**THE QUIDE MILLETH COLLEGE FOR MEN BUSINESS ENVIRONMENT**

**QUESTION BANK UNIT-I**

**SEC – A (2 MARKS)**

1. **Define Business Environment.**

“The total of all things external to firms and industries that surround and affect business”

# What is Work Force Diversity?

Workforce diversity refers to differences in the terms of its age, gender, minorities, education and productivity.

# Give the meaning for Masculinity.

It refers to the extent to which the dominant values in a culture are success, money and

things.

# What do you understand by Macro Environment?

It refers to the general environment within which a business firm and forces in its micro environment operate.

# What is Internal Environment?

Internal environment refers to all the factors existing within a business firm.

# Write short note on Micro Environment?

Micro Environment refers to those individuals, groups and agencies with which the organisations come into direct and frequent contact in the functioning.

# Describe the elements of a well-designed programme of managing diversity.

Elements of managing diversity are cultural diversity, individual diversity and workforce diversity.

# SEC – B 5 MARKS

1. **Explain the Nature of Business Environment.**
   1. **Aggregative –** Business Environment is the totality of all the external forces which influence the working and decision making of an enterprise.

# Relative

* It differs from country to country and even region to region.
* The nature of economic system in a country affects the environment of business.

# Inter – Relative

* Elements of business environment are closely inter-related and interdependent.
* A change in one element affects the other elements.

# Inter – Temporal

* It changes over time.
* In the short run business environment may remain static.
* But in the long run it does change.

# Uncertain

* It is very difficult to forecast the future environment.
* It changes very fast.

# Contextual

* It provides the macro frame work within which the business firm operates.
* Environmental force largely on individual enterprise and its management

# State the main components of economic environment.

* 1. **Buffering**
* Buffering techniques are used to soften the impact of environment on the organisation.
* Stocking materials, employee training, building inventory are the examples of buffering.
* These measures enable the organisation to avoid damage due to changes in environment.
  1. **Levelling** – Whereas buffering absorbs environmental fluctuations, leveling attempts to reduce fluctuations in the environment.

# Anticipation

* It means acquiring information about probable changes in the environment.
* Which organisations frequently anticipate changes are customer needs, competition, technology and availability of human resources.

# Rationing

* Allocating organisational resources according to a system of priorities.
* Rationing is resorted to when an organisation is unable to meet all the demand.

# Dominating

* Organisation attempts to control events in the environment and reduce its dependence on them.
* A firm can reduce dependence on one or more suppliers.
* An enterprise may collaborate with others and may also enter into contracts.

# Changing

* An organisation may change its operations and output.
* Changing is a more difficult strategy while taking action.

# Explain the importance of managing diversity.

* 1. **Lower Costs**
* Workers from difficult cultural backgrounds lead to higher costs.
* If multi-cultural issues are not managed well employees don not feel comfortable in the work environment.
* Effective management of diversity helps to reduce costs.

# Better Staffing

* Companies that successfully manage cultural diversity will have advantage over other companies in hiring people.
* Such companies become favoured employers for minorities.
  1. **Marketing Advantage** – Multi cultural gain an insight into market consists of minority.

# Creativity

* Groups of people diverse backgrounds can be more creative than groups.
* Shared beliefs and values around which people can express their differences.
  1. **Problem Solving** – Heterogenous groups can produce better decisions through a wide range of perspective.

# Flexibility

* Internal and External issues become possible.
* Environmental changes provides a competitive advantage.

# Discuss the significance of business environment.

* 1. **First Mover Advantage** – Awareness of environment helps an enterprise to take advantage of early opportunities instead of losing them to competitors.
  2. **Early Warning Signal** – It makes a firm aware of the threat so that the firm can take timely action to the effects.
  3. **Customer focus** – Environmental makes the management sensitive to the changing needs and expect of consumers.
  4. **Strategy Formulation** – Environmental monitoring provides relevant information about the business environment.

# Change Agent

* Business leaders act as agents of change.
* Leaders need to understand the aspirations of people and other environmental forces through environmental scanning.
  1. **Public Image** – A business firm can improve its image by showing that is sensitive to its environment.
  2. **Continuous Learning** – With the help of environmental learning managers can react in an appropriate manner and increase the success of their organisations.

# Discuss the impact of environment on business and strategic decisions.

* Economy influences on the nature and size of demand.
* The Economic environment exercises most significant influence on business.
* Social and Cultural forces on business.
* Political and legal environment provides the framework within which business has to function.
* A business firm depends upon its ability for meeting the challenges arising out of political and legal change.
* Political decisions have serious economic implications.
* Political environment determines the nature of governance.
* Technological, physical and natural environment also affect business.
* Political climate will supportive for a business.

# Can you explain the framework for managing diversity?

* 1. **Managing Cultural Diversity**
* This will help the company during labour shortage by providing an advantage in recruitment, retention and motivation of workers.
* Work teams can better deal with consumers and other groups.
* Firm must develop training programmes to help their employees become more sensitive among employees.

# Managing Individual Diversity

* Companies must learn to manage individual diversity.
* Within each culture each individual may be different in many ways.

# Managing Workforce Diversity

* Business enterprises become more global the challenges of diversity become complex.
* Success depends to a large extent on the ability to understand and manage workforce diversity.

# Discuss the internal factors which influence business decisions.

* 1. **Culture**
* The values, beliefs and attitudes of the founders and top management of the company exercise a strong influence on the company.
* than the micro forces.

# Political and Legal Environment

* It comprises the elements relating to government affairs.
* It serves as regulatory framework of business.
* The main components of a country are as follows political stability, foreign policy, defence policy and judicial system.

# Social and Cultural Environment

* It refers to the characteristics of the society in which a business firm exists.
* It consists of demographic forces, social institutions, caste structure, educational system, tastes and preferences.

# Economic and Financial Environment

* It comprises the nature and structure of the economy.
* Nature of economic system.
* Economic structure, policies, infrastructure and product markets.

# Technological and Physical Environment

* Rate of technological change.
* Production of goods and services.
* New equipments.
* Research and development.

# Natural Environment

* Climatic conditions.
* Ecological system.
* Levels of Pollution.

# Global Environment

* Developments in information and communication technologies facilitate across the countries.
* Certain developments such as hike in crude oil.

**UNIT – II**

**SEC – A ( 2 MARKS)**

* + - 1. **What does preamble to the constitution reflect?**

A preamble reflects the intention, views and objectives and objectives of the constitution makers as well as the basic values of the country.

# What is Federal System?

Federal system of the government is that system where the powers of the central government and state government are well defined.

# What is Fundamental Rights?

Indian constitution has guaranteed to all its citizens certain basic rights and freedoms. These rights are known as Fundamental Rights.

# What is Promotional Role?

The government has to assume direct responsibility to build-up and strengthen infrastructural facilities like power, transportation, communications, finance, training etc.

# What is directive principles of state policy?

It strive to promote the welfare of the people by securing and protecting as effective as it may a social order in justice, social, economic and political shall prevail in all institutions.

# What do you understand by Legal Environment?

Business can be started and operated within the framework of the legal system and every nation has its own framework for the promotion and regulation of business, all business managers and owners require the knowledge of legal environment for taking business decisions.

# What is the relationship of government with the business?

Government and business are the two most powerful institutions in society and together determine public policy both domestic and foreign for a country. The policies, practices and

regulations of the government influence to large extent the nature, growth and functioning of the business system.

# What is meant by “Separation of Powers”

Under the Indian constitution the functions of the government are based on tripar division of legislature, executive and judiciary.

# What is Laissez-Faire Policy?

Under the policy of laissez faire the functions of the state were limited to the maintenance of law and order within the country, protection from external aggression, protection from frauds and dishonesty in business, control over issue of money and control of property rights.

# What is Democracy?

Our government is run by representatives who are elected on the basis of adult franchise, each adult men and women elects a representative of their choice. The representative who form the government are elected after every 5 years.

**SEC – B ( 5 MARKS)**

1. **Explain in brief the basic characteristics of our constitution.**
   1. **Sovereignty**

* India is a sovereign republic.
* People of India run their own government through their elected representatives.
* Government of India is free to take its own decision.

# Democracy

* Each adult men and women elects a representative of their choice.
* The representatives who form the government are elected after every 5 years.

# Secularism

* State gives equal treatment to all religions.
* Complete freedom to its citizens to preach and practice their own religion.

# Socialism

* Establish a welfare state.
* Disparities create unrest in the country.

# The Parliamentary System

* Ministers in the central government are members of the parliament.
* These ministers and the prime minister are answerable to the parliament for their decisions.

# Seperation of Powers

* The functions of the government are based on tripartite decision of legislature, executive and judiciary.
* The constitution is the main organ.
* The constitution is supreme and all the authorities created by it function under the supreme law of the country.

# Explain in brief, the Fundamental Rights of a Citizen in India.

* 1. **Right to Equality** – The state is expected to ensure equality of opportunity to all citizens in the field of education, employment and profession.

# Right to Freedom

* Constitution guarantees the citizens.
* Freedom of speech, to assemble peaceful, reside and settle in the part of any country.

# Right against Exploitation

* Right prohibits in human beings.
* It is an offence to buy or sell men, women and children.
* Nobody can be asked to work against their wishes.

# Right to Freedom of Religion

* Every citizen in our country has to practice the religion of their choice.
* Freedom to preach their religion.

# Cultural and Educational Rights

* Every citizen in India has the right to preserve their language and culture.
* Citizens have the right to establish their educational institutions.

