of national concern by leveraging emerging technologies. The supported thematic areas are Healthcare, Education, Agriculture, Financial Inclusion (including digital payments), Infrastructure and Transportation and Environment and Clean Tech. The Scheme is being implemented through 51 incubators through a three-tiered structure with an overarching objective to promote incubation activities at Institutes of higher learning and premier R&D organizations. The scheme is envisaged to provide incubation support to approximately 2000 tech start-ups over a period of five years. Under this scheme total of 1235 startups have been supported. Further, total of 8556 employment have been generated though these startups under the TIDE 2.0 scheme.

GENESIS (Gen-Next Support for Innovative Startups): MeitY has approved an overarching 'Gen-Next Support for Innovative Startups (GENESIS)' Scheme with a budgetary outlay of Rs. 490 Crore for a duration of 5 years to accelerate and enhance the fast-rising tech startup ecosystem. The Scheme aims to boost the startup ecosystem in Tier-II & Tier-III cities and upcoming towns in the country with emphasis on collaborative engagement among startups, government and corporates. GENESIS envisages further scaling up and sustaining the tech ecosystem especially to discover, support, grow and make successful startups. The scheme aims to directly support 1500+ startups from Tier-II and Tier-III cities.

Various Programmes of the Government of India to foster the growth of Startups

- i) **Startup India Action Plan:** An Action Plan for Startup India was unveiled on 16th January 2016. The Action Plan comprises of 19 action items spanning across areas such as "Simplification and handholding", "Funding support and incentives" and "Industry-academia partnership and incubation". The Action Plan laid the foundation of Government support, schemes and incentives envisaged to create a vibrant startup ecosystem in the country.
- ii) **Startup India: The Way Ahead:** Startup India: The Way Ahead at 5 years celebration of Startup India was unveiled on 16th January 2021 which includes actionable plans for promotion of ease of doing business for startups, greater role of technology in executing various reforms, building capacities of stakeholders and enabling a digital Aatmanirbhar Bharat.
- iii) **Startup India Seed Fund Scheme (SISFS):** Easy availability of capital is essential for entrepreneurs at the early stages of growth of an enterprise. The capital required at this stage often presents a make-or-break situation for startups with good business ideas. The Scheme aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialization. Rs. 945 crore has been sanctioned under the SISFS Scheme for period of 4 years starting from 2021-22.
- iv) **Fund of Funds for Startups (FFS) Scheme:** The Government has established FFS with corpus of Rs. 10,000 crore, to meet the funding needs of startups. DPIIT is the monitoring agency and Small Industries Development Bank of India (SIDBI) is the operating agency for FFS. The total corpus of Rs. 10,000 crore is envisaged to be provided over the 14th and 15th Finance Commission cycles based on progress of the scheme and availability of funds. It has not only made capital available for startups at early stage, seed stage and growth stage but also played a catalytic role in terms of facilitating raising of domestic capital, reducing dependence on foreign capital and encouraging home grown and new venture capital funds.

- v) **Credit Guarantee Scheme for Startups (CGSS):** The Government has established the Credit Guarantee Scheme for Startups for providing credit guarantees to loans extended to DPIIT recognized startups by Scheduled Commercial Banks, Non-Banking Financial Companies (NBFCs) and Venture Debt Funds (VDFs) under SEBI registered Alternative Investment Funds. CGSS is aimed at providing credit guarantee up to a specified limit against loans extended by Member Institutions (MIs) to finance eligible borrowers viz. DPIIT recognised startups.
- vi) **Regulatory Reforms:** Over 55 regulatory reforms have been undertaken by the Government since 2016 to enhance ease of doing business, ease of raising capital and reduce compliance burden for the startup ecosystem.
- vii) **Ease of Procurement:** To enable ease of procurement, Central Ministries/ Departments are directed to relax conditions of prior turnover and prior experience in public procurement for all DPIIT recognised startups subject to meeting quality and technical specifications. Further, Government e-Marketplace (GeM) also facilitates and promotes procurement of products and services by the Government from startups.
- viii) **Self-Certification under Labour and Environmental laws:** Startups are allowed to self-certify their compliance under 9 Labour and 3 Environment laws for a period of 3 to 5 years from the date of incorporation.
- ix) **Income Tax Exemption for 3 years:** Startups incorporated on or after 1st April 2016 can apply for income tax exemption. The recognized startups that are granted an Inter-Ministerial Board Certificate are exempted from income-tax for a period of 3 consecutive years out of 10 years since incorporation.
- x) **Faster Exit for Startups:** The Government has notified Startups as 'fast track firms' enabling them to wind up operations within 90 days vis-a-vis 180 days for other companies.
- xi) **Exemption for the Purpose of Clause (VII)(b) of Sub-section (2) of Section 56 of the Act (2019):** A DPIIT recognized startup is eligible for exemption from the provisions of section 56(2)(viib) of the Income Tax Act.
- xii) **Support for Intellectual Property Protection:** Startups are eligible for fast-tracked patent application examination and disposal. The Government launched Start-ups Intellectual Property Protection (SIPP) which facilitates the startups to file applications for patents, designs and trademarks through registered facilitators in appropriate IP offices by paying only the statutory fees. Facilitators under this Scheme are responsible for providing general advisory on different IPRs, and information on protecting and promoting IPRs in other countries. The Government bears the entire fees of the facilitators for any number of patents, trademark or designs, and startups only bear the cost of the statutory fees payable. Startups are provided with an 80% rebate in filing of patents and 50% rebate in filling of trademark vis-a-vis other companies.
- xiii) **Startup India Hub:** The Government launched a Startup India Online Hub on 19th June 2017 which is one of its kind online platform for all stakeholders of the entrepreneurial ecosystem in India to discover, connect and engage with each other. The Online Hub hosts Startups, Investors, Funds, Mentors, Academic Institutions, Incubators, Accelerators, Corporates, Government Bodies and more.
- xiv) **International Market Access to Indian Startups:** One of the key objectives under the

Startup India initiative is to help connect Indian startup ecosystem to global startup ecosystems through various engagement models. This has been done through international Government to Government partnerships, participation in international forums and hosting of global events. Startup India has launched bridges with around 20 countries that provides a soft-landing platform for startups from the partner nations and aid in promoting cross collaboration.

- xv) **Startup India Showcase:** Startup India Showcase is an online discovery platform for the most promising startups of the country chosen through various programs for startups exhibited in a form of virtual profiles. The startups showcased on the platform have distinctly emerged as the best in their fields. These innovations span across various cutting-edge sectors such as Fintech, EnterpriseTech, Social Impact, HealthTech, EdTech, among others. These startups are solving critical problems and have shown exceptional innovation in their respective sectors. Ecosystem stakeholders have nurtured and supported these startups, thereby validating their presence on this platform.
- xvi) **National Startup Advisory Council:** The Government in January 2020 notified constitution of the National Startup Advisory Council to advise the Government on measures needed to build a strong ecosystem for nurturing innovation and startups in the country to drive sustainable economic growth and generate large scale employment opportunities. Besides the ex-officio members, the council has a number of non-official members, representing various stakeholders from the startup ecosystem.
- xvii) **National Startup Awards (NSA):** National Startup Awards is an initiative to recognize and reward outstanding startups and ecosystem enablers that are building innovative products or solutions and scalable enterprises, with high potential of employment generation or wealth creation, demonstrating measurable social impact. Handholding support is provided to all the finalists across various tracks viz. Investor Connect, Mentorship, Corporate Connect, Government Connect, International Market Access, Regulatory Support, Startup Champions on Doordarshan and Startup India Showcase, etc.
- xviii) **States' Startup Ranking Framework (SRF):** States' Startup Ranking Framework is a unique initiative to harness strength of competitive federalism and create a flourishing startup ecosystem in the country. The major objectives of the ranking exercise are facilitating states to identify, learn and replace good practices, highlighting the policy intervention by states for promoting startup ecosystem and fostering competitiveness among states.
- xix) **Startup Champions on Doordarshan:** Startup Champions program on Doordarshan is a one-hour weekly program covering stories of award winning/ nationally recognised startups. It is telecasted in both Hindi and English across Doordarshan network channels.
- xx) **Startup India Innovation Week:** The Government organises Startup India Innovation week around the National Startup Day i.e., 16th January, with the primary goal was to bring together the country's key startups, entrepreneurs, investors, incubators, funding entities, banks, policymakers, and other national/international stakeholders to celebrate entrepreneurship and promote innovation.
- xxi) **ASCEND:** Under ASCEND (Accelerating Startup Caliber & Entrepreneurial Drive), sensitization workshops on startups and entrepreneurship were conducted for all eight North Eastern States with the objective to capacitate and augment knowledge on key aspects of

entrepreneurship and continue efforts towards creating a robust startup ecosystem in these States.

- xxii) **The Startup India Investor Connect Portal** has been co-developed under the Startup India Initiative with SIDBI, serving as an intermediary platform that links startups and investors in order to help entrepreneurs from various industries, functions, stages, regions, and backgrounds in mobilizing capital. The portal has been built with the aim to enable in particular; early-stage startups located anywhere in the country to showcase themselves to leading investors/ venture capital funds.
- xxiii) **National Mentorship Portal (MAARG):** In order to facilitate accessibility to mentorship for startups in every part of the country, the Mentorship, Advisory, Assistance, Resilience, and Growth (MAARG) program has been developed and launched under the Startup India Initiative.

4. Skill India

The contents of National Skill Development Corporation to be included at the end of the contents covered under the aforesaid point.

National Skill Development Corporation

National Skill Development Corporation (NSDC) is a not-for-profit public limited company incorporated on July 31, 2008 under section 25 of the Companies Act, 1956 (corresponding to section 8 of the Companies Act, 2013). NSDC was set up by Ministry of Finance as Public Private Partnership (PPP) model. The Government of India through Ministry of Skill Development & Entrepreneurship (MSDE) holds 49% of the share capital of NSDC, while the private sector has a balance 51% of the share capital.

NSDC aims to promote skill development by catalyzing creation of large, quality and for-profit vocational institutions. Further, the organisation provides funding to build scalable and profitable vocational training initiatives. Its mandate is also to enable a support system which focuses on quality assurance, information systems and train the trainer academies either directly or through partnerships. NSDC acts as a catalyst in skill development by providing funding to enterprises, companies and organizations that provide skill training. It also develops appropriate models to enhance, support and coordinate private sector initiatives. The differentiated focus on 21 sectors under NSDC's purview and its understanding of their viability will make every sector attractive to private investment.

The details of various schemes and initiatives are provided below-

- (a) *Pradhan Mantri Kaushal Kendra* : Vocational training needs to be made aspirational to transform India into the skill capital of the world. In line with the same, Ministry of Skill Development and Entrepreneurship (MSDE) intends to establish visible and aspirational Model Training Centres (MTCs) in every district of the country. NSDC is the implementation agency for the project.

The model training centres envisage to:

- Create benchmark institutions that demonstrate aspirational value for competency-based skill development training.

- Focus on elements of quality, sustainability and Connection with stakeholders in skills delivery process.
- Transform from a Mandate-driven footloose model to a sustainable institutional model.

Funding Support

Capital Expenditure

NSDC will provide a concessional secured loan funding per centre, up to 75% of the project investment, to cover expenditure only related to:

- Training infrastructure including purchase of plant, machinery & equipment
- Training aid and other associated items
- Civil work including setting up prefabricated structures and retrofit existing structures

Operations Support

The sustainability of the centres will be assured against dedicated training numbers under Pradhan Mantri Kaushal Vikas Yojna (PMKVY) or its successor schemes (any other scheme under MSDE or NSDC). Each PMKK will be assured a training mandate for three years, under the PMKVY scheme, as per common norms, subject to capacity and utilization of the centre.

