



III. Long Answer Type Questions

Question 1. What are services? Explain their distinct characteristics.

Answer: A service is an act or performance offered by one party to another. They are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing desired change. According to Sir William B, "Service refers to social efforts which includes the Govt. to fight five giant evils - wants, disease, ignorance, squalor and illness in the society".

Characteristics of Services

Service is an act or performance offered by one party to another. They are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing about a desired change in or on behalf of the recipient of the service. The term, service, is not limited to personal services like medical services, beauty parlors, legal services, etc. According to the marketing experts and management thinkers the concept of services is a wider one. The term services are defined in a number of ways but not a single one is universally accepted. The distinct characteristics of services are mentioned below:

1. **Intangibility:** Services are intangible. We cannot touch them, it is not a physical object. According to Carman and Uhl, a consumer feels that he has the right and opportunity to see, touch, hear, smell or taste the goods before they buy them. This is not applicable to services. The buyer does not have any opportunity to touch, smell, and taste the services. While selling or promoting a service one has to concentrate on the satisfaction and benefit a consumer can derive having spent on these services.
For example: Railways sells a train ticket from A destination to B destination. Here it is the matter of consumer's perception of services than smelling it or tasting it.
2. **Inventory:** Services too, are perishable like labour. Service has a high degree of perishability. Here the element of time assumes a significant position. There will be complete loss of labour. If labour stops working, it is a complete waste. It cannot be stored. Utilized or unutilized services are an economic waste. An unoccupied building, an unemployed person, credit unutilized, etc. are economic waste. Services have a high level of perishability.
3. **Inseparability:** Services are generally created or supplied simultaneously. They are inseparable. For example, the entertainment industry, health experts and other professionals create and offer their services at the same given time. Services and their providers are associated closely and thus, not separable. Donald Cowell states 'Goods are produced, sold and then consumed whereas the services are sold and then produced and consumed'. Therefore inseparability is an important characteristic of services which proves challenging to service management industry.
4. **Inconsistency:** This character of services makes it difficult to set a standard for any service. The quality of services cannot be standardized. The price paid for a service may either be too high or too low as is seen in the case of the entertainment

industry and sports. The same type of services cannot be sold to all the consumers even if they pay the same price. Consumers rate these services in different ways. This is due to the difference in perception of individuals at the level of providers and users. Heterogeneity "makes it difficult to establish standards for the output of service firm.

5. Involvement: In the sale of goods, after the completion of process, the goods are transferred in the name of the buyer and he becomes the owner of the goods. But in the case of services, we do not find this. The users have only an access to services. They cannot own the service.

For example: a consumer can use personal care services or medical services or can use a hotel room or swimming pool. However, the ownership remains with the providers.

According to Philip Kotler, "A service is an activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything" From this it is clear that the ownership is not affected in the process of selling the services.

Question 2. Explain the functions of commercial banks with an example of each.

Answer: The main functions of commercial banks are accepting deposits from the public and advancing them loans.

However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads:

1. Accepting deposits;
2. Giving loans;
3. Overdraft;
4. Discounting of Bills of Exchange;
5. Investment of Funds;
6. Agency Functions.

1. Accepting Deposits:

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes.

Generally, there are three types of deposits which are as follows:

- (i) Current Deposits:

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called Demand Deposits because these can be demanded or withdrawn by the depositors at any time they want. Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

- (ii) Fixed Deposits:

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits.

These deposits generally carry a higher rate of interest because banks can use these deposits for a definite time without having the fear of being withdrawn.

(iii) Saving Deposits:

In such deposits, money up to a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilise small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

2. Giving Loans:

The second important function of Commercial Banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by Commercial Banks. Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.

At times, banks give loan on the basis of personal security also. Therefore, such loans are called unsecured loan. Banks generally give following types of loans and advances:

(i) Cash Credit:

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(ii) Demand Loans:

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

(iii) Short-term Loan:

These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower.

3. Over-Draft:

Banks advance loans to its customer's up to a certain amount through over-drafts, if there are no deposits in the current account. For this, banks demand a security from the customers and charge very high rate of interest.

4. Discounting of Bills of Exchange:

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

5. Investment of Funds:

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national

savings certificate etc.

Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks, units of UTI, shares of Regional Rural banks etc.

6. Agency Functions:

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

- Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.
- Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.
- Banks pay insurance premium of their customers. Besides this, they also deposit loan installments, income tax, interest etc. as per directions.
- Banks purchase and sell securities, shares and debentures on behalf of their customers.
- Banks arrange to send money from one place to another for the convenience of their customers.

Question 3. Write a detailed note on various facilities offered by Indian Postal Department.

Answer: Indian Post and Telegraph Department provides various postal services all over India. India has been divided into 22 postal circles for this. There are 1,54,149 post offices in India. It has 5,64,701 letter boxes, which transmits 1575 crore mails every year. 5,01,716 villages have a public telephone and 26000 post offices are connected through the network. It links major 97 countries across the world. It provides speed post facility for over 1000 destinations in India.

Facilities of postal department are broadly divided into:

- Financial Facilities: Post and Telegraph Department provides financial services using post office's saving schemes like Public Provident Fund, Kisan Vikas Patra, National Saving Certificate, normal retail banking functions of monthly income schemes, recurring deposit account, savings account, time deposits and money order facility etc.
- Mail Facilities: It consists of parcel facilities which consists of transmission of articles from one place to another which can be registered and insured. It also provides facilities for greeting post, (a range of delightful greeting card on all occasions) and Media Post (a way for Indian corporate to advertise their brands through aerograms, telegrams and letterboxes).
- International Money Transfers: It enables money transfer from 185 countries in collaboration with Western Union Money Transfer.
- Passport Facilities: It has joint hands with Ministry of External Affairs and accepts application for passport.
- Speed Post: It has more than 1000 destination in India. It covers 97 major countries of the world.
- E-Bill Post: It is the latest addition in facilities by Indian Post whereby it collects bill payment across the counter for BSNL and Bharti Airtel.

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