# Describe the Federal System of the Government in India.

* The federal system of the government is that system where the powers of the central government and the state government.
* In our country there are 25 states and 8 unions territories.
* There are separate governments at the centre and in the states.

# The Union List

* Power to make law on all matters in the union list under union government.
* Armed forces, Posts, Telegraph and External affairs are included in the union list.

# The State List

* States have power to make law in the state list.
* Centre cannot interfere on any matter included in the state list.
* Police, Jail, Education, Agriculture and Health included in the state list.

# The Concurrent List

* Both union and states can legislate on matters included in the concurrent list.
* In case of any conflict between the union and state laws so the union law shall prevail.

# Discuss the Rationale of State Intervention.

* 1. **Legal Framework**
* Market system require certain arrangements and exchanges.
* Legal structure has to be created by the state to protect.

# Imperfect Competition

* Market system lead to most efficient allocation and use of resources under perfect competition.
* In real life competition is not perfect.
* Government regulation becomes necessary.

# Externalities

* It means the costs are caused by business but borne by the society.
* Consumption and production of goods that market fails to provide them.

# Social Objectives

* Business guided by sales and profits.
* Market system may fail to bring high employment, price stability and economic growth.

# Egalitarian Society

* Market system leads to inequalities in the distribution of income and wealth.
* Government steps into reduce inequalities in the distribution of wealth and income in the country.

# Industrial Base

* Industrial development is not possible without infrastructure.
* State has to create industrial infrastructure for planned development of the country.

1. **Balanced Regional Development** – State also becomes necessary for the economic development of backward regions of the country.

# Self Reliance

* It ensure the foreign exchange technology etc.
* Defence requirements necessitate state intervention.

# “Government Business Relationship in India” Explain.

* Government and business are the most powerful institutions in society.
* The two together determine public policy in both domestic and foreign for a country.
* The policies, practices and regulations of the government influence on the function of business system.
* In a political stability businessmen to take greater risks.
* Ruling party determines the nature of the economic development.
* If the ruling party believes in socialism, government control and ownership of business will grow.
* Major economic policies of a nation such as industrial policy, fiscal policy, monetary policy and foreign trade.
* Several political decisions have strategic implications for business and industry.
* Changes in the nature and extent of government intervention in business matters lead to changes in the pattern of industrial growth.
* When public sector was in a dominant position and industrial license was applicable, scale of operations and the location of project were decided by the government.
* After liberalization in 1991 businessmen are free to take decisions.
* Business and Industry influence on the government policies and programmes.
* Sometimes political decisions occur for the growth of business and industry.
* Foreign exchange crisis necessitated economic liberalization in 1991 in our country.
* Government system required procedures to fight economic crisis.

# Explain in brief, Government and Regulatory Environment in India.

* Government ensure proper functioning of the economy.
* Formal rules and procedures together with informal rules which regulate and guide business activities.
* When government regulatory and legal environment is positive, business and industry will proper.
* If it is negative the business and industry will prosper.
* Some major laws affect business in India they are
  1. The Industries Act 1951 regulate industrial prices.
  2. Essential Commodities Act 1955 empowers the government to declare any commodity in the public interest.
  3. The Companies Act 1956 which regulates the promotion and management of the corporate sector in India.
  4. Pollution Control Law protect the environment against air, water and noise pollution to preserve ecological balance.
  5. Law specify standards for the product and packaging.
  6. Control on advertising of tobacco products.
  7. Consumer protection act to protect the rights of consumers.
  8. Laws regulating unfair trade and restrictive trade practices.
  9. Competition act regulate competition in the public interest.
  10. Labour law designed to protect and promote the interests of the working class.

# What are the functions of the state?

* 1. **The Basic Functions**
* This category consists of activities that are undertaken only by the state.
* It is the government responsibility to provide public goods.
* In some countries the state does not even provide these public goods.
* These functions are necessary to protect and to ensure the development of the country.

# Intermediate Functions

* These functions include management of externalities, regulation of monopolies, consumer protection.
* The government can work with civil society groups and markets.
  1. **Activist Functions** – State can participate in several sectors.
     1. **Rules and Regulation** – Government enforces rule of land through independent judiciary
     2. **Competitive Pressure** – Private sector to compete directly with public agencies.
     3. **Voice and Partnership** – Partnership between the government and international agencies can also be helpful in providing local and global public goods.

# SEC – C (10 MARKS)

* + - 1. **Explain the Directive Principles of State Policy in the Indian Constitution.**
         * The state shall promote the welfare of the people by protecting the social order in which social, economic and political shall prevail in all institutions.
         * The state shall minimize the inequalities in income and to eliminate inequalities in status.
         * The state shall secure in direct policy

1. Men and Women are equal.
2. Ownership and Control of material resources are distributed.
3. Economic system does not result in the wealth.
4. Men, Women and Children are not abused.
5. Equal pay for equal work for both men and women.
6. Children should give opportunities to develop healthy manner.
   * + - * Legal system promote justice, equal opportunity in a particular scheme.
         * The state shall take steps to organize village panchayats with powers and authority to enable them to function.
         * Economic capacity and development make effective provision for securing the right to work, to education and to public assistance.
         * State shall make humane conditions of work and maternity relief.
         * State shall secure suitable economic organisation to all workers, agricultural or industrial.
         * State shall take steps by securing workers in the management of undertakings, establishments or organisations engaged in any industry.
         * State shall promote with the education and economic interests of the weaker sections of the people.
         * State shall raise the level of nutrition and the standard living of its people and to improve the public health.
         * State shall organize agriculture and animal industry.
         * State shall improve and protect the environment.

# Discuss the economic roles of government

1. **Regulatory Role**

Government prescribes rules and regulations concern into business, conduct of the enterprise, and disposal of surplus.

* + - * + Determine the conditions under individuals would be allowed to enter business.
        + Regulating the conduct of business ventures.
        + Controlling business income.
        + Regulating the relationship between the segment of the economy.

# Promotional Role

* + - * + In under-developed country like India, infrastructure for industrial development is inadequate.
        + Government has to assure responsibility to build up infrastructural facilities like power,
        + a) development of infrastructure for industrial and commercial activities through power supply, transport facilities, financial resources and training institutions.
  1. Providing land at concessional price, concessional rate for the development of backward regions.
  2. Fiscal, monetary and other incentives, insurance risks etc for the development of the sectors.

# Planning Role

* + - * + Government has the responsibility of fulfilling the public.
        + Scarcity of economic resources is the main problem is to achieve the socio-economic objectives of social justice.
        + Government lay down the resources through planning.
        + Government of India set up the planning commission in 1950.
        + Basic goals of 5 year planning have been balanced regional development, employment development of agriculture and small scale industries etc.

# Entrepreneurial Role

* + - * + This type of role consists of government participation in business through public ownership and management of industrial undertakings.
        + Government has given rise to a strong public sector in developing countries like India.
        + Even in developed countries which is to commit free private enterprise defence production, public utilities, river valley projects, railways, airlines are often owned and controlled by government.
  1. **Define Culture.**

**UNIT – III**

**SEC – A ( 2 MARKS)**

“Culture of civilization is that complex whole which includes knowledge, belief, morals, law, custom, and other capabilities and habits acquired by a man as member of society”.

# What is Business?

Business is an integral part of society. The social systems influence the strategies and practices of business firms. Business activities in turn affect social attitudes, lifestyles, customs and values.

# What is Social Responsibility?

Social responsible enterprise considers both the economic and social implications of alternative courses of action before taking any decision.

# What is Social Audit?

Social audit may be defined as systematic assessment of the social impact of the activities of a business firm. It is a critical examination of the activities of a company in order to measure, evaluate and report their impact on the immediate social environment.

# What is Business Ethics?

It may be defined as a set of moral standards which people owning and managing business is expected to follow. These standards are meant to govern the conduct of business persons. Business ethics indicates what is right conduct in business matters.

# Define Corporate Governance.

“The system by which companies are directed and controlled”.

# Write short note on Cultural Heritage?

Cultural Heritage refers to the cultural background of a society. It is transmitted from one generation to another. It comprises not only infinite facts of culture but also involves the use of these faces by people.

# What is Linguistic Group?

It is a group of people who speak the same dialogue. Such linguist groups are important to business firms because a business firm can make products and services according to the preferences of a particular group.

# What is Social Attitudes?

Attitudes are a significant aspect that helps people to understand their social world. It reflect how we thing and perceive others and behave towards them.

# Define Social Objectives?

“The business that is coldly and solely motivated by the making og money seldom fares well in the long run as it neglects the very source of profits, the quality goods and services at reasonable prices produced through well paid labour”

# SEC – B ( 5 MARKS)

1. **Explain in brief cultural traits and their impact on business.**

A trait is a unit and this unit may be a physical object thing or a symbol of normative

behaviour.

# Masculine and Feminine Cultures

* A masculine culture appreciates aggressiveness whereas a feminine culture values interpersonal relationships.
* It is said to be more conductive to success in business.
* A society exhibits both masculine and feminine traits.
  1. **Individualistic vs Collectivistic** – Some cultures like that of USA are individual oriented while others like that of Japan and India are more community oriented.

# Monochronic vs Polychornic

* Developed countries have monochromic culture.
* In such culture, time is used in a sequential manner – one thing at time, in developing countries, culture is polychronic wherein time is used to accomplish diverse goals simultaneously.
  1. **Neutral vs Emotional** -Emotions are held in check whereas in emotional culture, emotions are expressed in an open and natural manner.

# Low Context vs High Context

* In a low context culture, focus is on tangible aspects of business transactions.
* But in high context culture intangible aspects such as personal relationships, religion and attitudes are given importance in addition to facts and figures.