Pradhan Mantri Kaushal Vikas Yojana (4.0)

As it is a known fact that skilling plays a crucial role in enhancing individual productivity leading to an increase in employment and income of the workforce. The increase in productivity and employment in turn has a ripple effect on the economy resulting in enhanced competitiveness. With the ever changing nature of job market, the shelf life of skills has shortened building a case for continuous lifelong learning. For that reason, skilling, reskilling, and upskilling are crucial pillars for a growth oriented economy. Further, studies have also identified that upskilling would lead to a substantial boost in the Indian GDP.

India is strategically placed with a young population having an average median age of 28 years which provides a window of opportunity to make India the "Skill Capital" of the World. Skilling is poised to be the key driver for 'Amrit Kaal' envisioning a New India with inclusive welfare, technology enabled development, climate action through energy transitions, galloping towards a multi-trillion dollars' economy.

Ministry of Skill Development and Entrepreneurship was established in 2014 with an overall objective to promote skilling and entrepreneurship development in India. In 2015, MSDE launched its flagship scheme, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), to encourage and promote skill development in the country by providing free short-duration skill training and incentivizing youth for skill certification.

Between 2015 – 2022, three versions of the scheme have been implemented with varied approach and strategy. Cumulatively, more than 1.37 crore youths have been trained across various sectors.

Based on the challenges faced in implementing earlier phases of PMKVY and the learnings

gathered, the next phase of PMKVY, i.e., PMKVY 4.0 under the umbrella scheme of the 'Skill India Programme' is being implemented between FY 2022-2026.

PMKVY 4.0 is being realigned with a core focus on making the existing skill ecosystem more flexible, swift, and geared to meet the current challenges and emerging needs through process simplification.

The journey of PMKVY so far is exhibited in the table below-

Years	Developments
2014	Ministry of Skill Development established
2015	PMKVY 1.0: 19.86 lakh candidates trained
2016	PMKVY 2.0: 1.10 crore candidates trained
2020	PMKVY 3.0: 7.37 lakh candidates trained
2021	Customised Crash Course Programme for Covid Warriors. 1.20 lakh candidates trained
2022	Skill Hub Initiative: Utilizing infrastructure in educational institutions. 1.97 lakh trained
2022-2026	PMKVY 4.0

Source: Ministry of Skill Development and Entrepreneurship

Objectives of PMKVY 4.0

1. Promote an enabling ecosystem for the youths to get skilled and choose a career path aligned with their abilities and aspirations.
2. Enable delivery of skill training in a market-oriented and demand driven manner by making the existing skilling ecosystem more flexible, swift, and geared to meet the emerging demand along with emphasis on improving the employability of candidates.
3. Process simplification of the skill ecosystem by leveraging technology and digitalization.
4. Enhance access to skilling by setting up a network of skill development infrastructure in remote parts of the country to cater to the needs of difficult geographies such as hilly terrain, LWE-affected areas, border areas, etc. by designing special projects.
5. Improve inclusivity by ensuring that SC, ST, women, and other marginalized communities can undertake skill training and eventually access gainful wage and self-employment.
6. Provide opportunity for lifelong skilling through the crucial pillars of upskilling and reskilling to address the dynamic needs of the ever-changing market.

7. Quality training delivery through trained pedagogy, standardized assessments, and industry relevant curriculum.
8. Facilitate to enhance employability of candidates through training in transferable skills and incentives for employment generation.
9. Provide candidate-centric training with emphasis on industry relevant skills.

Types of Training under PMKVY 4.0

The three types of training will be offered under PMKVY 4.0:

- i) *Short-Term Training (STT)*: NSQF aligned courses ranging between 300 – 600 hours will be provided under STT. Courses of higher duration based on industry/sectoral demand can also be offered. Training to be delivered through accredited and affiliated training centres. On-Job Training (OJT) will be an inherent component under STT as mandated by NCVET, and the duration of OJT will depend on the job role.
 - ii) *Recognition of Prior Learning (RPL)*: Candidates with prior learning experience or skills will be certified with due assessment. This shall enable youths to obtain industry relevant skill certification. Emphasis will be on upskilling and interested candidates will have to undergo coursework for certification at a higher level based on assessment.
 - iii) *Special Projects*: Special Projects are project-based short-term skilling initiatives that primarily meet the skilling needs of marginalized and vulnerable groups, difficult geographies and specialized training courses which are likely to be offered outside of regular short-term skilling programmes. Also, these projects can have focus on new-age job roles with future skills. These projects can avail certain exemptions granted with the approval of the Executive Committee, and they can also be residential or non-residential.
- (b) *International Skill Training* : A country's ability and potential for growth is determined by the size of its youth population. Youth today need to be harnessed, motivated, skilled and streamlined to bring rapid progress for a country.

India has a relative advantage at present over other countries in terms of distribution of youth population even when compared to large, fast-growing Asian economies such as China and Indonesia, the two major countries other than India which determine the demographic features of Asia.

National Policy on Skill Development and Entrepreneurship 2015

The objective of the National Policy on Skill Development and Entrepreneurship, 2015 is to meet the challenge of skilling at scale with speed and standard (quality). It aims to provide an umbrella framework to all skilling activities being carried out within the country, to align them to common standards and link the skilling with demand centres. In addition to laying down the objectives and expected outcomes, the effort also involves to identify the various institutional frameworks which can act as the vehicle to reach the expected outcomes. The national policy will also provide clarity and coherence on how skill development efforts across the country can be aligned within the existing institutional arrangements. This policy will link skills development to improved employability and productivity.

The Vision, Mission and Objectives of the National Policy on Skill Development and Entrepreneurship 2015 are-

Vision : “To create an ecosystem of empowerment by Skilling on a large Scale at Speed with high Standards and to promote a culture of innovation based entrepreneurship which can generate wealth and employment so as to ensure Sustainable livelihoods for all citizens in the country.”

Mission : The mission is to create a demand for skilling across the country; correct and align skilling with required competencies;

Connect the supply of skilled human resources with sectoral demands; Certify and assess in alignment with global and national standards; and

Catalyse an ecosystem wherein productive and innovative entrepreneurship germinates, sustains and grows leading to creation of a more dynamic entrepreneurial economy and more formal wage employment.

Objectives : The core objective of the Policy is to empower the individual, by enabling her/him to realize their full potential through a process of lifelong learning where competencies are accumulated via instruments such as credible certifications, credit accumulation and transfer, etc. As individuals grow, the society and nation also benefit from their productivity and growth. This will involve:

- i. Make quality vocational training aspirational for both youth and employers whereby youth sees it as a matter of choice and employer acknowledges the productivity linked to skilled workforce by paying the requisite premium.
- ii. Ensure both vertical and horizontal pathways to skilled workforce for further growth by providing seamless integration of skill training with formal education.
- iii. Focus on an outcome-based approach towards quality skilling that on one hand results in increased employability and better livelihoods for individuals, and on the other hand translates into improved productivity across primary, secondary and tertiary sectors.
- iv. Increase the capacity and quality of training infrastructure and trainers to ensure equitable and easy access to every citizen.
- v. Address human resource needs by aligning supply of skilled workers with sectoral requirements of industry and the country's strategic priorities including flagship programmes like Make in India.
- vi. Establish an IT based information system for aggregating demand and supply of skilled workforce which can help in matching and connecting supply with demand.
- vii. Promote national standards in the skilling space through active involvement of employers in setting occupational standards, helping develop curriculum, providing apprenticeship opportunities, participating in assessments, and providing gainful employment to skilled workforce with adequate compensation.
- viii. Operationalize a well-defined quality assurance framework aligned with global standards to facilitate mobility of labour.
- ix. Leverage modern technology to ensure scale, access and outreach, in addition to ease of delivering content and monitoring results.

- x. Recognise the value of on-the-job training, by making apprenticeships in actual work environments an integral part of all skill development efforts.
- xi. Ensure that the skilling needs of the socially and geographically disadvantaged and marginalized groups (like the SCs, STs, OBCs, minorities, differently abled persons etc.) are appropriately taken care of.
- xii. Promote increased participation of women in the workforce through appropriate skilling and gender mainstreaming of training. xiii. Promote commitment and ownership of all stakeholders towards skill development and create an effective coordination mechanism.

The core objective of the entrepreneurship framework is to coordinate and strengthen factors essential for growth of entrepreneurship across the country. This would include:

- i. Promote entrepreneurship culture and make it aspirational
- ii. Encourage entrepreneurship as a viable career option through advocacy.
- iii. Enhance support for potential entrepreneurs through mentorship and networks.
- iv. Integrate entrepreneurship education in the formal education system
- v. Foster innovation-driven and social entrepreneurship to address the needs of the population at the bottom of the pyramid.
- vi. Ensure ease of doing business by reducing entry and exit barriers.
- vii. Facilitate access to finance through credit and market linkages.
- viii. Promote entrepreneurship amongst women.
- ix. Broaden the base of entrepreneurial supply by meeting specific needs of both socially and geographically disadvantaged sections of the society including SCs, STs, OBCs, minorities, differently-abled persons.

Pre-Departure Orientation Training (PDOT)

Given the need to orient potential migrant workers with regards to language, culture, do's and don'ts in the destination country, the emigration process and welfare measures, PDOT program has been launched. Ministry of External Affairs (MEA) in collaboration with Ministry of Skill Development and Entrepreneurship (MSDE) is conducting the PDOT program. NSDC is the implementing agency for this program.

A longer variant of PDOT i.e. 160 hours was offered at all IISCs which consisted of country orientation, language and digital literacy.

A shorter variant of PDOT program i.e. 1 Day (ongoing) is offered to all migrant workers who are likely to depart soon and register for the training through registered recruitment agents.

PDOT program is delivered by trainers who have undergone Training of Trainers (ToT) program organized by MEA. So far, 52 trainers from existing IISCs and NSDC Training Partners have undergone the PDOT (ToT).

- (c) *Technical Intern Training Program* : The program promotes international collaboration

through the transfer of skills, technology, and knowledge among the participating countries thereby, contributing towards the human resource development. It offers training to the workers for a specific period (3 – 5 years) in Japan's industrial society.

The objective is to ensure that the most competent youth is selected and sent to Japan to participate in TITP.

Ministry of Skill Development & Entrepreneurship (MSDE), Government of India and the Ministry of Justice, Ministry of Foreign Affairs and Ministry of Health, Labour and Welfare of Japan signed a Memorandum of Cooperation initiating the Technical Intern Training Program (TITP) in India in October 2017.

5. Investment in physical infrastructure

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI in construction development (townships, housing, built-up infrastructure and construction development projects) and construction (infrastructure) activity sectors stood at US\$ 26.17 billion and US\$ 26.30 billion, respectively, between April 2000-December 2021. In FY21, infrastructure activities accounted for 13% share of the total FDI inflows of US\$ 81.72 billion.

Major initiatives of the Government of India (Union Budget 2025):

- Scheme for first time Entrepreneurs: For 5 lakh first-time entrepreneurs, including women, Scheduled Castes and Scheduled Tribes, a new scheme, to be launched, to provide term loans up to ₹ 2 crore during the next 5 years.
- Credit Cards for Micro Enterprises: Customised Credit Cards with a ₹ 5 lakh limit for micro enterprises registered on Udyam portal. In the first year, 10 lakh such cards will be issued
- Startups to get a credit guarantee cover for ₹ 20 crore.

BOTTLENECKS IN ENTREPRENEURIAL GROWTH

1. Inefficient time management

Most entrepreneurs think on infinite time scales, as though they have plenty of time to achieve their goals. Time is the most valuable resource, yet most entrepreneurial leaders don't use it effectively. It is very important to analyze the business flow metrics and identify time-wasting processes. Comparing the performance with industry standards to find out the problem areas is a major challenge. Leveraging technology tools such as automation and machine learning wherever possible is very important in contemporary times.

McKinsey & Co. reported that the next era of supply chain management will hinge on autonomous vehicles and a network of smart programs that can optimize efficiency. Organisational efficiency can be increased by implementing software solutions that break through bottlenecks and boost productivity.

2. Lack of money

Inadequate funds – Less funding and the resources obtained by these funds -- can hinder expansion. When it comes to resolving bottlenecks, money matters a lot. It helps in the purchase of software programs and hire consultants who reduce the obstacles to growth and profitability. As the company expands, there is a need to scale up the technology, invest in sales enablement and direct resources to a number of other critical areas. Money is needed to achieve all of that.

Fortunately, there are a number of capital sources out there. In addition to venture capital funding, one can apply for a loan backed by the Small Business Administration. Loans repaid in less than seven years typically incur a less than 10 percent interest rate, and these loans can be used to purchase new technology or building your team with supply chain experts.

3. Too much noise

Building and running a start-up can become too complex when the entrepreneur is trying to cut through the noise generated through social media, marketing, apps and vendors. It's enough to make entrepreneurs think they need to chase down the "next big thing" and clamour for the media limelight.

But limelight doesn't guarantee success. Many companies that drew huge amounts of press and venture funding have ultimately failed. The better path is to focus on the work and trust that attention will come. Put out a great product, and be rigorous about clearing ones path to growth. The accolades will follow, but they matter only if one can scale and thrive sustainably.

4. A small (or nonexistent) network

Being a first-time entrepreneur, with a near-nonexistent industry, developing contacts is one of the biggest challenges to overcome. A strong network is crucial to a company's growth. But strong networks aren't built through viral campaigns or flashy marketing. They develop over years through resilience, relationship-building and cultivation of a community around the idea. In Japan and China, sustainable strong networks are an integral part of the value chain and supply chain.

To build a supportive network around one's own business, the type of reach an entrepreneurship wants to have is critical. Is the brand primarily local? Thereafter, a blue print needs to be put down, roots have to be made, through partnerships and sponsorships with influencers in the region.

If the entrepreneur wants to have global appeal, there is a need to attend conferences and reach out internationally to learn how to move into other markets. The entrepreneur must become relevant to the rest of the world.

5. Growing too much too soon

With the objective of growing production, the problems also compound at the same rate. Figuring out how to scale requires frequent testing and a willingness to pivot -- the entrepreneur doesn't want to miss out on strategic opportunities. For instance, there's nothing wrong with starting small and growing slowly. It's better to take that approach than to overinvest in a lacklustre strategy. One needs to pay attention and switch gears when that's needed.

When Groupon, a US based start-up started the concept of online couponing in 2008, it was a tremendous hit. But Groupon focused too much on customer acquisition and not enough on customer retention. So when the company rushed to scale, it hadn't dealt with its preexisting issues. Within months of filing its IPO in 2011, Groupon's share price plunged from \$20 to \$9.

As common as these issues are, startup founders are actually the biggest bottlenecks in their own businesses. They believe they have to do everything themselves, and they try to charge through problems on their way to growth. Hence, there is a strong need to create strong internal bonds and decentralisation systems.

6. Skill Shortages

The shortage of skilled workforce and technical expertise in specialized domains hampers the growth and competitiveness of startups, especially in technology-driven sectors. There is a need for comprehensive skill development programs to bridge the skill gap and enhance the employability of the workforce.

7. Policy Uncertainty

Frequent changes in government policies, regulatory frameworks, and taxation norms can create uncertainty and instability for entrepreneurs, making it challenging to plan and invest for the long term. Transparent and predictable policy environments are essential for fostering entrepreneurial confidence and investment.

NEED FOR ENTREPRENEURSHIP IN INDIA

The entrepreneurs are considered 'change agents' in the process of industrial and economic development of an economy. The premium mobile role that entrepreneurs play in promoting industrial and economic development of an economy is well adduced across the countries.

In a sense, entrepreneurs are the 'spark plugs' who transform the economic scene of an economy. The developed countries have more entrepreneurial development as compared to underdeveloped countries.

Thus, the need for entrepreneurs in India may be captured in the following points:

1. Entrepreneurs promote capital formation by mobilising the idle saving of the people.
2. They create immediate and large-scale employment by establishing small-scale enterprises. Thus, they reduce the unemployment problem in the country, i.e., the root cause of all socio-economic problems.
3. They promote balanced regional development by establishing small-scale enterprises in rural, remote and less developed regions.
4. They help reduce the concentration of economic power.
5. They promote the equitable redistribution of wealth, income and even political power in the interest of the country.
6. They encourage effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. They, by establishing industries, induce backward and forward linkages which stimulate the process of economic development in the country.

8. Entrepreneurship fosters a culture of risk-taking, creativity, and innovation, challenging traditional norms and mindset towards employment and career choices.
9. Last but no means the least; they also promote country's export business, i.e. an important ingredient to economic development.

Thus, the significance of entrepreneurship for India may be recapitulated under the following points:

1. *Economic Development by Entrepreneurs*: It shows the importance of entrepreneurship in the best possible way. New products and services produced by entrepreneurs can fuel the economic development of the companies concerned. This is also true for areas that need to support new business.

For example, the boom of IT industries during the 1990s. The industry grew rapidly and it helped many other businesses. Businesses have grown in related sectors, such as call centre operations, network repair firms and hardware suppliers.

2. *Contribution of Entrepreneurs to National Profit*: Entrepreneurial projects help create fresh wealth. Established companies may remain confined to existing markets and reach a threshold in terms of profits. Better goods, services or technology from businesses enable the development of new markets and the creation of new wealth.

Entrepreneurial projects help create new capital. Better goods, services or technology from businesses enable the development of new markets and the creation of new wealth. Also, higher income in the form of increased jobs and higher tax revenue and expenditure leads to better national income. So, this importance of entrepreneurship helps in generating the national income of a country. The government will use these proceeds to invest in the country.

3. *Social Change by Entrepreneurs*: This importance of entrepreneurship breaks with tradition and reduces reliance on outdated systems by providing unique products and services. This will improve the quality of life. Such as the smartphone industry continues to grow, tech entrepreneurship will have a huge, long-term impact on the planet.

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LESSON 7

BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT

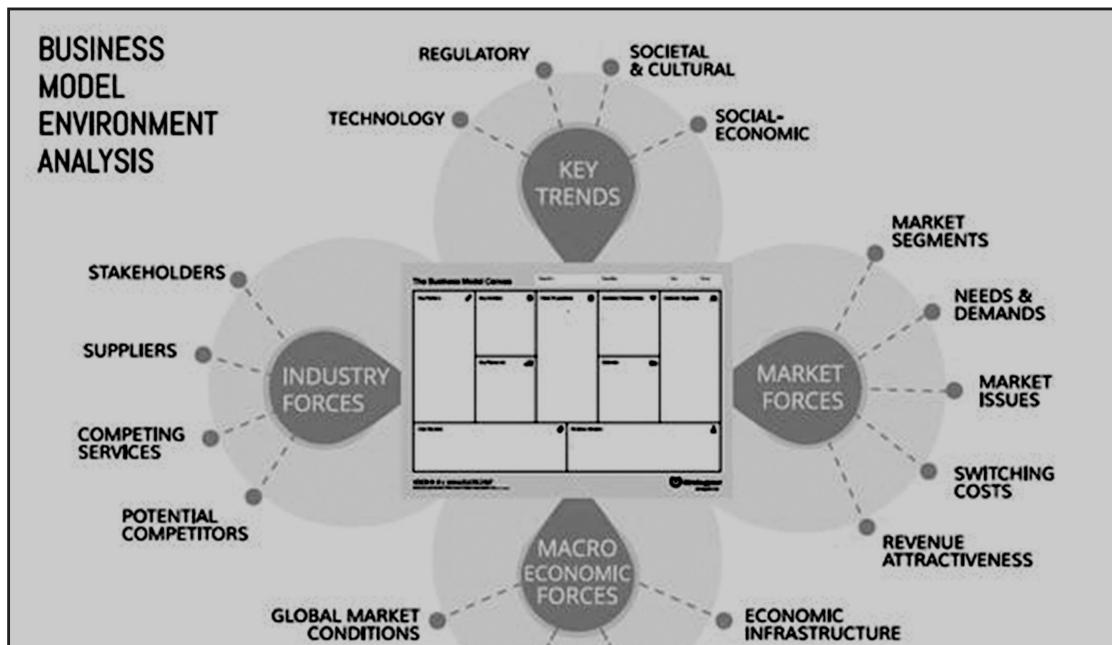
Concept

The term "business environment" refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments. These elements have a direct or indirect impact on how a firm operates and performs its functions. These factors taken together have an impact on the environment and situation of businesses or corporate entities.

External factors include economic conditions, technological advancements, legal and regulatory frameworks, socio-cultural trends, and the competitive landscape, among others. Internal factors refer to elements within the company's control, such as organizational structure, resources, culture, and operational processes. Understanding the business environment is essential for businesses to anticipate changes, identify opportunities, and mitigate risks effectively, ultimately shaping their strategies for sustainable growth and success.

Business environment enhances overall performance, growth, and profitability of the business by assisting in the identification of business prospects, utilising helpful resources, and assisting in planning. Business environments come in a variety of forms, including macro and micro environments.

The key component of any firm is its environment. Suppliers, competitors, the media, the government, customers, market circumstances, investors, and numerous other entities operating on the outside all contribute to the business environment. So let's begin by learning about the business environment's basics and its significance.



Now let us look at some of the definitions of business environment.

According to Barry M. Richman and Melvyn Copen, Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country.

According to Keith Davis, Business environment is the aggregate of all conditions, events and influences that surround and affect business.

Bayard O. Wheeler defines business environment as, the total of all things external to firms and industries which affect their organisation and operation.

According to Arthur M. Weimer, Business environment encompasses the climate or set of conditions, economic, social, political, or institutional in which business operations are conducted.

According to Glueck and Jauch, The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government.

IMPORTANCE OF BUSINESS ENVIRONMENT

For any organisation, the business environment offers both possibilities and threats. A good manager of a business not only recognises and assesses the environment, but also responds to these outside factors. If we take into account the following details, we can clearly see how important the business environment is:

1. Enables to Identify Business Opportunities:

Not all changes are bad. If recognised and assessed, they may contribute to a company's success. Finding a change and utilising it as a tool to address a population or business's challenges is crucial.

For instance, the Indian need for ticket booking bothered Mr. Phanindra Sama. He used to drive a long way to his travel agency to make his reservation, but even then, he wasn't sure if his seat was guaranteed. In response to the issue, he recognised a chance to create an app and joined forces with another person to create the online ticketing platform known as "redBus."

2. Helps in Tapping Useful Resources:

Utilizing the beneficial resources needed for the firm requires careful examination of the business environment. It aids the business in managing these resources and transforming them into products and services.

3. Coping with Changes:

The company needs to be aware of the constant changes in the business environment, including shifts in customer demands, new fashion trends, new government regulations, and technical advancements. The firm can implement a response to deal with those changes if it is aware of these predictable developments.

For instance, Nokia failed to adapt to the change by not incorporating Android OS into its smartphones at a time when the market for Android OS was booming and consumers were choosing Android devices for its user-friendly interface and apps. They lost a great deal of market value by failing to adapt.

4. Assistance in Planning:

This is yet another facet of how crucial the corporate environment is. Planning only refers to the future tasks that must be completed. It is up to the business to select what plan it needs to develop in order to address the future, solve the problem, or take advantage of the opportunity when the business environment offers a problem or an opportunity. The business can incorporate plans to combat the modifications for a secure future after assessing the developments that have been offered.

5. Helps in Improving Performance:

Businesses that are actively monitoring their surroundings not only adapt to the changes but also thrive in them. Adapting to external influences enables a company to increase performance and remain competitive.

6. Risk Management:

The business environment is dynamic and often unpredictable. By monitoring external factors such as economic fluctuations, regulatory changes, and technological advancements, businesses can anticipate risks and take proactive measures to minimize their impact.