# Discuss the reasons of growing concern for social responsibility.

* 1. **Consumerism**
* Growing consciousness among consumers about their rights, establishment of consumer groups and consumer protection laws have given rise to the consumer.
* Businessmen have been forced to care for the interests of consumer.
  1. **Trade Unionism** – Growing power of trade unions and labour laws have led business to be concerned with labour welfare.

# Public Opinion

* bfor the preservation of free enterprise.
* If business does not accept social responsibilities, it would be forced upon by the Government.

# Enlightened Self-Interest

* The spread of education has led businessmen to be concerned with the quality of life.
* Many of them recognize that business is a reflection of social objectives, values and agency for promoting them.

# Professionalization

* Ownership has become diffused in large companies.
* Managers have no stake in ownership tend to take a long-term and more responsible view of their role.
  1. **Trusteeship** – The trusteeship principle suggests that business managers should be caretakers of their property holding it in trust for the society as whole.

# Explain the Importance of Values in Business.

* 1. **Corporate Culture**
* Effective value system creates a strong corporate culture which is necessary for high performance and growth in business.
* Companies which have given excellent performance year after year follow high corporate values.

# Ends means Chain

* Values help to establish proper relationship between business goals and means.
* Its goals are socially justifiable.
* Business values are useful for determining socially goals which in turn determine sound business practices for attaining these goals.

# Guides to Action

* Business values serve as social guides to decisions and actions in business.
* Values are universal in nature and indicate to business men the right behaviour.

# Objective Standards

* Business values serve objective standards or norms against which the conduct of businessmen and their social obligations.
* Business firms follow ethical norms to fulfill their responsibilities to different sections of society.

# Social Responsibility

* Business has social obligations.
* Business values help to persuade businessmen to discharge their social obligations.
* Business firms to follow ethical norms to fulfill their responsibilities to different sections of society.

# Explain the Elements of Culture.

* 1. **Knowledge and Beliefs**
* People’s prevailing notions of reality are known as knowledge and beliefs.
* People who share a particular culture tend to be hostile towards those who do not share their share their belief’s.

# Ideals

* The society’s norms which define what is right or proper, customary or expected in a given situation are called ideals.
* These are enforced in an informal manner.
* More are obligations treated vital for the welfare of the society.
* Positive and Negative sanctions are used to enforce ideals.

# Preferences

* Society defines what are attractive or unattractive things in life as objects of desire.
* The culture of a country lays down the standards of tastes in food, clothing, housing etc.

# Explain the Sources of Ethical Standards.

* 1. **Social Attitudes**
* Society is becoming less independent as individuals become more oriented to groups.
* Groups establish norms which can have significant impact on individual behaviour.
* But these differ from group to group causing conflict and confusion concerning which standards which standards should be followed.

# Competitive Pressures

* Our economic system is built on fundamental concepts of efforts and competition.

The essence of these beliefs is that working hard and outperforming others in achieving goals will be rewarded with high levels of success.

* This philosophy tends to substitude unethical practices.

# Legal Environment

* The legislative environment is confusing and full of loopholes.
* Legal interpretations often make it difficult for managers to know exactly what course to take or what decisions to make.
* Even then law affects ethical behaviour.
* Many a time what is considered ethical is made law.

# Code of Ethics

* A code of ethics requires and prohibits specific practices.
* Code of conduct have been developed in medical, legal and accounting professions.
* No universal code of conduct to guide managers.
* Code of ethics is necessary and useful.
* It stated in operational terms and supported by organisations.
* It can be guide to socially responsible behaviour.

1. **Write short notes on i) Cultural Conformity, ii) Cultural Lag, iii) Castes and Communities**

**iv) Joint Family System and v) Religion and Religious Groups**

1. **Cultural Conformity**

* It means people in society tend to conform to the prevailing cultural norms.
* Every individual in the society has certain role.
* When a person conforms to the obligations of the role, there is cultural conformity.
* In order to fulfill one’s role obligations, a person has to internalize the knowledge and skills required for the fulfillment of the role.
* Special efforts are needed to change the attitudes of people in such a society.

# Cultural Lag

* Just as all participants in a race do not run at the same pace, some are fast and others lag behind.
* Since various parts of culture are interrelated and interdependent, a change in one part requires adjustments in other parts.
* Knowledge and understanding of cultural lag are important to business decision-making.
* Due to cultural lag, different markets may be at different levels of readiness to accept a new product or service.

# Castes and Communities

* Caste means a closed group consisting of people who specialize in a particular occupation and are severely restricted in terms of social participation.
* People belonging to higher castes were supposed to have better physical characteristics.
* Caste has traditionally been identified with class, hereditary, function and status, ethnic, group etc.
* As a consequence, caste structure and occupational pattern of people are changing.

# Joint Family System

* Joint Family System is a unique feature of Indian society.
* Undivided Family is a group of persons from a common ancestor, including their wives and unmarried daughters who are staying together jointly.

# Religion and Religious Groups

* Religion may be defined as any specifies system of belief involve rituals, a code of ethics and a philosophy of life.
* Religion also influences work habits and investment patterns.

**SECTION – C (10 MARKS)**

* 1. **Explain the Changing Concept of Business.**
     1. **Traditional Concept**
* Traditionally, business has been viewed as the commercial activities of an individual aimed at making profits.
* This is a narrow concept of business because it covers only the private sector of the economy and focuses only on profit motive.
* It is based on the assumption that the basic objective of business is profit maximization.
* Business consists of an enterprise formed to make profits.
* Business means industry and commerce for making money.

# Business System

* Business is considered a system composed of several subsystems which are interrelated and interdependent.
* It is a part of the economic system.
* As a subsystem of economic system, business draws inputs and transforms these inputs with the help of certain processes and sends the outputs to the economic systems.
* There is an exchange relationship between business system and economic system.
* Business enterprises do not aim at maximum profits but at reasonable profit.

# Modern Concept

* The traditional concept of business as profit seeking enterprise has undergone a change.
* Business is considered a social institution which performs a social function and which has a significant influence on the way people live and work together.
* Business is regarded as an organ of society to help attain the social goals.
* A business can profits only by serving the society.
* Business has such an extensive influence and involvement in the social system that it cannot isolate itself from the society.
* The activities and decisions are subject to social judgement.

# Values

* Business develops certain beliefs and values and which drive business activities.
* These values motivate the people involved in business and guide their decisions.
* Business beliefs and values stem from several sources such as mission of business.

# Viability

* In order to be viable social institution, business must shape the social environment are known to outsiders is called public visibility.
* It is different from public image which means what people think about the enterprise.

# Discuss the Fundamental Principles of Corporate Governance?

* + 1. **Transparency**
* It means accurate, adequate and timely disclosure of relevant information to the stakeholders.
* Without transparency, it is impossible to make any progress towards good governance.
* Business heads should realize that transparency also creates immense shareholder value.
* There is a need to move towards international standard in terms of disclosure of information by the corporate sector and through all this to develop a high level of public confidence in business.

# Accountability

* Corporate governance has to be a top down approach.
* In companies with good governance, accountability is not just bottom up but also follows the reverse order.
* Accountability also favours the objective of creating shareholder value.

# Merit-Based Management

* A strong board of directors is necessary to lead and support merit-based management.
* The board has to be an independent, strong where the motive should be decision-making through business prudence.
* Corporate governance ensures that long-term strategic objectives and plans are established and that the proper management structure is in place to achieve those objectives, while at the same time ensuring that the structure functions to maintain the company’s reputation and responsibility to its various stakeholders.
* Though corporate governance is much broader than corporate management an efficient and effective administration of corporate sector is essential for meeting the desired objectives.
  + 1. **Responsibility** – It means ensuring compliance with the laws and regulations that reflect society’s values, including a broad sensitivity to the objectives of the society in which corporations operate.
    2. **Fairness** – It is necessary to protect the rights of shareholders and to ensure the enforcement of contracts with the providers of resources.

**UNIT – IV**

**SEC –A ( 2 MARKS)**

1. **Define Economic System.**

“An economic system consists of those institutions which a given nation has chosen as the means through which their resources are utilized for the satisfaction of human wants”4

# Give the meaning for Capitalism?

Capitalism is an economic system in which private individuals own all the materials means of production and all economic activities are undertaken for purpose of profit.

# What is GDP (Gross Domestic Product)?

GDP means the gross value of all final goods and services produced in an economy during a year; it is a measure of total flow of goods and services produced by the economy annually.

# What is Deficit Financing?

Deficit financing is generally used to refer to the excess of public expenditure over public revenue, this is known as deficit financing.

# What is Monetary Policy?

It refers to the policy regarding money supply and bank credit in the country, it is formulated and announced by the central bank of the country and implemented thorough network of commercial banks.

# What is meant by Economic Policy?

Economic policy of a country are an important element of business environment and it define the role of the government in the economy and influence the nature and structure of the economy.

# Give the meaning for Per Capita Income?

Per capita income means the average annual income per person it is calculated by dividing the national income with total population.

# Why India is called a Mixed Economy?

Mixed Economy is an economic system which combines the features of both capitalism and socialism, public and private sector are allotted their roles in promoting the economic and social welfare of the community.

# What is Foreign Trade Policy?

Foreign Trade Policy refers to the policy concerning exports and imports, this policy has an important influence on a country’s foreign trade and balance of payments.

# What is Plan Investment?

The level of economic activity in the country, depends to a large extent to total investment during a plan or the amount of plan outlay.

# What is Economic Planning?

It may be defined as continuous process which involves decisions pertaining to alternative ways of utilizing the available resources for achieving particular goals during a specified time period in the future.