7. Compliance and Governance:

Businesses operate within a complex regulatory environment. Understanding and complying with relevant laws, regulations, and industry standards are essential for avoiding legal issues, reputational damage, and financial penalties.

Features influencing business environment

1. External influences:

Every firm is impacted by a variety of external circumstances, both directly and indirectly, as was previously said. These elements can include people, governmental rules, environmental issues, as well as other enterprises and organizations.

2. Overarching Factors:

Regardless of the presence of the firm, these are aspects of society and the economy. They have an impact on all institutions. These are things like politics, the law, technology, and other things. Regardless of size or market, all businesses are impacted by general factors.

3. Specific Factors:

These are the elements that directly affect the firm, including clients, the target market, rivals, suppliers, etc. Every company has a unique set of unique elements that make up its environment.

4. The Interrelation of Factors:

The majority of elements that influence a business also influence one another. These are variables that are internal and external, particular and general.

5. Uncertain Future:

A corporate environment's future is extremely elusive to forecast. It can swiftly change because there are so many different forces at work. Although some firms are capable of making accurate predictions for the near future, the factors influencing it are unstable.

6. Constantly Changing:

The corporate environment nowadays is extremely dynamic due to the rapid changes in technology and various societal variables. This makes it very challenging to define a corporate environment. Complex Effects. The effects that the various internal and external factors have on businesses are quite complex. They may seem like a small factor at the time but have a larger impact overall, or vice versa.

7. Highly Relative:

The factors that are beneficial towards one business may be the doom of another. The relationship between factors that affect a business and the particular businesses is highly relative. But there are also factors that affect similar businesses in an equal manner.

Business Environment Factors

It takes constant attention to operational planning, modifications, and other variables to manage business environments. There are a number of internal and external elements at play that might affect business decisions.

Below is a list of the six key factors that affect business environments.

1. Technological Factors

If a corporation doesn't keep up with the most recent technological advancements, its revenues may drastically fall as it evolves its business strategy.

For instance, brands will lose money if firms switch to eCommerce models but are forced to continue accepting offline orders. Another example is a business that creates GPS navigation systems for cars. If they continue to just serve automotive firms and don't diversify into mobile devices and other industries, the brand may experience a decline in revenue.

Technology can have an impact on communications, billing, inventory control, and business operations in addition to sales. Businesses that use automation to replace manual operations will be more productive than those that use more conventional methods of operation.

2. Political and Legal Factors

Political and legal factors influence how a business operates in that region and whether or not it can continue functioning. Companies have to follow modern legislation policies, and those that do not will have to modify their processes in order to stay compliant. Some policies that affect companies range from taxation, import restrictions, intellectual property laws, employment laws, and tariffs.

3. Demographics

Businesses must assess the demographics of their target market to make sure they are marketing the appropriate items to them. Customers cannot take full advantage of offerings if their needs are not met and their pain points are not addressed.

Age, gender, geography, country, marital status, economic level, educational attainment, and race are a few demographic factors that have an effect on business operations. A mobile company targeting only a particular segment of the population with a plan, such as those in the college level with special offers, is an example of demography in action. Another illustration is when they make a different offer to businesses and other professionals. All age groups now use communications technology, and the technology environment has transformed.

4. Competitive Factors

Businesses can research their rivals, discover the newest market trends, and maintain an advantage. They may keep expanding and not worry about losing money if they stay current in the market and offer their customers the greatest services. Market and competitive intelligence might provide understanding of their operations. It teaches how to implement the best marketing tactics, as well as how to improve products and processes.

5. Social Factors

Where customers live influences their decision to spend money on a company that sells specific goods/services. If a business wants to succeed with the crowd, it must understand where the people are coming from. Social factors include current events, societies, and local communities.

Businesses consider social movements and factors to make products more appealing to customers. They have to cater to customers' specific preferences, values, and ideals to stay relevant.

For example, a company that sells products for women must be able to connect with other women's emotional or financial values. It should focus on customer satisfaction and make lives easier for female buyers.

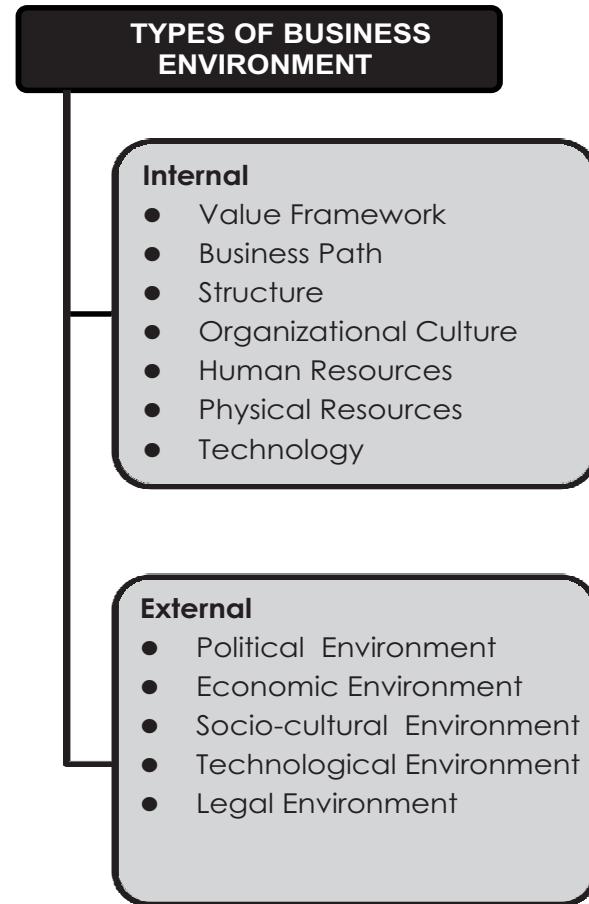
6. Global Factors

How a company handles both domestic and foreign concerns is influenced by global variables. Because social and cultural standards are influenced by external influences, company leaders must create staff training programmes that are appropriate. Business organisations strive to create a wide range of goods and services. This is impossible without awareness of global issues. The quality of items improves as client economic condition and global challenges are taken into account more. It also broadens the business's target demographics and makes it more approachable to wider people.

Types of Business Environment

There are two types of Business Environment that we will be looking into, internal and external factors.

These types define the business environment in its most understandable manner.



A. Internal Environment

An organization in business is defined by the forces that exist inside it. These include the managerial style, the level of machinery utilised, and the work environment. The main internal elements that influence the business environment are listed below.

1. Value Framework

This is basically the business' functional process and how the value in a business is judged. The value framework of a business defines the manner in which its employees will perform their roles. And, how their work culture will be regulated.

2. Business Path

Every company has a reason to exist and a purpose to serve. These two factors along with how the business sees itself in the future constitute the business path. These define the changes that will be enforced into the business framework.

3. Structure

The hierarchical or non-hierarchical structure of a business that defines each employee's and management's role is one of the central aspects of the internal business environment. There are various business structures such as matrix, bureaucratic, functional, etc.

4. Organizational Culture

Although undefinable in exact terms, every business has a unique culture that it adheres to. This includes the treatment of employees, resources, clients, etc.

5. Human Resources

A relatively recent idea that has taken over the business world is human resources. Human resources is responsible for managing personnel on a micro level while firms get bigger every day. As a result, it is crucial in establishing the business environment.

6. Physical Resources

Every business needs resources to function, and how these resources are managed has a significant impact on the environment inside the company..

7. Technology

A corporate environment is constantly defined by technology, both internally and externally. It is dependent on both the technology being used by the business on the inside and the technology being utilised by its rivals on the outside.

B. External Environment

A socio-economic entity is a business. As a result, society's numerous facets are fundamental to the success or failure of every organisation as well as to the environment it operates in. PESTLE is a phrase frequently used to describe elements in the external business environment. Political, economic, social, technological, legal, and environmental factors are all represented by this acronym.

1. Political Environment

From the political climate of the business' geography to the international relations it holds, every aspect of politics affects a business. Many countries have laws that facilitate some businesses, others have laws that restrict businesses. The condition of local politics and its relation to other countries highly affect the business condition.

The main components of Political Environment are:

- The Constitution of the Country.
- Political organization including the philosophy of political parties, ideology of the government, nature and extent of bureaucracy, influence of primary groups etc.
- Political stability including the structure of Military and police force, election system, Law and order situation etc.
- Image of the country and its leaders.
- Foreign policy alignment or non-alignment.
- Law Governing Business

The economy is constantly impacted by political developments, hence the political environment frequently has an indirect impact on the economic environment. Business regulation laws are a byproduct of the political system in place. The political environment also includes media, social and religious organizations, as well as a variety of lobbying groups, in addition to government and legislative actions. They collectively have a

significant impact on how a nation conducts business.

The political system, the government's policies, and its stance towards the business community and unionism are all parts of the political environment. All of these factors have an impact on the commercial enterprises' tactics. Business and related activities are greatly influenced by the stability of the government.

It conveys a message of power and assurance to investors and different interest groups. The political party's philosophy also has an impact on the corporate organisation and how it conducts business. The Coca-Cola, a popular cold beverage today, had to stop operations in India in the late 1970s. Once more, trade union actions have an impact on how businesses are run. In India, the majority of work unions are connected to different political parties. The operations of the firm are also negatively impacted by strikes, lockouts, and other labour conflicts.

Trade unions are now demonstrating a high level of maturity and have begun positively influencing the success of the business organisation and its operations through employee involvement in management as a result of the highly competitive business climate.

2. Economic Environment

The current economic condition in most countries is highly volatile. And this is relevant to every business large and small. However, the presence of the open market has been highly beneficial towards businesses as well. Since the global economy is volatile most big business has to be careful of its impact at all times.

The main components of Economic Environment are:

- Economic system i.e., capitalist, socialist and mixed economic system.
- Economic policies such as, monetary policy, fiscal policy, supply side policy etc.
- Economic indices such as, Gross Domestic Product, Consumer Price index, Per Capita Income etc.
- Financial markets such as, share market, money market, capital market etc.
- Industrial infrastructure etc.

Examples of Economic Environment

1. **Demand/supply:** An increase in the supply and demand of goods can cause inflation. Likewise, a decrease in supply and demand can lead to a depression. Inflation, recessions, and boom periods influence consumer habits and business performance.
2. **Exchange rate:** The exchange rate influences the sales of goods on the global level.
3. **Interest rate:** Interest rates can affect borrowing costs, dictating business opportunities to finance projects.

3. Socio-cultural Environment

Every society has its unique requirements and choices. These shape regional business personas and are one of the primary external factors for all businesses worldwide. For example, let's see the current trend towards a western lifestyle throughout the world. This has led to a rise in demand for western food and fashion.

The main components of social and cultural environment are:

- Demographic Forces: includes Size, Composition and Mobility of Population.
- Social Institutions and Groups.
- Caste Structure and Family Organisation.
- Educational System and Literacy Rate.
- Customs, beliefs, values and life styles.
- Tastes and Preferences of People.
- Entrepreneurial Spirit.

The social environment primarily influences the organization's strategic management process with regard to decision-making about products and markets as well as mission and objective formulation. The social environment of business comprises societal elements like norms, values, and beliefs, as well as socioeconomic issues like poverty, illiteracy, and life expectancy rates.

The social structure and ideals that a society upholds have a significant impact on how commercial firms operate. For instance, during holiday seasons, there is a rise in demand for fresh flowers, fruits, sweets, and clothing. The consumers are becoming more aware of the quality of the items as a result of the rise in literacy rates.

Examples of socio-cultural environment

1. *Family structure* - Nuclear families have other needs likened to joint families. This impacts firms like housing, food and education.
2. *Social class* - Upper-class clients demand luxury products, while lower classes demand cheap needs. Firms segment according to other income groups.

4. Technological Environment

Technology is one of the primary drivers in today's world. Businesses that are unable to match up to the current technological progress are having a hard time establishing their existence. And the businesses that are using tech to their advantage are moving ahead of their competitors. IT itself has become a leading business in the past few decades.