# Formulate GDP?

GDP at factor cost = GDP at market prices – Indirect Taxes +Subsidies

# Give the meaning for Foreign Trade?

Foreign trade as a percentage of national income is the measure of a country’s globalization, a high level of foreign trade indicates economic liberalization.

# What is Budget Deficit and Revenue Deficit?

**Budget** – This means the excess of total expenditure over total receipts is known as budget.

**Revenue –** The excess of revenue expenditure over revenue receipts is known as revenue.

# Write short notes on Money Supply and Foreign Exchange Reserves?

**Money Supply** – It is an economy determines liquidity in the market, interest rate structure, cost of capital to business and the rate of inflation.

**Foreign Exchange Reserves** – It indicates its ability to pay for imports, fresh loan in international market and stabilize the exchange rate.

# What is Exchange Rate?

It means the price of one unit of a currency in terms of the units of another currency. It is called as exchange rate.

# MRTP Act Explain.

The need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international markets, the interference of the government through MRTP act has to restricted.

# What is Public Expenditure?

Public expenditure both developmental and non-development is an important element of fiscal policy. Non-developmental expenditures like expenditure on health and education are equally important from developmental expenditures.

**SEC – B ( 5 MARKS)**

1. **What are the basic units of an economic system?**
   1. **Household**

* It means all the persons living together as one family.
* Every household has limited means but multiple needs.
* This gives rise to the problem of scare resources.

# Firm

* It is a unit of ownership, management and control.
* It is a business unit that owns and controls one is engaged in the production of some product.
* While household represents the demand side of the economy.
* The person who launches a firm is called entrepreneur.
* The entrepreneur takes decisions relating to the size of the firm, factors production to be employed, sales promotion etc.

# Industry

* A firm is a single unit of production whereas an industry comprised all the firms producing the same type of product.
* Example Maruti Udyog Car.

# Government

* Government consists of all public agencies, state bodies and other units which govern the country.
* There are 2 types of governments they are central and state governments.
* Each type of government maintains law and order provides public services.
* Government is empowered to create laws for regulating business.

# What are the characteristics of an economic system?

* 1. **National Entity**
* It always covers the entire country.
* More than one country may adopt the same type of economic system.

# Institutional

* Which a nation has devised and adopted for satisfying the needs of its people.
* Example price mechanism, firms, government and economic planning.

# Interdependence

* Different institutions of economic system do not work in isolation from one another.
* They are interdependent and interacting.
* Therefore proper balance and co-ordination between them is necessary for the functioning of the economic system.
  1. **Scarcity of Resources** - Every economic system has limited resources, at its disposal in comparison with the demand for these resources.
  2. **Need Satisfaction** – Economic system are undertaken for the satisfaction of human wants which are unlimited.

# Dynamic

* Economic is a static organization.
* These institutions are created, destroyed and modified as per needs of the people.
* Some economic systems change slowly while others change fast.

# Can you explain nature and scope of economic planning?

* 1. **Planning in a Capitalist Economy**
* Planning is more of an indicative type and it is democratic nature.
* State can issue guidelines and not directives.
* Planning has limited effect in the absence of policy instruments that overall industry growth targets are achieved.

# Planning in a Socialist Economy

* Policy objectives, growth strategies and detailed targets are laid down for different industries.
* Production units controlled largely by the state which are to follow the plan and to fulfill the targets.

# Planning in a Mixed Economy

* It is a more difficult task.
* Both direct and indirect controls have to be used.
* Planning has to be elementary.

# What are the objectives of economic planning in India?

* 1. **Increase in National Income**
* Increase production to the maximum possible to achieve higher level of national income and to remove poverty.
* Target income is to set rate of growth and target period which objective is to attain.

# Full Employment

* Providing employment to all job seekers.
* Transfer of people from low income jobs to high income jobs.
* Each plan provide a specific number of jobs to reduce unemployment.

# Reduction in Inequalities of Income and Wealth

* Equitable distribution of income and wealth in the country.
* Achieve by increasing the incomes of low income groups.
* Differences in the level of economic development of different regions are also to be reduced.
  1. **Social Justice** - Economic planning in India seeks to set up a socialist society which is based on equality and justice which is free from exploitation.
  2. **Other Objectives** – Removal of poverty, maximizing the use of resources, achieving price competitiveness and reducing the gap between demand and supply of commodities.

# Discuss Economic Planning India

* Each development plan has been for a period of 5years.
* The period of 5 years has chosen because under the constitution general elections leading to the formation of governments at the central and state are held after every 5 years.
* Finance Commissions are appointed every 5 years to make recommendations about the funds to the states.
* Therefore 5 year plans help in taking a view of financial status of the central and state.

# (a) Planning Commission

* It was set up in March 1950
* To make an assessment of the material, capital and human resources of the country.
* To investigate the resources which are considered insufficient for meeting the country’s requirement.
* Balance utilization of the resources.

# (b) National Development Council

* To prescribe guidelines for the formulation of the national plan.
* To consider the national plan and increase its strategy.
* To consider important questions about social and economic policy which affect the country’s development.
* Periodically review the working plan.

# What are the achievements of Economic Planning in India?

* 1. **Growth of National and Per Capita Incomes**
* Economic Planning in India has been to increase national and per capita income.
* There has been increase in both but not to the extent.
* Per capita income in real terms increased at lower rate due to rise in population.

# Growth in Employment

* Economic Planning in India has been to create employment opportunities for rising the labour force.
* Slow growth in agriculture and industry, and concentration of investment in the capital goods industries have been responsible for the failure to meet the needs of the rising labour force.

# Distributive Justice

* In industrial sector the economic power of the large business houses has been increasing.
* With regard to the problem of regional disparities some progress has been made in the development of backward regions, but remains to be done.

# Self –Reliance

* The ultimate goal of Indian economic planning is to make the country self-reliant.
* Our development expenditures come from foreign sources.
* Progress towards self-reliance can be attributed to misdirected investments in the private sector, and failure of public enterprises to generate the expected surplus.
* The central objective of self-reliance now in not self-sufficiency but international competitiveness.

# Progress in Agriculture

* Food grains production has increased nearly four times.
* Inspite of this progress targets os production in many crops could not be achieved.

# Industrial Progress

* Achievement in the industrial sector has been the diversification of industries and expansion of industrial capacity.
* The growth of capital goods production has been particularly impressive.
* Per capita availability and consumption of essential commodities has increased due to growth in agriculture and industry.

# SEC – C ( 10 MARKS)

1. **What are the basic features of capitalism and explain its merits and demerits.**

Capitalism economy is an economy system in which private individuals own all the material means of production and all economic activities are undertaken for purpose of profit.

# Features of Capitalism

* 1. **The Right to Private Property** - In the capitalist system, individuals are free to own, use and dispose of productive factors such as land, plant and machinery, capital etc.

# The Right of Inheritance

* This right allows the owner to transfer their transfer.
* The right of inheritance is also a legal right.
* It facilitates the transfer of capital from one generation to another.
  1. **Freedom of Enterprise** - The entrepreneur is free to produce any commodity and fix up its price, subject to he laws passed by the government in public interest.

# Freedom of Choice for Consumers

* People are free to spend their incomes.
* Every consumer is free to buy from any seller and consume any commodity in any quantity.
* The tastes and preferences of consumer’s direct production in a free market economy.
* This is known as the principle of consumer sovereignty.

# Profit Motive

* The entrepreneurs choose to produce those goods and services which will yield them greater profits.
* The profit motive induces people to work hard and put the factors production into their most productive use.

# Competition

* There are a large number of buyers and sellers.4
* Profit motive induces new firms to enter the market thereby increasing competition.

# Price Mechanism

* Producers are free to fix up prices of their products and consumers are free to offer prices at which they want to buy.
* Similarly the producers offer prices at which they want to employ the factors of production (land, labour, capital etc)

# Role of the Government

* Its main job is to maintain law and order, ensure the country’s security and enact laws necessary for welfare.
* There is no central planning to decide what to produce, how to produce and for whom to produce.

# Merits of Capitalism

1. **Incentive**

* The profit motive induces them to invest money even in those industries which involve great risks.
* Employees are motivated to work hard in order to make more profits.
* Employees work hard to earn higher wages.

# Efficient Utilisation of Resources

* The scare resources of the country are used most economically and with minimum waste.
* Every business firm wants to minimize costs.
* In order to minimize costs producers attempt to utilize factors of production.
* Firms which cannot make optimum use of resources have higher costs of production.

# Rapid Economic Growth

* It helps in rapid economic growth due to earn larger incomes in future due to the right of private property and inheritance.
* Rapid economic growth enables people to enjoy a high standard of living.

# Capital Formation

* People have the incentive to save money and invest it in order to earn larger incomes in future due to the right of private property and inheritance.
* It is a dynamic system and can be adapted to the changing environment.

# Flexibility and Adaptability

* Ability to change according to changing requirements.
* High rates of public savings and investment lead to a higher rate of capital formation in the country.

# Innovation

* Entrepreneur introduces new innovations to increase profits.
* These innovations generally lead to improvement in the techniques of production.
* As a result the costs of production decline and goods become cheaper.

# Demerits of Capitalism

1. **Concentration of Economic Power**

* Right to private property and the law of inheritance result in the concentration of wealth.
* The concentration of wealth and property of a few persons lead to extreme inequalities in the incomes of the people.
* Depression causes widespread unemployment and human suffering.
* Market mechanism results in business cycles because savings and investment are not coordinated as these are determined by two different classes of people.

1. **Lack of Maximum Social Satisfaction at Minimum Social Cost** – Producers or Manufacturers are giving importance to those people who has ability to pay.
2. **Social Waste** – They produce those goods which rich people can afford to buy rather than those which poor people actually need.

# Rise Of Monopoly

* Big business and giant corporations dominate the country’s economy in a capitalist system.
* They weaken the forces of competition and reduce consumer sovereignty.

1. **Social Discrimination** – Capitalism leads to the division of the society into two classes they are rich and poor.

* The rich exploit the poor.
* Thus capitalism may benefit a few at the cost of many.

1. **Loss of Human Values** – Capitalism promotes materialistic attitudes in the people.

# Give a brief overview of First Five Year Plans in India. The First Five Year Plan (1951-56)

* There were three major problems before India in 1951-influx of refugees, severe food shortage and mounting inflation.
* The immediate objectives of the First Five Year Plan were rehabilitation of refugees, rapid agricultural growth and control of inflation.
* The production targets particularly in the agricultural sector were more than fulfilled though largely due to favourable climate.

# The Second Five Year Plan (1956-61)

* The Government of India announced its industrial policy in 1956 which aimed at a socialist economy.
* The Second Plan aimed at rapid industrialization with particular.
* Development of basic and heavy industries such as iron and steel, heavy engineering, heavy chemicals, etc.

# The Third Five Year Plan (1961-66)

* The Third Plan aimed at the establishment of a self-reliant and self - generating economy.
* High priority assigned both to agricultural growth and development of heavy industries.

# The Fourth Five Year Plan (1969–74)

* The twin objectives of “growth with stability” and “progressive achievement of self-reliance”.
* It was hit by monsoon failure, power shortage, inflation, industrial unrest.

# The Fifth Five Year Plan (1974–79)

* The Fifth Plan was launched during a period of economic crisis.
* Removal of poverty and self-reliance were the main objectives.

# The Sixth Five Plan

* There were two Sixth Plans.
* The Janata Party Sixth Plan (1978-83) focused on enlargement of employment potential in agriculture and allied activities, encouragement to household and small industries producing consumer goods for mass consumption and raising the incomes of the poor classes through a minimum needs programme.
* The Congress Party Sixth Plan (1980-85) aimed at a direct attack on the problem of poverty by creating conditions of an expanding economy.

# The Seventh Five Year Plan (1985-90)

* The Seventh Plan aimed at accelerating the growth in food grains production, increasing employment opportunities and raising productivity.
* The Seventh Plan was great success and the Indian economy recorded 6 per cent growth.

# The Eighth Five Year Plan (1992-97)

* The Eighth Plan had to be postponed the two years due to a series of changes in the Central Government.
* The Eighth Plan was approved at a time when there was a severe economic crisis due to balance of payments crisis, rising debt burden, galloping budget deficit, mounting inflation and industrial recession.

# The Ninth Five Year Plan (1997-2002)

* The Ninth Plan was developed in the context of four important dimensions of state policy-quality of life, generation of productive employment, regional balance and self-reliance.
* The focus of the Ninth Plan was on “Growth with social justice and equality”.

# The Tenth Five Year Plan (2002-07)

* The Plan was launched in the background which has both positive and negative features.
* On the positive side, GDP growth rate in post reforms period has improved against in the pre- reforms period making India one of the fast growing developing countries.

# The Eleventh Five Year Plan (2007-12)

Major features of the Eleventh Plan are as follows

* Agricultural growth and urgent need for a second green revolution to achieve growth target.
* Rectification of infrastructure constraints on a basis to make domestic industry competitive.
* Reduction of poverty ratio.
* Reduction of regional disparities.
* Provision of essential services.
* Rehabilitation of those displaced by development projects.

# Explain the impact of Gross Domestic Product (GDP) on business.

GDP means the gross value of all final goods and services produced in an economy during a year. It is a measure of the total flow of goods and services produced by the economy annually. It is estimated by multiplying the quantity of goods and services produced by market price per unit. While computing gross domestic product, all intermediate goods are excluded and the goods used for final consumption and investment goods are included. Domestic means incomes arising from

investments and possession owned abroad are not included. This measure is often called Gross Domestic Product at market prices because adjustment is made for indirect taxes, subsidies. Therefore GDP is not equal to value of income paid to factors of production.

**Gross Domestic Product at Factor Cost:** This measure is equal to total incomes paid to factors of production.

**GDP at Factor Cost = GDP at market prices – Indirect Taxes + Subsidies**

**Gross National Product (GNP):** When all indirect taxes and subsidies are excluded from GNP at market prices, it will get GNP at factor cost which is a measure of national output.

**GNP = GDP + income accruing to domestic**

**- Income earned in the domestic**

**residents arising from investment abroad**

**market accruing to foreigners abroad**

**Net National Product (NNP):** NNP at market prices included indirect taxes and subsidies. National Income can be computed by removing indirect taxed and subsidies from NNP.

When national income is estimated on the basis of prevailing prices it is known as national income at current prices. If it is calculated on the basis of prices prevailing at a particular point of time it is called national income at constant prices.

National Income at current prices does not provide a current picture about the growth of the economy due to changes in price level. National Income at constant prices are comparable.

**NDP = Depreciation – GDP**

**NNP at market prices is the money value of final goods & services**

**-**

**Depreciation at prevailing prices**

# Impact on Business

* The level and growth of GDP and per capita income have significant implications for business.
* These parameters influence the nature and size of demand and government policies pertaining to business.
* Low per capita income means low purchasing power and low demand for a product or service.
* A business firm cannot increase the purchasing power of people to increase demand for its products.
* Price can be reduced by reducing the cost of production.
* The firm can develop a new product which low income groups can afford to buy.
* Low per capita incomes in developing countries require modifications in products & services.
* In order to reduce production costs several multinational corporations have set up manufacturing facilities in India and other Asian countries where the cost of labour is low.
* Indian economy is characterized by low rate of capital formation, high inequality in the distribution of income and wealth and high degree of unemployment.

# Describe the features, merits and demerits of socialism.

Socialism is an economic organisation of society in which material means of production are owned by the whole community and operated by organs representative of and responsible to the community according to a general economic plan, all members of community being entitled to benefit from the results of such socialized production on the basis of equal right.

# Features of Socialism

* 1. **State Ownership of Means of Production**
* Production are owned by the Government.
* Private ownership is nominal and the State exercises control over all the means of production.

# Central Economic Planning

* The Central Planning Authority takes all the strategic decisions concerning the economy.
* The Authority prepares Five-year Plans which are implemented by various agencies and organs of the Government.

# Social Welfare

* Socialist economic system works for the benefit of the whole society.
* For the benefit of individuals.

# Equality of Opportunity

* Education and training facilities are made available to all.
* The State provides health care and educational facilities to those who cannot afford themselves.
  1. **Classless Society** – There are no classes of capitalists and labour due to the absence of the institution of private property.

# Absence of Competition

* The State owns all the major means of production, there is no competition between the different productions units.
* These units are made to supplement each other.

# Merits of Socialism

1. **Social Justice**

* Under socialism, there is a just and equitable distribution of national income.
* Inequalities of income are reduced to the minimum.

# Economic Stability

* The Central Planning Authority decides the allocation of resources keeping in view the basic needs and preferences of people.
* Resources are directed towards the production of goods which the society requires rather than those which will yield greater profits.

# Higher Economic Growth

* A planned economy works in a systematic and coordinated manner.
* Economies of scale are available due to concentration of production in a few large units.
* Superior techniques of production are made available to all producing units.

1. **Absence of Class Struggle** – Exploitation of one section of society by another section is also avoided.

# Demerits of Socialism

1. **Concentration of Economic Power in the State**

* Both economic and political power is concentrated in the hands of the Government.
* Endangers the economic freedom and democratic rights of people.

# Lack of Incentive and Intiative

* People do not have incentives for hard work, enterprise and efficiency.
* All people become workers and get wage or salary from the Government which owns the means of production.

# Loss of Occupational Freedom

* People do not enjoy the full freedom to choose occupation and employment.
* The Central Planning Authority decides the choice of occupation and employment.

# Loss of Consumer Sovereignty

* Consumers have limited choice due to less variety of goods.
* The freedom of consumers is fixed to a quantity of goods.

1. **Inefficiency and Low Productivity** – Costs of administration are high because a large number of officials are employed to prepare detailed plans and implement them.
2. **Corruption** – People have often to pay bribe to get work done from public officials and Government servants who wield considerable power over public.

# What is meant by deficit financing? Explain its purpose and evil.

Deficit Financing is generally used to refer to the excess of public expenditure over public revenue. The deficit incurred in the government budget may be met through public borrowing issue of new currency. The following concepts of deficit financing are used in the Government of India

* 1. **Revenue Deficit** – The excess of revenue expenditure over revenue receipts is known as revenue deficit.
  2. **Budget Deficit** – This means the excess of total expenditure over total receipts.

# Fiscal Deficit

* This refers to budget deficit plus, market borrowings and other liabilities of the Government.
* It shows the gap between Government expenditure and Government receipts.
* It reflects the total borrowings by the Government from all sources while deficit reflects Government borrowings from the Reserve Bank
  1. **Primary Deficit** – This represents fiscal deficit minus amount of interest paid by the Government.

# Purpose and Role of Deficit Financing

1. **Finances Development**

* A developing country requires capital and technology to undertake development projects.
* There is a limited scope for public borrowing due to limited incomes and savings by the public.
* The Government may resort to deficit financing.