The main components of Technological Environment are:

- Rate of Technological change and Diffusion.
- New approaches to the production of goods and services.
- Use of New processes and equipment.
- Transfer of Foreign Technology.
- Impact of Technology on cost, quality and value chain.

Technology has an impact on a company's ultimate goods through altering the sourcing, manufacture, and distribution of its raw materials. When applied properly, technology can significantly alter a company's productivity. One field where technology keeps driving competitiveness to the edge is the computer industry.

Different countries' technological settings have an impact on how products are designed. For instance, electrical equipment are designed for 110 volts in the USA and many other nations. However, if they are intended for India, they must be 220 volts. The speed of technical change is extremely quick in the contemporary, competitive era.

As a result, a firm must occasionally adopt new technologies in order to thrive and expand in the market. It should be mentioned that most major industrial groups regularly engage in scientific research to improve and innovate their products and services. In actuality, no company today can afford to continue using outdated technology.

Examples of the technological environment

1. New technology
2. Production strategies
3. Information and communication technology (ICT), such as the internet, mobile apps, smartphones and social media
4. Innovation
5. Augmented reality (AR)
6. Machine learning and artificial intelligence
7. E-commerce technology
8. Robotics
9. Automation
10. Data management practices
11. Research and development

5. Legal Environment

There are laws for businesses in every country in the world and every business has to abide by these laws. So, regulations are a primary factor that every business needs to consider in its external environment. But there are also regulations that help businesses thrive.

Example: A cigarette-selling company compulsorily has to put the slogan "smoking is injurious to health" on every packaging

The main components of Legal Environment are:

- Current Legislations.
- International Legislations.
- Regulatory bodies and processes.
- Tax Regulations.
- Competitive Regulations.
- Industry Specific Regulations.
- Government Regulations.

A partial list of the legislations that concern the business enterprises in India include:

- i. Companies Act, 2013

- ii. Foreign Exchange Management Act, 1999
- iii. The Factories Act, 1948
- iv. Industrial Disputes Act, 1972
- v. Payment of Gratuity Act, 1972
- vi. Industries (Development and Regulation) Act, 1951
- vii. Prevention of Food Adulteration Act, 1954
- viii. Essential Commodities Act, 1955
- ix. The Standards of Weights and Measures Act, 1956
- x. Trade Marks Act, 1999
- xi. Copyright Act, 1957
- xii. The Patents Act, 1970
- xiii. Bureau of Indian Standards Act, 1986
- xiv. Consumer Protection Act, 2019
- xv. Environment Protection Act, 1986
- xvi. The Geographical Indications of Goods (Registration and Protection) Act, 1999
- xvii. Competition Act, 2002
- xviii. SEBI Regulations
- xix. Sale of Goods Act, 1930

Besides, the above legislations, the following are also part of the legal environment of business:

i. Provisions of the Constitution:

The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state governments also influence the operation of business enterprises.

ii. Judicial Decisions:

The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the courts in different matters relating to trade and industry also influence the business activities.

Different Types of the Legal Environment

a) Domestic Legal Environment:

- 1. The domestic legal environment encompasses the laws and regulations governing business activities within a specific country.
- 2. It comprises legislation passed by the government, court decisions, administrative orders, and policies issued by government authorities.

3. This legal system significantly influences businesses, shaping aspects ranging from company formation to the sale of goods and services.
 4. Examples of laws and regulations in the domestic legal environment include labor laws, environmental regulations, tax codes, intellectual property laws, antitrust regulations, and consumer protection laws.
- b) *Social Legal Environment:*
1. The social legal environment involves the regulatory framework and legal structures governing societal interactions and behaviours.
 2. It comprises a diverse set of laws grounded in cultural, ethical, and social values, reflecting the prevailing norms of a given community or nation.
 3. This legal environment extends to personal rights, civil liberties, discrimination, family matters, and various other social issues.
 4. Its role is crucial in maintaining order, justice, and fairness within society, influencing individual behaviour, and shaping institutional practices.
- c) *Economic Legal Environment:*
1. The economic legal environment constitutes the system of laws and regulations governing economic activities.
 2. It includes laws related to business formation, operation, contract, property, and employment.
 3. Sector-specific regulations within industries such as finance, energy, and healthcare are incorporated into the regulatory structure.
 4. This legal environment plays a vital role in shaping the economy and promoting economic growth.
- d) *Technological Legal Environment:*
1. The technological legal environment constitutes the body of laws and regulations governing the development, use, and commercialization of new technologies.
 2. It includes laws about intellectual property, data privacy, and security, as well as regulations specific to technologies like artificial intelligence, autonomous vehicles, and drones.
- e) *Political Legal Environment:*
1. The political-legal environment involves the interaction between the political and legal systems in a particular society or country, significantly impacting business operations.
 2. It comprises government structures, policies, regulations, and the broader legal framework set by the governing body with respect to the country's benefit.

3. Changes in government, shifts in policies, and alterations in legal regulations can profoundly affect businesses, shaping their strategies, decision-making processes, and overall viability.
4. A thorough understanding and assessment of the political-legal environment are crucial for businesses to anticipate and adapt to challenges and opportunities within a specific jurisdiction.

6. Environmental Environment

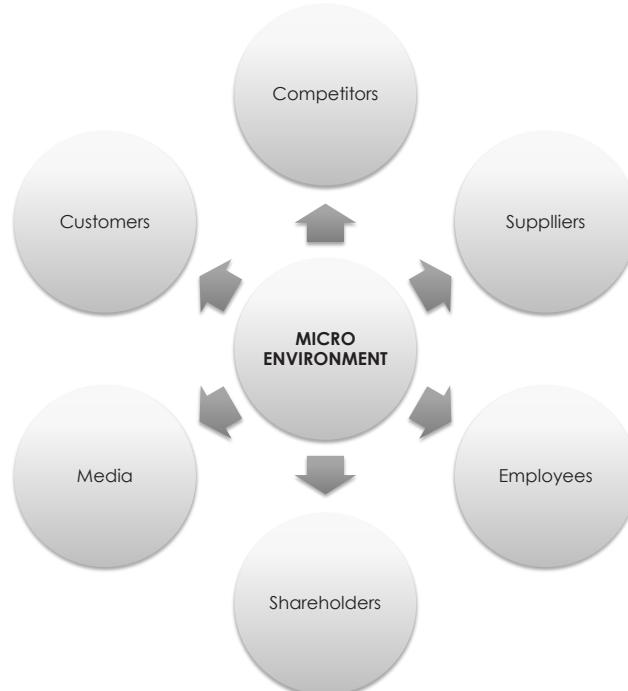
The world is currently facing an environmental crisis. As a result, all businesses are expected to adhere to a process that harms the environment in the least way possible. Also, certain environmental conditions in areas affect businesses. For instance, a cold season might bring down the agricultural business, but it will boost tourism.

The main components under natural environment are:

- Climatic Conditions.
- Agriculture, Commercial, and other Natural Resources.
- Ecological System.
- Levels of Pollution.

MICRO ENVIRONMENT :

The term "micro environment" refers to the setting that might affect day-to-day business operations that is present within an organization. It has a connection to the tiny region where the business is located. The forces that surround the company are all included in the micro environment. These elements are particular to the company at question. The short-term performance of a corporation may be impacted as a result.



ELEMENTS OF MICRO ENVIRONMENT

Because some aspects of the micro environment are specific to the company, they are closely tied to the business and do not have the same effects on other businesses in the same sector.

As a result, the environment that the company deals with in its particular domains, such as the industry or strategic group, can be described as the micro environment.

1. Customer

The customer is king in business. Every business strives to provide the highest quality goods and services at the most competitive costs. Customers are enticed with additional freebies and discounts. In every market area, keeping track of client feedback and understanding their needs is becoming more and more crucial. With such a tactical approach, any company may win over the hearts of their clients and generate financial profits as a result. In other words, the majority of companies operate largely to fulfill the demands and desires of their clients. The goal of the business is to please customers while making money.

2. Competitors

Any business faces intense rivalry due to the enormous number of rivals in the same industry. As a result, you need to have a strategy for dealing with the opposition. It will let you gain control of monopolies and prosper in any business segment. To differentiate your product from others on the market, it needs not only have the USP but also the UPB. An essential aspect of the competitive environment that any organization must comprehend is the need to stand out from the crowd. Regardless of how large a company is, monopolies do not exist in the commercial world.

3. Employees

Before conquering the market, it is essential to win the workplace. Any organization's workforce has a significant impact on both the micro and macro business settings. The number of workers has a direct impact on output rate. They so determine the success or failure of any organisation directly. Every successful company strives to consistently improve and train each employee's skills. Additionally, an organisation never stops praising talent that inspires and motivates workers. The market is much larger than the sum of its consumers. Therefore, the company needs engage the best employees to assess the market's current size, development potential, and attractiveness.

4. Shareholder

Any firm, whether little or huge, needs money and capital to establish themselves and develop. Investors called shareholders to donate money to the business. Shareholders now own the company's shares, i.e., they invest in the firm, and in exchange, the corporation distributes profits to its shareholders. Thus, the appropriate equation between any organisation and its shareholders is established.

Shareholders are the owners of the corporation in addition to being investors. They are, in a sense, the owners of the company because they have equity in it. This suggests that they have some influence over how a company is run.

5. Suppliers

A supplier is a business that offers the raw materials and other inputs needed for the mass

production of goods. Any successful business has a close, mutually beneficial connection with its suppliers. As a result, both entities profit from the positive and cooperative connection. The situation where a company runs out of raw materials and the entire manufacturing and supply process is delayed can also be used to understand it.

6. Media

The media is an effective tool for promoting any brand's goods and services. The direct consumer contact concept is practical. Consequently, maintaining a cordial relationship with the media is equally essential. Any unfavourable comments or press coverage could severely harm the brand's reputation in addition to causing financial losses. In order to use the power of the media for the promotion and growth of a business, organisations recruit experts like PR managers. If you were to own a business, for instance, you would require media in order to promote your name and sell your products.

EASE OF DOING BUSINESS INDEX BY WORLD BANK FOR INDIA AND DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE (DPIIT) FOR STATES

On September 25, 2014, Prime Minister Narendra Modi unveiled an initiative to encourage both domestic and foreign businesses to produce their goods in India. The primary goal is to increase the manufacturing sector's share of the GDP to 25% by 2025. It focuses on 25 economic areas, including information technology (IT), business process management (BPM), automobiles, and others, with the main goals of fostering innovation, increasing skill development, and protecting intellectual property.

The Make in India campaign's guiding principles aim to make doing business in India simpler. Each pillar has a unique approach of helping India move up the EODB rankings.

Firstly, as part of the new procedures, the government has started a number of reforms aimed at attracting FDI, encouraging business, and easing the burden of outmoded rules and regulations on the business climate.

Secondly, each nation's infrastructure is essential for its sound development. Along with the construction of infrastructure and the creation of smart cities equipped with technology and high-speed communication, the government is also focusing on the training of trained labour for various industries.

Thirdly, the Make in India campaign is focusing on 25 sectors for which it has issued a variety of policies, including eliminating limitations on construction and enabling 100% FDI in the railways and pharmaceutical industries.

Fourthly, the government adopted a new mindset with the launch of the Make in India campaign that aims to change the way it engages with the business community. Its principal objective is to assist in the nation's economic development.

Through its Ease of Doing Business Index (EDBI), the World Bank evaluates the policies implemented by nations around the world each year to reduce the regulatory burden. The index uses ten different factors to measure various business rules that are significant to domestic businesses and to the competitiveness of the country.

Doing Business evaluates aspects of labour market laws that are published in a different area and are not factored into the ranking. EDBI is regarded as a trustworthy source of data on an economy's business environment. The goal of EDBI rankings is to contrast the economic climates of various nations.

Rankings for the ease of doing business have an impact on the reputation of the countries, which leads them to implement significant legislative reforms.

In light of India's improved ranking in the World Bank's Ease of Doing Business (EODB) Index, which rose from 130th in 2016 to 63rd in 2019 out of 190 economies, reforms undertaken by the government to improve the business environment in the nation, such as removing regulatory burdens, reducing delays, introducing the Goods and Services Tax (GST), and promoting paperless transactions, among others, have received widespread recognition. Additionally, State Governments are carrying out their own annual Business Reform Action Plans (BRAPs) as part of the Make in India drive to raise their rankings on the ease of doing business, which show their desire to reform and draw in investments.

Some specific indicators and their rankings for India in 2019 were as follows:

- Starting a Business: Rank 136
- Dealing with Construction Permits: Rank 27
- Getting Electricity: Rank 22
- Registering Property: Rank 154
- Getting Credit: Rank 25
- Protecting Minority Investors: Rank 7
- Paying Taxes: Rank 115
- Trading across Borders: Rank 68
- Enforcing Contracts: Rank 163
- Resolving Insolvency: Rank 52

From the 14th rank for the period between 2018-22, India now stands at 10th rank in terms of business environment for the period 2023-27

Department for Promotion of Industry and Internal Trade (DPIIT) is spearheading the exercise for improving overall business regulatory environment in the country by streamlining the existing regulations and processes and eliminating unnecessary requirements and procedures.

DPIIT, in consultation with the State Governments, started a comprehensive reform exercise in States and UTs in December 2014. Under Business Reforms Action Plan (BRAP), all States/UTs in the country are ranked on the basis of reforms implemented by them on designated parameters. This exercise has helped in improving business environment across States. The BRAP Portal (www.eodb.dipp.gov.in) has been launched to track implementation of reforms on a real-time basis. Till date four editions of Business Reforms Action Plans have been completed. The fifth edition is underway.

A 213 point District Reforms Plan has also been prepared and shared with States and UTs for implementation of reforms by all the districts. It is spread across 8 areas: Starting a Business, Urban Local Body Services, Land Reform Enabler, Land Administration and Property Registration Enablers, Obtaining Approval for Construction, Paying Taxes, Miscellaneous and Grievance Redressal/ Paperless Courts and Law & Order.

DPIIT is the Nodal Department for coordination with Ministries/Departments and States/UTs to reduce compliance burden on citizens and business activities. The objective of this exercise is to improve

Ease of Doing Business and Ease of Living by Simplifying, Rationalizing, Digitizing and Decriminalizing Government to Business and Citizen Interfaces across Ministries/Departments and States/UTs.

The key focus areas of the exercise are:

- (i) Rationalization/Auto-renewal of licenses / certificates/permissions
- (ii) Risk-based/Third-party Inspections and Audits
- (iii) Standardized and simplified return filing
- (iv) Rationalized maintenance of registers
- (v) Minimize/eliminate display requirements
- (vi) Digitization and simplification of manual forms and records

Reforms for Ease of Doing Business and Ease of Living

Regulatory burden on a business has a significant impact on its performance. Regulations impose both time and cost for compliance and, thus, affect competitiveness of business. Regulations, however, are an important tool for ensuring that markets work effectively and do not meet failure due to trust deficit in products or among various players.

Regulations bring in the minimum threshold of acceptability and thereby make markets work.

In view of these conflicting aspects, there is a requirement to ensure that, while necessary regulations are put in place, their implementation remains efficient and effective. The time and costs imposed by the regulations should be minimum. Low regulatory burden means that entrepreneurs can devote their time on productive activities. It also leads to lower costs as the requirement of engaging regulatory experts is reduced. There are several ways in which delivery of government services can be improved.

Citizens are paramount to all initiatives of the Government of India. It is also felt that reduction in compliance burden on citizens will lead to the overall objective of Ease of Living in the country.

Government of India is spearheading the exercise for improving overall business regulatory environment and reducing compliance burden for businesses and citizens Tension category, has made it simpler to obtain electricity connection. Process of getting a new commercial electricity connection streamlined by reducing procedures and made online. Cost to obtain electricity connection reduced over years.

DPIIT has started a cohesive communication campaign whereby information is shared with the stakeholders through social media such as Twitter, Instagram and Facebook.

Ministries and Departments have been advised to make a separate tab for 'Ease of Doing Business' on their websites. The focus is to spread awareness among professionals about reforms implemented in recent past through extensive outreach campaign and at the same time, to list out new reforms to be implemented so as to broaden the reform agenda. The Monitoring and Evaluation mechanism has also been initiated for systematic feedback from the stakeholders on regular basis.

State and District-level Ease of Doing Business Reforms

India is one of the few countries which have a sub-national ranking. DPIIT, in consultation with the State Governments, started a comprehensive reform exercise in States and UTs in December 2014. Under the reform action plan, all States/UTs in the country are ranked on the basis of reforms undertaken by them on designated parameters. Till date four editions of State Reform Action Plans have been completed.

The fifth edition (301-point State Reform Action Plan 2020), which is underway, covers recommendations for reforms on regulatory processes, policies, practices and procedures classified into 15 Reform Areas. In order to handhold States/UTs in implementation of reforms, 10 Capacity Building Webinars on the best practices, 12 video conferences and regional workshops have been conducted. Further, a set of FAQs have been prepared and shared with the States/UTs to help them in understanding reform requirements, objective and other key points.

The aim of this exercise was to create conducive business environment by streamlining regulatory structures and creating an investor-friendly business climate by cutting down red tape. The BRAP also sought to lay out the first of a series of recommendations targeted at increasing transparency and improving the efficiency and effectiveness of various government regulatory functions and services for business in India with a view to create an investor-friendly business climate by cutting down red tape.

Various Reforms undertaken by the States

Over the years, States/UTs have introduced several reforms as part of the BRAP to improve their business regulatory environment and attract investments.

Rankings of the States and Union Territories on the basis of the implementation of the Business Reform Action Plan (BRAP) are given in Annexure. Some of the reforms undertaken by the States over the last few years to improve their business regulatory environment and attract investments are as follows:

Reforms	States implementing reforms	Best Practices
Single window clearance systems	Andhra Pradesh, Maharashtra, Rajasthan, Gujarat, Haryana, Jharkhand, Chhattisgarh, Madhya Pradesh, Telangana, Punjab and Uttarakhand	<ul style="list-style-type: none"> Andhra Pradesh and Telangana have the best single window mechanism Telangana government has enacted the Telangana State Industrial Project Approval and Self Certification System (TS-iPass) Act, 2014" Punjab government has implemented the one stop clearance system which provides one stop office for all new and expansion projects
Tax reforms	All the states and Union Territories	In July 2017, Indian states and UTs have implemented the State/Union Goods and Services Tax (SGST/UTGST) subsuming various state level indirect taxes such as VAT, CST, Entry tax, etc. making the compliance easier for businesses.
Construction permits	Chhattisgarh, Uttarakhand, Andhra Pradesh, Haryana, Gujarat, Madhya Pradesh, Rajasthan, Telangana and Maharashtra	<ul style="list-style-type: none"> Online applications and uploading of building plans for obtaining automated construction permit approval. Majority of the States and UTs have defined clear timelines for construction permits

Reforms	States implementing reforms	Best Practices
Environment and labour reforms	Andhra Pradesh, Karnataka, Uttar Pradesh, Chhattisgarh, Gujarat, Madhya Pradesh, Bihar, West Bengal, Haryana, Jharkhand, Odisha, Punjab, Rajasthan, Tamil Nadu, Maharashtra, Telangana and Uttarakhand	<ul style="list-style-type: none"> Gujarat government launched an online egovernance system known as XGN. Jharkhand government has implemented a single simplified online integrated return for all the 14 applicable labour laws.
Inspection reforms	Andhra Pradesh, Rajasthan, Haryana, Telangana, Jharkhand, Chhattisgarh, Uttarakhand, Madhya Pradesh, Odisha, Karnataka, Punjab, Punjab, Gujarat and Uttar Pradesh	<ul style="list-style-type: none"> Jharkhand government has implemented an online inspection and compliance monitoring mechanism. Computerised allocation of units of inspectors for joint synchronized inspection
Judicial proceedings	Rajasthan, Chhattisgarh, Gujarat, Jharkhand, Andhra Pradesh, Madhya Pradesh, Maharashtra, Telangana and Haryana	<ul style="list-style-type: none"> Chhattisgarh government has constituted a judicial bench and commercial/district courts in each district for speedy resolution of disputes. Every commercial dispute greater than Rs. 1 crore fall under the jurisdiction of commercial court.

The important features of India's performance in 2019 are:

- The World Bank has recognized India as one of the top 10 improvers for the third consecutive year.
- Recovery rate under resolving insolvency has improved significantly from 26.5% to 71.6%.
- The time taken for resolving insolvency has also come down significantly from 4.3 years to 1.6 years.
- India continues to maintain its first position among South Asian countries. It was 6th in 2014.

TRADE AND AUXILIARIES TO TRADE

Buying and selling of goods and services with the aim of earning profits is known as Trade. It is one of the most essential parts of commerce. It enables to make the goods available to the consumers or users. These days goods are manufactured on a large scale and it is very difficult for the producers to reach the consumers by themselves. Middlemen serve as a link between the producers and consumers by making the goods available to them. In the absence of trade, both producers and consumers will have to search for each other, and it would not be possible to carry on business on a large scale. Trade can be carried out on small scale, like in the case of Hawkers and small shops, or large scale, like Departmental stores.

Trade may be classified on the basis of the geographical area into two bases:

- Internal Trade:** Internal trade is concerned with buying and selling of goods and services within the geographical boundaries of a nation. It is also known as home trade or domestic trade. Here, both buyers and sellers belong to the same country. Internal trade may be further classified into two parts- Wholesale trade and Retail trade.

- i) Wholesale trade: Wholesale trade involves buying and selling of goods in large quantities or in bulk. Wholesaler buys goods directly from the manufacturer in large quantities and sells them in relatively less quantities to retailers. Wholesaler serves as an important link between manufacturers and retailers, and maintain large stock of goods.
 - ii) Retail Trade: It involves buying goods in small quantities from the wholesalers and selling them to the final consumer for final consumption is known as retail trade. A retailer serves a link between the wholesaler, manufacturers and consumers. They maintain direct contact with the customers and provide feedback to the wholesalers about the likings and disliking of the customers.
- b) **External Trade:** External or foreign trade consists of the exchange of goods and services between persons or organizations operating in two or more countries. It is also known as foreign trade or international trade. External trade is further divided in three parts:
- i) Import trade: When goods are purchased from another country, it is known as import trade. For example, India imports crude oil from the Middle-east countries.
 - ii) Export Trade: When goods are sold to other country, it is known as export trade. For example, India exports cereals, spices and other products to USA.
 - iii) Entrepot trade: When goods are imported from a country for purpose of exporting it to another country, it is known as entrepot. For example, India imports many commodities from European countries to export them to Nepal.

Auxiliaries to Trade

Commerce, the intricate web of economic activities that involves the exchange of goods and services, forms the backbone of any modern society. To keep this wheel turning smoothly, a range of support services and processes come into play, collectively known as "Auxiliaries to Trade."

These auxiliaries are like the invisible hands that facilitate the flow of goods and services, ensuring efficiency, transparency, and reliability in the marketplace. Auxiliaries to trade encompass diverse services and activities that do not directly involve producing or exchanging goods but play a pivotal role in facilitating trade transactions. These services act as intermediaries, smoothing out the complexities of commerce and enabling businesses to focus on their core activities.

In the vast commerce landscape, auxiliaries to trade are essential pillars supporting the structure of global economic activities. From ensuring the safe passage of goods across continents to providing financial stability and fostering brand recognition, these auxiliaries play a critical role in shaping the business world.