# Bridges Budgetary Deficit

* Increase in the non-plan expenditure has been problem in India.
* Deficit finance helps the Government to make good the budget caused by revenue deficit.

# Stimulate Economy

* Increase in money supply will push up demand and lead to expansion of economic activity through the multiplier supply.
* Deficit financing will help to mobilise the idle resources.

# Evils of Deficit Financing

1. **Inflation**

* Deficit financing increases money supply in the economy.
* This may lead to increase in the price level.
* If the supply does not expand to meet the increase in demand.
* Even when the supply of goods and services increases there is a time lag between investment and output.
* The time lag greater may be the increases in price.

# High Cost Economy

* Increase in the price level leads to higher costs of production and the economy becomes uncompetitive.
* Inflation in a country reduces exports and increases imports thereby putting pressure on the balance of payments.

# Inequalities in Income Distribution

* Inflation causes greater harm to common man and fixed income groups than to the rich.
* There is unequal distribution of income in the society.

# Generates Employment

* Deficit financing may increase purchasing power and demand in the economy.
* This will in turn lead to increase in production and employment.

# Wasteful Expenditure

* Deficit financing encourages wasteful or unproductive expenditure on the part of the Government.
* Increase in non-plan expenditure has become a major cause of fiscal deficit in India.

# Burden of Debt

* The burden of public debt on the country increases due to system of deficit financing.
* The Government has to pay huge amount of interest on such debt which further adds to the fiscal deficit.

# Explain the importance of Fiscal Policy in India.

Fiscal Policy refers to a policy under which the government uses its expenditure and revenue programmes during a year to produce favourable distributional effects and avoid undesirable effect on national income, production and employment. The major objectives of fiscal policy in a developing economy are:

# Economic Growth

* It refers to the rate increase in real income.
* The fiscal policy helps in achieving this objectives by mobilizing resources for development.
* Through various fiscal tools it helps application of saving and investment into channels of development.

# Equitable Distribution of Weath and Income

* An important objective of fiscal policy is to achieve income transference from rich to poor.
* Highly progressive direct taxes on people in high income brackets.

# Full Employment

* The goal of full employment in the case of a developing country is achieved by accelerating the process of growth with employment.
* Advanced countries is achieved by designing a fiscal policy which reduces economic fluctuations over the period of an economic cycle.
* Policy of full employment would require a heavy public expenditure.

# Exchange Stability

* Fiscal policy can also help in maintaining the rates of exchange at an even level.
* Fiscal policy helps in maintaining the value of currency in the foreign exchange market.
* Exchange control measures are also used in a big way both by the advanced and the developing countries of the world to ensure foreign exchange.

# Balanced Regional Development

* Economic policy of all the countries tries to achieve a balanced regional development of economic policy.
* Fiscal measures are provided for balanced regional development.
* Financial assistance to units set-up in these regions is also provided on a basis and also at concessional rates.
* Such facilities are also extended to the existing industries.

The various elements of fiscal policy used for accomplishment objectives are

# Taxation

* The taxes may be both in the form of direct and indirect.
* To achieve the basic policy of equitable distribution of incborrome and wealth it is ensured to maintain progressive character of direct taxation and to exempt essentials of life from direct taxes.
* To achieve high rate of saving and investment and discourage consumption of certain items tax policy.

# Public Expenditure

* Public Expenditure both development and non-developmental is an important element of fiscal policy.
* Non-developmental expenditures like expenditure on health, education, etc are equally important from a long term point of view as developmental expenditure.
  + 1. **Public Debt** - For mobilization of resources considerable reliance has been placed on public debt and various deposits so as to meet capital expenditure by capital receipts.

# Deficit Financing

* Deficit financing is treated to mean excess government expenditure over revenues from tax and borrowings.
* Deficit financing is resorted to because of the limitations of resources mobilization through other sources.

# Discuss the impact of Urbanisation.

Urbanisation means the proportion of a nation’s population living in urban areas. It is different from urban growth which refers to increase in total urban population. It occurs when the urban population increases at a rate higher than that of the increase in total population.

The impact of urbanisation on economic development can be judged on three criteria:

1. Increase in per capita income
2. Reduction in the rate and magnitude of unemployment.
3. Decline in population below the poverty line.

# Urbanisation and Economic Growth

Urbanisation has both positive and negative effects on economic development.

# Positive Effects

* Urbanisation facilitates economic growth through economies of scale resulting from concentration of production.
* Economies of scale help to reduce the costs of production.
* Urbanisation leads to specialization, innovation and inventions, advanced technology, transportation and communication.
* Planned urbanisation helps in rural development because cities and towns play a significant role in supplying required inputs and consumer items to the rural areas and in marketing the output of the rural economy.

# Negative Effects

* Urbanisation leads to overloading in cities and considerable pressure on civic amenities.
* The Government has to spend huge resources on power, water, transport, public health, community facilities and social services.

# Impact on Business

* Urbanisation causes several economic, social and other changes.
* It activates the dormant forces of growth, refines attitudes and beliefs, breaks barriers to economic and social growth, and also leads ti several social problems.
* These socio-economic changes caused by urbanisation have the following important implications of business.

1. Urbanisation increases with the socio-economic development of the country.
2. Urban areas are the biggest markets for consumer durables and expensive products also because of modern life styles in these areas.
3. Social and cultural changes are targeted largely in metropolitan cities.
4. People residing in urban areas tend to imitate more the consumption pattern and life styles of the rich and foreign countries.
5. Such demonstration effect creates demand for new life style products.
6. Incomes and education levels in small towns and rural areas are increasing.

# Describe the features, merits, demerits of mixed economy?

Mixed Economy is an economic system which combines the features of capitalism and socialism. Public sector and private sector are allotted respective roles in promoting the economic and social welfare of the community.

# Features of Mixed Economy

* 1. **Co-Existence of Public and Private Sectors**
* In a mixed economy both public and private sector are allowed to co-exist.
* The private sector is expected to undertake enterprises on the basis of the growth climate created by the public sector.
* The public sector is to supplement and not substitude the private sector.
  1. **Classification of Industries -** Industries of strategic importance are reserved for the public sector.
  2. **Economic Planning** - The Planning Commission lays down the socio-economic objectives, sets the physical targets, specifies the sources and instruments for mobilizing necessary funds.
  3. **Price Mechanism** – The market mechanism is used to help in the formulation and implementation of the National Plan.

# Profit Motive-cum-Social Welfare

* The private sector operates primarily with a profit motive.
* The public sector seeks to achieve social welfare.
* Prices and profits are regulated in the interest of the society.

# Merits of Mixed Economy

1. **Individual Freedom**

* Mixed economy provides adequate freedom to individuals.
* Private individuals are free to choose their occupation and employment.

1. **Rapid Economic Growth** – Combined efforts of public and private sectors are expected to ensure rapid economic development of the country.
2. **Social Welfare** – Regulation and controls are exercised to check monopolies and concentration of economic power in a few hands.

# Demerits of Mixed Economy

1. **Economic Instability** – Violent fluctuations occur in the level of economic activity.
2. **Lack of Freedom** – Producers, workers and consumers all get freedom of choice but subject to some constraints.
3. **Inefficiency** – Public sector enterprises do not operate efficiently due to red tapism.
4. **Lack of Coordination** – The public sector and the private sector do not always work in a complementary manner.

**UNIT - V**

**SEC – A ( 2 MARKS)**

1. **What is Financial System?**

The financial system of a country means a set of financial arrangements by which the savings in the economy are mobilized for investment in productive assets. These institutional arrangements consist of all financial markets, financial institutions, financial instruments and financial services which facilitate transfer of funds.

# What is a Stock Exchange?

A stock exchange is an association of persons engaged in buying and selling securities. It is a market where dealings in the listed securities are made by the members of the exchange on their own behalf and on behalf of others.

# Give the meaning for Commercial Bank.

A bank is an institution which deals in money and credit. It accepts deposits from the public, lends money to those who need, helps in the remittance of money from one place to another and performs other auxiliary functions.

# Define the term “Central Bank”.

“An institution which is charged with the responsibility of managing the expansion and contraction of volume of money in the interest of general public welfare”

# What is meant by Leasing?

A contract of lease may be defined as contract whereby the owner of an asset grants to another party the exclusive right to use the asset usually for an agreed period of time in return for the payment of rent. On the expiry of the lease the lessor takes possession of the asset.

# Define Development Banks.

“A multipurpose institution which shares entrepreneurial risk, changes its approach in tune with the industrial climate and encourages new industrial projects to bring about speedier economic growth”

# What are Mutual Funds?

A mutual fund raises funds from the investors by offering various types of unit schemes and invests the mobilized funds in eligible instruments and securities.

# Write short notes on (i) Venture Capital and (ii) Factoring

* 1. **Venture Capital** – These funds provide them the equity capital for their projects.
  2. **Factoring** – It is a continuing financial arrangement under which a financial institution undertakes the credit and collection functions for its client, purchases his receivables as they arise, maintains the sales ledger and attends to other ancillary functions concerning such accounts receivables.

# Give the meaning for Hedge Funds.

Hedge funds are investment pools which use an hedging techniques to reduce portfolio. The economic function of a hedge fund is the same as the function of mutual fund. In both the cases the fund managers are entrusted with money from investors with initial investment and a healthy return.

# What is meant by “Bankers Bank”?

The RBI keeps the cash reserves of all the scheduled banks and is known as the Reserve Bank. The scheduled banks can borrow in times of need from RBI. The RBI acts not only as the banker’s bank but also the lender of the last resort y providing rediscount facilities to scheduled w

# What is meant by “Tarawaniwalla”?

A tarawaniwalla is a dealer in securities who carries on business in his own name and on his own behalf just like a jobber.