The interplay between these services creates a harmonious ecosystem where trade can thrive, benefiting businesses and consumers. The concept of auxiliaries to trade can be best understood by categorizing them into several key components:

- i) Transportation and Logistics: Efficient transportation and logistics are essential for moving goods from manufacturers to consumers. This includes various modes of transportation like road, rail, air, and sea. Additionally, logistics services involve warehousing, packaging, and distribution. Without these auxiliaries, the global supply chain would grind to a halt. For example, companies like FedEx, UPS, and DHL provide critical logistical support to ensure packages reach their destinations swiftly and securely.

- ii) *Insurance:* Risk is an inherent part of trade, and insurance is a safety net. Marine insurance, cargo insurance, and liability insurance protect businesses from potential losses due to accidents, theft, damage, or unforeseen events while transporting goods.
- iii) *Banking and Finance:* Financial institutions play a vital role in trade by providing letters of credit, trade finance, and currency exchange services. Letters of credit ensure payment to the exporter upon meeting specified conditions, minimizing risk for both parties.
- iv) *Communication and Information Services:* In the digital age, communication and information services are indispensable auxiliaries. Effective communication between buyers, sellers, and intermediaries ensures smooth trade transactions. Online platforms like Alibaba and Amazon have revolutionized trade by connecting buyers and sellers worldwide.
- v) *Advertising and Marketing:* Creating awareness about products and services is crucial for trade success. Advertising and marketing agencies help businesses reach their target audiences, influencing purchasing decisions. Brands like Coca-Cola and Apple owe a significant portion of their success to effective advertising strategies.
- vi) *Legal and Regulatory Support:* Navigating the complex legal and regulatory landscape is essential for international trade. Legal experts provide guidance on contracts, intellectual property rights, import/export regulations, and dispute resolution. Law firms like Baker McKenzie specialize in international trade law.
- vii) *Market Research and Analysis:* Understanding market trends and consumer preferences is essential for making informed business decisions. Market research firms collect and analyze data to provide insights into potential opportunities and threats. Nielsen and MarketResearch.com are examples of companies offering such services.

Significance of Auxiliaries to Trade

The auxiliaries to trade perform multifaceted functions that contribute to the efficient functioning of the global economy. Their significance can be highlighted through the following points:

- i) *Risk Management:* Trade involves inherent risks, from damage during transportation to fluctuating currency values. Insurance and financial services mitigate these risks, giving businesses the confidence to engage in international trade without fearing substantial losses.
- ii) *Efficiency and Speed:* Transportation and logistics services ensure that goods reach their destinations promptly and efficiently. This efficiency is vital for perishable goods, such as fruits and vegetables, and industries with just-in-time manufacturing processes.
- iii) *Global Connectivity:* Communication and information services bridge the geographical gap between buyers and sellers, enabling them to interact and transact regardless of physical location. This global connectivity expands market reach and opportunities for businesses.
- iv) *Legal Compliance:* International trade involves navigating complex regulations and legal requirements. Legal and regulatory support ensures that businesses remain compliant with international laws, avoiding legal disputes and barriers to trade.
- v) *Informed Decision-Making:* Market research and analysis provide valuable insights that guide businesses in making informed decisions. Understanding consumer behavior and market trends enables companies to tailor their products and strategies accordingly.

- vi) **Sustainable Growth:** Advertising and marketing services contribute to brand building and consumer awareness. This, in turn, drives demand for products and services, fostering sustainable business growth.

Examples of Auxiliaries to Trade

Example 1: The Role of Logistics and Transportation

Consider a multinational electronics company that manufactures smartphones in Asia and sells them in North America. The company relies on an intricate network of transportation and logistics providers to ensure timely delivery and minimize costs. Ships carry bulk shipments across oceans, while cargo planes expedite high-demand deliveries. Additionally, warehousing and distribution centres are strategically located to efficiently reach local markets. The company's success relies on the quality of its products and the seamless coordination of transportation services.

Example 2: International Trade Financing

A small artisanal coffee producer in South America receives an order from a European distributor. However, the producer faces cash flow challenges due to the time gap between shipping and payment receipt. In this scenario, a bank can provide trade financing by offering a letter of credit. This financial instrument ensures that the producer receives payment upon meeting the specified conditions, alleviating non-payment risk and enabling the producer to fulfill the order without financial strain.

Example 3: Market Research and Branding

A fashion retailer aiming to expand its presence in a new market leverages market research services to understand local preferences and trends. Armed with this knowledge, the retailer tailors its product offerings to suit the local taste, ensuring higher chances of success. Additionally, an advertising agency assists in creating a culturally relevant marketing campaign that resonates with the target audience, boosting brand visibility and engagement.

RECAPITULATION

- The term “business environment” refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments
- The key component of any firm is its environment. Suppliers, competitors, the media, the government, customers, market circumstances, investors, and numerous other entities operating on the outside all contribute to the business environment.
- Utilizing the beneficial resources needed for the firm requires careful examination of the business environment.
- Features influencing business environment are External influences, Overarching Factors, Specific Factors, The Interrelation of Factors, Uncertain Future, Constantly Changing, Highly Relative.
- Technology can have an impact on communications, billing, inventory control, and business operations in addition to sales. Businesses that use automation to replace manual operations will be more productive than those that use more conventional methods of operation.
- Political and legal factors influence how a business operates in that region and whether or not

it can continue functioning. Companies have to follow modern legislation policies, and those that do not will have to modify their processes in order to stay compliant.

- Businesses must assess the demographics of their target market to make sure they are marketing the appropriate items to them.
- Businesses can research their rivals, discover the newest market trends, and maintain an advantage.
- Social factors include current events, societies, and local communities. Businesses consider social movements and factors to make products more appealing to customers.
- The quality of items improves as client economic condition and global challenges are taken into account more. It also broadens the business's target demographics and makes it more approachable to wider people.
- Types of Business Environment is Internal and External Environment.
- An organization in business is defined by the forces that exist inside it. These include the managerial style, the level of machinery utilised, and the work environment.
- PESTLE is a phrase frequently used to describe elements in the external business environment. Political, economic, social, technological, legal, and environmental factors are all represented by this acronym.
- The term "micro environment" refers to the setting that might affect day-to-day business operations that is present within an organization. It has a connection to the tiny region where the business is located.
- DPIIT, in consultation with the State Governments, started a comprehensive reform exercise in States and UTs in December 2014.
- From the 14th rank for the period between 2018-22, India now stands at 10th rank in terms of business environment for the period 2023-27.
- A 213 point District Reforms Plan has also been prepared and shared with States and UTs for implementation of reforms by all the districts. It is spread across 8 areas: Starting a Business, Urban Local Body Services, Land Reform Enabler, Land Administration and Property Registration Enablers, Obtaining Approval for Construction, Paying Taxes, Miscellaneous and Grievance Redressal/ Paperless Courts and Law & Order.
- DPIIT is the Nodal Department for coordination with Ministries/Departments and States/UTs to reduce compliance burden on citizens and business activities.

SELF TEST QUESTIONS

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

Ques 1. What are the 5 common types of business environments?

Ques 2. Why is creating a business environment important?

Ques 3. What is the impact of a business environment on an organisation?

Ques 4. What are the top tools used for business environment analysis?

Ques 5. Identify the importance of understanding Business Environment in the following Case:

Maruti Udyog became the leader in the small car market because it was the first to recognize the need

for small cars in an environment of rising petrol prices and a large middle class population of India.

Ques 6. Mr. Ajay after completing MBA from USA comes to India to start a new business under the banner Ecom Creations Ltd. He launches a new product in an e-learning for senior Secondary School students in Commerce stream, which already has an established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also. Identify and quote the lines from above para which highlight the significance of understanding business environment.

Ques 7. The court passed an order that all schools must have water purifier for the school children as 1. Society in general is more concerned about quality of life. 2. Innovative techniques are being developed to manufacture water purifier at competitive rates. 3. Incomes are rising and children at home are also drinking purified water. The government is also showing positive attitude towards the water purifier business. Identify the different dimensions of business environment by quoting from the above details

Ques 8. Which component of business environment requires that advertisements of baby food must necessarily inform the potential buyers that mother's milk is the best? Discuss

Ques 9. Fill in the blanks in these below-mentioned statements.

- India adopted the policies of global integration after the economic crisis of ____.
- ____ is responsible for eradicating 'License Raj' from India.
- Multi-lateral trade agreements help in promoting ____.
- The elements of ____ are commonly referred to as LPG.

Answers:

- 1991
- Liberalization
- Globalization
- Global integration

Ques 10. Multiple Choice Questions

- _____ consists of economic conditions, economic policies, industrial policies, and economic systems.
 - Business Environment
 - Economic Environment
 - Natural Environment
 - None of the above

Ans. b)

- The External Environment of business is
 - Physical
 - Demographic

- Economic
- All of these

Ans. d)

3. In any market, ____ is king and they are the organizations most important micro economic factor.

- a. Customer
- b. Supplier
- c. Employee
- d. Competitor

Ans: A

4. Which of these is NOT A PART OF Business Environment?

- a. Finance
- b. Technology
- c. Government
- d. Planning
- e. Media

Ans: "D"

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LESSON 8

KEY GOVERNMENT INSTITUTIONS

KEY GOVERNMENT INSTITUTIONS

NITI AAYOG

Objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stakeholders.
- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

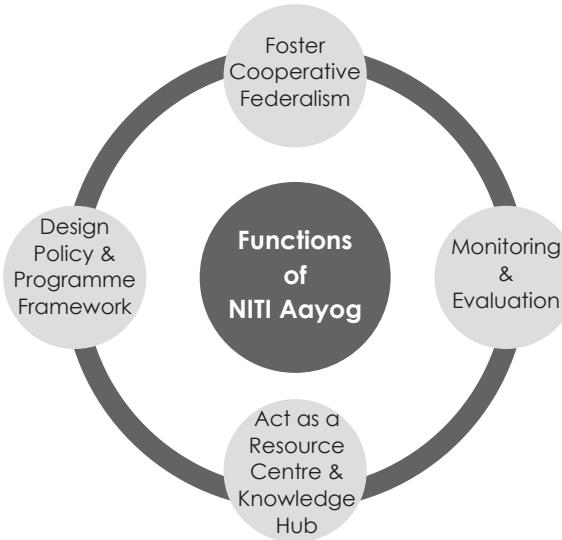
Features

NITI Aayog is developing itself as a State-of-the-art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide

strategic policy vision for the government, and deal with contingent issues.

NITI Aayog's entire gamut of activities can be divided into four main heads:

1. Design Policy & Programme Framework
2. Foster Cooperative Federalism
3. Monitoring & Evaluation
4. Think Tank and Knowledge & Innovation Hub



NITI Aaayog is based on the 7 pillars of effective governance – **(1) Pro-People (2) Pro-Activity (3) Participation (4) Empowering (5) Inclusion of all (6) Equality (7) Transparency.**

SDG (Sustainable Development Goal) Vertical

Vision and Mission

The SDG Vertical, in collaboration with Union Ministries and States/ UTs, is the nodal agency for coordinating and monitoring the Sustainable Development Goals. Through the approach of cooperative and competitive federalism, the Vertical works towards accelerated adoption, implementation, and monitoring of the SDG framework and related initiatives at the national and sub-national levels.

The Vertical works closely with key stakeholders—including the Government, civil society, private sector, academia, think tanks, research organisations, and multilateral organisations—to fast-track the achievement of SDGs in the country.

Core Functions

Progress Monitoring

Monitoring progress achieved under the SDG framework at the global, national, and sub-national levels is the core function of the Vertical. NITI Aayog prepares and presents India's Voluntary National Review (VNR) at the High-Level Political Forum (HLPF) on Sustainable Development at the United

Nations. For national and sub-national progress monitoring, the Vertical has developed the SDG India Index and Dashboard, the official and principal SDG progress monitoring tool of the country.

SDG Localisation

The States and UTs play a pivotal role in the achievement of SDG targets at the national level. The Vertical works closely with the State/UT Governments and supports them in a range of initiatives for SDG localisation – including the State and District Indicator Frameworks, review mechanisms, and capacity building.

Private Sector Engagement

The targets under the SDG framework are not meant to be achieved by Government action alone. It requires commitment and solid action by the private sector. The Vertical drives initiatives to improve the participation of the private sector in SDG efforts. Key collaborative outputs in this area include SDG Investor Map and private sector integration for SDGs.

SDG Costing and Financing

Estimating the cost to achieve the SDGs and developing and implementing the tools to attract SDG-related finance and investments are key requirements for the timely achievement of the ambitious targets under the SDG framework. The initiatives of the SDG Vertical in this area include SDG costing exercise for key SDGs and an online platform to facilitate SDG-linked investments.

Multidimensional Poverty Measurement and Reduction

The SDG framework specifically targets ending poverty in all its forms, thereby raising the stakes on accelerated multidimensional poverty reduction. The Vertical steers the development of India's national Multidimensional Poverty Index (MPI) and the reform action plan to reduce multidimensional poverty.

The different verticals of NITI provide the requisite coordination and support framework for NITI to carry out its mandate. The list of verticals is as below:

1. Administration
2. Agriculture and allied sectors
3. Data Management and Analysis, and Frontier Techniques
4. E-Mobility
5. Energy
6. Education
7. Economics and Finance Cell
8. Governance and Research
9. Governing Council Secretariat and Coordination
10. Health and Family Welfare
11. Industry-I
12. Industry-II

13. Infrastructure Connectivity
14. Managing Urbanisation
15. MSME
16. Natural Resources and Environment, and Island Development
17. NGO Darpan
18. Project Appraisal and Management Division
19. Public-Private Partnerships
20. Rural Development
21. Science and Technology
22. Social Development Division
23. Skill Development, Labour and Employment
24. State Finances and Coordination
25. Sustainable Development Goals
26. Tourism and Culture
27. Water and Land Resources
28. Women and Child Development

PROJECT SATH-E

Project SATH-E, 'Sustainable Action for Transforming Human Capital-Education', was launched in 2017 to identify and build three 'role model' States for the school education sector. After an elaborate selection process, Jharkhand, Odisha and Madhya Pradesh were chosen.

The first phase of SATH-E was completed in March 2020. Significant strides were made in learning enhancement programmes (remediation), governance reforms, teacher training, recruitment, assessment and accountability, school consolidation, IT-enabled monitoring of schools, coaching of academic coordinators (BRCs/CRCs), among others.

A few of the achievements are as follows:

1. Learning enhancement programme/remedial teaching with workbook support for approximately 2.3 crore students implemented.
2. Academic monitoring of schools and students streamlined, with nearly 1.5 lakh inspections carried out every month.
3. Comprehensive rewards and recognition programmes, including external certifications, initiated.
4. Assessment reforms, including spot testing and learning tracking formats, introduced.
5. Multiple rounds of teacher training undertaken.
6. In Madhya Pradesh, 30% of the students moved from lower-level foundational literacy, numeracy

learning cohorts to the highest learning level for grades 3–8 in two years of the 'Dakshta Unnayan' learning enhancement programme.

7. In Odisha, average improvement of 10–15% observed in learning outcomes due to the 'Ujjwal-Utthan' learning enhancement programme.
8. In Jharkhand, 12% improvement across most competencies was recorded through the 'GyanSetu' learning enhancement programme.
9. With the onset of the Covid-19 pandemic, SATH-E adapted itself as 'Digi-SATH' to provide undeterred support via digital mediums.
10. Under the Digi-SATH initiative, MP's 'Hamara Ghar Hamara Vidyalaya' and 'Digi-LEP' (or 'Digital Learning Enhancement Programme'), Odisha's 'Shiksha Sanjog' and 'Shiksha Sampark', and Jharkhand's 'Hamara Doordarshan Hamara Vidyalaya' have been providing online education and teacher training.

MINISTRY OF CORPORATE AFFAIRS

The Ministry is primarily concerned with the administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law. The Ministry is also responsible for administering the Competition Act, 2002 to prevent practices having an adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers through the commission set up under the Act. Besides, it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India (ICAI), Institute of Company Secretaries of India (ICSI) and the Institute of Cost Accountants of India (ICAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions concerned. The Ministry also has the responsibility of carrying out the functions of the Central Government relating to administration of Partnership Act, 1932, the Companies (Donations to National Funds) Act, 1951 and Societies Registration Act, 1980.

The affiliated offices of Ministry of Corporate Affairs are as under:

- (i) *Serious Fraud Investigation Office* : The Government in the backdrop of major failure of non-banking financial institutions, phenomenon of vanishing companies, plantation companies and the recent stock market scam had decided to set up Serious Fraud Investigation Office (SFIO), a multi-disciplinary organization to investigate corporate frauds. The Organization has been established and it has started functioning since 1st October, 2003.
- (ii) *Competition Commission of India* : The Competition Commission of India (CCI) was established under the Competition Act, 2002 for the administration, implementation and enforcement of the Act, and was duly constituted in March 2009. The following are the objectives of the Commission.
 1. To prevent practices having adverse effect on competition
 2. To promote and sustain competition in markets
 3. To protect the interests of consumers and
 4. To ensure freedom of trade.

Consequent upon a challenge to certain provisions of the Act and the observations of the Hon'ble Supreme Court, the Act was amended by the Competition (Amendment) Act, 2007. The Monopolies and Restrictive Trade Practices Act, 1969 [MRTP Act] repealed and is replaced by the Competition Act, 2002, with effect from 01st September, 2009 [Notification Dated 28th August, 2009].

- (iii) *Indian Institute Of Corporate Affairs* : IICA has been established by the Indian Ministry of Corporate Affairs for capacity building and training in various subjects and matters relevant to corporate regulation and governance such as corporate and competition law, accounting and auditing issues, compliance management, corporate governance, business sustainability through environmental sensitivity and social responsibility, e-Governance and enforcement etc.

One of the wings of IICA, the ICLS Academy, has the responsibility for conducting the Induction & Advanced Training for Probationary Officers (POs) belonging to the Indian Corporate Law Service recruited through the Common Exam of Civil Services Examination conducted by UPSC.

The Institute has been designed with an eye on the future to provide a platform for dialogue, interaction and partnership between governments, corporate, investors, civil society, professionals, academicians and other stakeholders in the emerging 21st century.

For Data & Reports of the Ministry of Corporate Affairs, please refer: <https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/annual-reports/companies-2013.html>

SECURITIES AND EXCHANGE BOARD OF INDIA

Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations. SEBI was founded on April 12, 1992, under the SEBI Act, 1992. Headquartered in Mumbai, India, SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmadabad along with other local regional offices across prominent cities in India.

The objective of SEBI is to ensure that the Indian capital market works in a systematic manner and provide investors with a transparent environment for their investment. To put it simply, the primary reason for setting up SEBI was to prevent malpractices in the capital market of India and promote the development of the capital markets.

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as:

"...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto."

Functions of SEBI

SEBI has the following functions

1. Protective Function
2. Regulatory Function
3. Development Function

The aforesaid functions of SEBI are discussed briefly as under:

Protective Function : The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants. The protective function includes the following activities.

- a. *Prohibits insider trading* : Insider trading is the act of buying or selling of the securities by the insiders of a company, which includes the directors, employees and promoters. To prevent such trading SEBI has barred the companies to purchase their own shares from the secondary market.
- b. *Check price rigging* : Price rigging is the act of causing unnatural fluctuations in the price of securities by either increasing or decreasing the market price of the stocks that leads to unexpected losses for the investors. SEBI maintains strict watch in order to prevent such malpractices.
- c. *Promoting fair practices* : SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.
- d. *Financial education provider* : SEBI educates the investors by conducting online and offline sessions that provide information related to market insights and also on money management.

Regulatory Function : Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

- a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.
- b. Regulating the process of taking over of a company.
- c. Conducting inquiries and audit of stock exchanges.
- d. Regulates the working of stock brokers, merchant brokers.

Developmental Function : Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.
2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.
3. By making the underwriting an optional system in order to reduce cost of issue.

For Annual Reports and Statistics of SEBI, please refer: <https://www.sebi.gov.in/reports-and-statistics.html>

Powers of SEBI

Securities and Exchange Board of India has the following three powers:

Quasi-Judicial : With this authority, SEBI can conduct hearings and pass ruling judgements in cases of unethical and fraudulent trade practices. This ensures transparency, fairness, accountability and reliability in the capital market. SEBI PACL case is an example of this power.

Quasi-Legislative : Powers under this segment allow SEBI to draft rules and regulations for the protection

of the interests of the investor. One such regulation is SEBI LODR (Listing Obligation and Disclosure Requirements). It aims at consolidating and streamlining the provisions of existing listing agreements for several segments of the financial market like equity shares. This type of regulation formulated by SEBI aims to keep any malpractice and fraudulent trading activities at bay.

Quasi-Executive : SEBI is authorised to file a case against anyone who violates its rules and regulation. It is empowered to inspect account books and other documents as well if it finds traces of any suspicious activity.

RESERVE BANK OF INDIA (RBI)

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."

Main Functions of RBI

Monetary Authority

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability while keeping in mind the objective of growth.

Regulator and supervisor of the financial system

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

- Manages the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public an adequate quantity of supplies of currency notes and coins of good quality.

Developmental role

- Performs a wide range of promotional functions to support national objectives.

Regulator and Supervisor of Payment and Settlement Systems

- Introduces and upgrades safe and efficient modes of payment systems in the country to meet the requirements of the public at large.
- Objective: maintain public confidence in payment and settlement system

Related Functions

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.

Other Significant Facts

- Has 27 regional offices, most of them in state capitals and 04 Sub-offices.
- Deposit Insurance and Credit Guarantee Corporation of India (DICGC), Bharatiya Reserve Bank

Note : Mudran Private Limited (BRBNMPL), Reserve Bank Information Technology Private Limited (ReBIT), Indian Financial Technology and Allied Services (IFTAS) are fully owned subsidiaries of Reserve Bank of India.

- Has six training establishments- Three, namely, RBI Academy, College of Agricultural
- Banking and Reserve Bank of India Staff College are part of the Reserve Bank.

Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (IBBI)

The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates and amends the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

It is a unique regulator: regulates a profession as well as processes. It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities. It writes and enforces rules for processes, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. It has been tasked to promote the development of, and regulate, the working and practices of, insolvency professionals, insolvency professional agencies and information utilities and other institutions, in furtherance of the purposes of the Code. It has also been designated as the 'Authority' under the Companies (Registered Valuers and Valuation Rules), 2017 for regulation and development of the profession of valuers in the country.

NATIONAL COMPANY LAW TRIBUNAL (NCLT)

The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 (18 of 2013) w.e.f. 01st June 2016. In the first phase the Ministry of Corporate Affairs has set up eleven Benches, one Principal Bench at New Delhi and ten other Benches at New Delhi, Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai. These Benches are headed by the President Chief Justice (Retd.) Ramalingam Sudhakar and comprises of sixteen Judicial Members and nine Technical Members at different locations. Subsequently, more Benches at Cuttack, Jaipur, Kochi, Amravati, and Indore have been setup and new members have joined.

NATIONAL COMPANY LAW APPELLATE TRIBUNAL (NCLAT)

National Company Law Appellate Tribunal (NCLAT) was constituted under Section 410 of the Companies Act, 2013 for hearing appeals against the orders of National Company Law Tribunal(s) (NCLT), with effect from 1st June, 2016.

NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by NCLT(s) under Section 61 of the Insolvency and Bankruptcy Code, 2016 (IBC), with effect from 1st December, 2016. NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.

NCLAT is also the Appellate Tribunal to hear and dispose of appeals against any direction issued or decision made or order passed by the Competition Commission of India (CCI) – as per the amendment brought to Section 410 of the Companies Act, 2013 by Section 172 of the Finance Act, 2017, with effect from 26th May, 2017.

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