# What is the meaning of Security?

A Security is a financial instrument that represents an ownership position in a publicly traded corporation a creditor relationship with governmental rights to ownership as options.

# What is Cash Reserve Ratio?

CRR refers to that portion of total deposits of a commercial bank which it has to keep with the RBI in the form of cash reserves. By raising the CRR, the RBI reduces the amount of loanable funds with commercial banks.

# What is Investment Trust?

Investment trusts are investment institutions which the savings of investors and invest them in a portfolio consisting of shares, debentures and other securities. Investment companies invest in a combination of fixed income and variable income securities.

# What is Non-Banking Finance Companies?

NBFC raise deposits from the public by offering attracting rates of interest and other incentives. They advance loans to small scale industries, traders and self-employed persons.

# Write short notes on (i) Exchange Traded Funds (ii) Private Equity

* 1. **Exchange Traded Funds** - It allow long term investors to diversify their portfolio at one shot at low cost and insulate them from short-term trading activity due to the unique process.
  2. **Private Equity** – Globally recognised as separate asset class, attracting a huge funds from investors like pension and insurance companies, trusts and organisations are looking for investment avenues.

# SECTION – B (2 MARKS)

* + 1. **Explain the role of RBI in economic development. a) Development of Banking System**
       - An integrated commercial banking structure has been developed under the supervision and control of the RBI.
       - Regulation and control by the RBI creates public confidence in the banking system.

1. **Development of Financial Institutions** – Establishment of specialized institutions for agriculture, industry, small scale sector and foreign trade.
2. **Development of Backward Area** – The RBI has encouraged banks to set up branches in backward regions so that financial facilities could be made available to people in these areas and priority sectors.

# Economic Stability

* + - * The RBI has used its monetary and credit policy to regulate pressures in the economy.
      * The bank has controlled the volume of credit for this purpose.

1. **Economic Growth** – The RBI ensures adequate money supply for meeting the growing needs of different sectors of the economy.

# Miscellaneous

* + - * The RBI provides training and research facilities.
      * It provides special facilities to priority sectors.
      * The efforts of planners by its economic policies.

# Explain the Regulation and Control of Stock Exchanges. Reasons

* + - * To ensure that undesirable persons do not become members of the stock exchange.
      * Regulations and working of different stock exchanges in the country.
      * To prevent unhealthy speculation.
      * To limit the number of stock exchanges in one region.
      * To restrict over-trading.
      * To ensure proper listing requirements for different securities.
      * To prevent business at the stock exchange by a few person.

# Objectives

* + - * To empower the Central Government to regulate the dealings.
      * To promote healthy and development of the stock market.
      * To protect the interests of investors.
      * To ensure buy-laws and rules of different stock exchanges.

# Provisions of the Securities Contracts Act, 1956

* + - * Withdrawal of recognition to any stock exchange.
      * Approval of the rules.
      * Power to direct the stock exchange to make rules.
      * Monitor the functioning of stock exchanges by calling for periodical returns.
      * Power to suspend business of a stock exchange.
      * Power to govern stock exchange.
      * Regulating listing of securities on stock exchange.

# Explain the Role of Commercial Banks in Economic Development.

1. **Capital Formation**
   * + - Capital formation involves three stages (a) generation of savings (b) mobilization of savings and

(c) canalization of savings into particular use.

* + - * They offer incentives ti savers, mobilise savings through a countrywide branch network and make the savings available to industry and business for investment.

# a Entrepreneurship Development

* + - * Most entrepreneurship lack adequate funds to invest in new ventures.
      * Commercial banks provide funds to entrepreneurs and thereby promote entrepreneurship in the country.

# Utilisation of Latent Resources

* + - * As financial intermediaries, banks make funds available to the needy.
      * Physical resources and human talent are activated and better utilized due to assistance by banks.

# Assist Priority Sectors

* + - * Commercial banks support the development strategy of the government by paying special attention to the priority sectors like agriculture, small scale industry, export sector and self- employed.
      * Banks also assist in the development of backward regions through proper reallocation of their funds.

# Employment Generation

* + - * The banking sector provides jobs to a large number of people.
      * Banks help in employment generation by boosting industry and trade.

# Social Welfare

* + - * Banks provide loans for education and marriage of children, consumption, house building and such other personal needs.
      * Such loans not only boost demand but also make life of people better.

# Implementation of Monetary Policy

* + - * A well-developed banking system helps the RBI to execute its monetary policy.
      * The RBI cannot regulate and control credit without the active cooperation of banks.
      * Banks facilitate by converting debt into demand deposits and by increasing branch network.

# Explain the assessment of the role of financial institutions.

These institutions have accomplished their purpose to a large extent.

# Positive Impact

* + - * No project found viable has been denied assistance solely due to funds.
      * Equity of new projects has been contributed by the institutions.
      * These institutions have set up special agencies for venture capital funding, leasing, factoring.

# Negative Impact

* + - * Most institutions laid on projects promoted by existing entrepreneurs and companies.
      * They have mostly assisted large and medium projects contributing to concentration of economic power in the country.
      * The gap between sanctions and disbursements has been increasing indicating delay in mobilization of funds.
      * Adequate attention has not been paid on reduction of regional disparities in industrial development.
      * These institutions have not been able to deal effectively with growing sickness in Indian industry.
      * The non-performing assets of most of the financial institutions have increased fast showing poor recovery of loans and advances.
      * Effective collaboration and coordination between various financial institutions have been lacking.
      * These institutions have been working as wings of the Government rather than as autonomous bodies.
      * There has been absence of competition for institutions.

# Explain the need for financial institutions.

Rapid industrial development required long - term and medium –term funds which were beyond the traditional sources of finance. Commercial banks catered to the short – term working capital requirements of trade and industry. It became necessary to develop the investment habit of the financial problems of industrialization several specialized financial institutions were established in the country. These institutions have been set up at national and regional levels.

Specialized financial institutions provide financial assistance to industrial enterprises for investment in expansion and modernization of plants and for setting up new plants.

# Objectives

* + - * To promote and develop new industries so as to fill up gaps in the industrial structure of the country.
      * To meet the growing needs of industries for long term finance.
      * To help in the promotion of new enterprises by a) identifying and formulating projects, b) training and developing entrepreneurs and c) streamlining the management of assisted industrial units.
      * To mobilise public savings and increase the rate of capital formation in the country.
      * To ensure balanced regional development by encouraging industrialization in backward region.
      * To develop a healthy and strong capital market.
      * To assist in the modernization, expansion and diversification of existing industries.
      * To optimize the use of scare resources.

# Discuss the main types of bank deposit accounts.

1. **Fixed Deposit Account**
   * + - Fixed deposits are made for a fixed time period and cannot be withdrawn before the expiry of the period.
       - A fixed deposit is also known as a time deposit.
       - A higher rate of interest is payable on a fixed deposit.
       - The depositor can withdraw the money along with the interest on the maturity date.

# Savings Deposit Account

* + - * Any person can open a savings deposit account with the minimum specified amount.
      * In this account, small savings are deposited by middle and low income people.
      * The main purpose of a savings deposit account is to develop the habit of savings among public.
      * A savings bank account can be opened by two persons in their joint names.

# Recurring Deposit Account

* + - * The account holder is required to deposit a specific amount every month.
      * A pass book is issued to the depositor but no cheque book is issued.

# Current Account

* + - * Current account is generally opened by business firms.
      * Money can be deposited into and withdrawn from this account any number of times.

# Explain the structure of Commercial Banking.

1. **Public Sector Banks**
   * + - Public sector banking in India consists of the State Bank of India and its seven associated banks, 19 nationalized banks and regional rural banks.
       - These banks have contributed significantly to public welfare though their profitability has been low.
       - Government has been divesting its stake in public sector banks.

# Private Sector Banks

* + - * There are 32 banks in the private sector.
      * These banks have shown greater profitability than public sector banks.
      * They have neglected rural areas, retail banking, low income groups and other socially desirable areas.

# Foreign Banks

* + - * Foreign banks have performed efficiently due to technology, professional management and innovative scheme.
      * They are helpful in accessing international capital markets.
      * But their focus has been on large firms, high net worth individuals.

# Difference between Forfaiting and Factoring. Factoring

* + - * It may be with recourse or without recourse to the supplier.
      * It usually involves the trade receivables of a short duration.
      * It does not involve negotiable instruments.
      * The cost of factoring is borne by the seller or the client.
      * It usually involves purchases of all debts owing to the customer.
      * The sellers gives importance on improving their cash position.

# Forfaiting

* + - * It is without recourse to the exporter.
      * It involves trade receivables of medium and long-term maturity.
      * It involves negotiable instruments like bills of exchange or promissory notes.
      * Overseas buyer has to bear the cost of forfaiting.
      * It always without recourse.
    1. **Explain the Advantages and Disadvantages of Leasing.**

**Advantages**

1. **Less Investment**
   * + - The lessee can use the asset and earn money from it without investing capital in buying it.
       - Limited funds for other purposes.
       - Rentals can be paid out of earnings from the asset.

# Faster and Cheaper Credit

* + - * Leasing is faster and cheaper.
      * Leasing companies are more accommodating than banks and financial institutions.

1. **Borrowing Capacity** - Leasing does not alter the lessee’s debt equity ratio.
2. **Boon to Small Firms** - Leasing is particularly beneficial to firms which face shortage of capital.
3. **Protection against Obsolescene** – The lessee can protect himself against the risk of obsolescene by entering into operating lease agreement in respect of assets which become obsolete quickly.
4. **Less Restrictions** – The financial institutions which lend money usually place several restrictions on the borrower as regards management, debt equity ratio, and declaration of dividend etc.

# Tax Saving

* + - * The rentals paid by the lessee are deductible for taxable income.
      * Income tax burden is reduced.

# Disadvantages

* + - * The lessee does not get the ownership of the asset.
      * The business of the lessee gets interrupted when the asset is taken back.
      * The lessor in an operating lease has to incur costs of maintenance and repairs.

# Explain the benefits under Private Equity.

Private Equity are being recognised as a separate asset class, attracting a huge funds from investors like pension and insurance companies, trusts, organisations that are looking for investment avenues.

# Benefits to Investee Companies

* + - * PE make available large funds to the companies, these may not be easily available from alternative sources.
      * Many PE funds are expertise and speed in concluding the deal.
      * PE partners help the investee companies in networking with potential buyers.
      * PE partners help in improving corporate governance standards.
      * PE extend companies a wider visibility.

**Benefits to PE Funds** – Apart from existing through the primary and secondary markets, some PE’s have sold out their stake to the promoters or to strategic investors to other equity.

**Private Equity in India** – Private equity is evolving as the mainstream source of capital.

# SECTION – C (10 MARKS)

1. **Describe different types of financial institutions.**

Several types of financial institutions operate in the financial system in order to save and mobilise funds. These institutions may be classified as follows they are banking institutions and non-banking institutions.

# Banking Institutions

The Banking Regulation Act 1949 defines banking as “The accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise”.

# Central Bank

* Every country has a central bank which supervises and regulate the entire banking system.
* Therefore it is known as the ‘Bankers bank’.
  1. **Commercial Banks** – These banks perform the usual banking functions of mobilizing deposits and providing credit.

# Co-operative Banks

* These banks are organized on the principles of cooperation to encourage thrift and savings among the members.
* Cooperative banks are usually formed by low and middle income groups mostly in urban and rural areas.

# Development Banks

* These banks provide credit to industrial units.
* These are specialized financial institutions like IFCI, IDBI etc.

# Agricultural Banks

* These banks provide financial assistance to farmers.
* Loans are provided against mortgage of agricultural land.
* These banks are also known as land mortgage banks.

# Merchant Banks

* These banks manage and underwrite new issues of securities.
* They undertake credit syndication, advise companies on fund raising and other financial matters.
* Initially commercial banks set up merchant banking divisions which later become separate merchant banking subsidiaries.

# Indigenous Bank

* In rural and semi urban areas, moneylenders carry on banking business in a traditional manner.
* They usually charge a high rate of interest.

# Non-Banking Institutions

Companies raise deposits from the public by offering attractive rates of interest and other incentives. They advance loans to small scale industries, traders and self-employed persons.

# Loan Companies

* These companies lend money to individuals and organisations.
* Housing companies and Hire Purchase finance companies are examples.

# Investment Companies

* These companies mobilise savings and invest them in industrial securities.
* They provide the benefits of diversification of risk and a steady return to investors.
* These are also known as investment trusts.

# Leasing Companies

* These companies provide loans to small firms.
* The company leasing the equipment is called ‘lessor’ and the firm undertaking the asset on lease is called ‘lessee’.
* Latter former can acquire ownership of the asset after the specified period.

# Chit Funds

* Under a chit fund scheme the promoter of the scheme collects subscriptions at specified time periods from the enrolled members.
* The amount so collected is handed over as the prize money to one member selected through auction.
* The borrower pays price in the form of difference between the chit amount and the prize amount.

# Hire –Purchase Finance Companies

* A hire purchase finance company provides finance to the buyer of a fixed asset for a specified period.
* The amount is repayable along with interest in monthly instalments.

# Housing Finace Companies

* Housing finance has become a very significant part of the Indian financial system.
* The Housing and Urban Development Corporation (HUDCO) is a national level institution which gives loans to individuals.
* Housing Development Finance Corporation (HDFC) is another all India housing finance company provides loans for purchasing and constructing houses.
* National Housing Bank (NHB) has been set by the Reserve Bank of India to promote housing finance in India.
* A large number of private sector companies and commercial banks offer housing finance in India.

1. **Mutual Benefit Companies** – It is also known as Nidhi, a mutual benefit company means any e
2. **Residuary Non-Banking Companies** – These include companies which receive deposits by way of subscriptions and do not fall under any of the categories.

# Explain the functions of Commercial Banks.

* 1. **Accepting Deposits**
* Commercial banks receive deposits from public for the purpose of making investments and granting loans.
* People deposit their savings for the sake of safety and for earning interest.
* Depositors can withdraw their money in the form of cash.
* Commercial banks accept deposits of various types to meet the requirements of different people.
  1. **Lending Money** – Commercial banks lend money to the needy borrowers for personal and business use.

# Overdraft

* It means an arrangement under which a current account holder is allowed to withdraw more than the balance to the credit upto the specified limit.
* It is allowed for a short period and interest is charged on it.

# Cash Credit

* The bank advances cash loans to the borrower against some tangible security.
* The borrower can withdraw upto the cash credit limit according to the needs and can deposit back any surplus.
* Interest is charged on the amount actually withdrawn.
* Cash credit is for longer period than overdraft.

# Discounting of Bills

* Commercial banks pay the amount of a bill before the date of its maturity, after deducting discount charges.
* On the date of its maturity the bank gets payment of the bill from its acceptor.
* The bank receives the payment from the customer who discounted the bill.

# Loans and Advances

* The borrower may withdraw for the whole amount at once.
* But interest is charged on the whole amount at once or as per the needs.
* Commercial banks grant both short-term and medium-term loans.

# Agency Functions

* + 1. **Collecting Receipts**
* Banks collect amounts of cheques, bills, promissory notes and on behalf of their customers.
* They also collect interest, dividend and rent on the instructions of their customers.
  + 1. **Making Payments** – On the instructions of customers, banks make payments of loan installments, interest, rent, insurance premium, taxes etc on behalf of account holders.
    2. **Buy and Sell Securities** – Banks buy and sell shares, debentures and other securities on behalf of their customers.

# Trustees and Executors

* They also act as representatives of their customers with other banks.
* Banks transfer money from one place to another within the country and abroad as per the instructions of customers.

# General Utility Functions

* + 1. **Issuing Credit Instruments** – People can transfer funds from one place to another with the help of these instruments without carrying currency notes with them.
    2. **Underwriting Capital Issues** – Banks underwrite the shares and debentures issued by companies.
    3. **Safe Custody of Valuables** – This type of banks provide safe deposit vaults for storing the valuables.

# Advice and Information

* Banks offer advice on financial matters.
* They provide information about creditworthiness of customers to enable them to obtain credit facility from suppliers.
* Banks also collect and provide information about trade and industry.

# ATM and Credit Cards

* Banks issue credit cards which enable the cardholders to buy things without making immediate payment.
* Banks also provide ATM centres.
* Customers can withdraw money twenty-four hours from these centres.

# Discuss the working procedure of a stock exchange.

* 1. **Selection of a Broker**
* A non-member cannot transact business on the floor of a stock exchange.
* He can buy and sell securities only through a member of the stock exchange.
* The broker may ask for some deposit from the client.
  1. **Placing the Order** – After choosing and engaging the broker, the client will place an order for the purchase of a particular security.

1. **Fixed Price Order** – Under this the client specifies the price at which the broker is to execute the order.
2. **At Limit Order** – In such an order the client lays down the upper and lower limits of prices.
3. **At Market Price** – It implies that the order must be executed at best possible price prevailing in the market.

# Immediate Order

* In such an order the instructions of the client must be executed immediately.
* The broker cannot execute the order because of unfavourable prices, the order is treated as cancelled.

1. **Open Order** – Under this offer, the client does not specify the time limit within which the order is to executed.
2. **Stop Loss Order** – Such an order is placed to safeguard against the heavy rise or fall in the prices of security.
3. **Discretionary Order** –Under this type of order the broker is given a free hand to buy or sell a particular security at discretion.

# Making the Contract

* After receiving the order, the broker will note it down in their diary from which it will be recorded in the “order book” the broker will then contact other brokers of the stock exchange.
* When the transaction is completed, he will note down the details of the transaction in the notebook.

# Preparing the Contract Note

* After the day’s business is over the broker will prepare a contract note.
* The contract note contains number and price of securities purchased, names of parties, brokerage charged and the total amount payable to the client.

# Settlement

* The mode of settlement depends upon the nature of the contract.
* The contracts made at a stock exchange are of two types – ready delivery contracts and forward delivery contracts.

# (i) Ready Delivery Contracts

* It involves the delivery of securities by the seller and the actual payment of the value of securities by the buyers in cash.
* Settled on the same day or within the time fixed by the stock exchange authorities.
* Settlements in cleared securities are made through the clearing house.

# (ii) Forward Delivery Contracts

* The traders who enter into forward delivery contracts are interested in making profits out of price movements in the near future.
* Forward dealings are allowed only in the cleared securities which are included in the forward list of a stock exchange.
* Forward delivery transactions are settle on the settlement days fixed by the stock exchange authorities.

# Discuss the objectives and functions of IFCI and evaluate its working.

The IFCI was established on July1, 1948 by a special Act of the Parliament. It was jointly owned by the Government of India, the RBI and financial institutions. The IFCI has since been converted into a public limited company with effect from July 1, 1993.

# Objects

* IFCI has been set up for making medium and long-term credits more readily available to industrial concerns in India.
* The corporation aims at assisting industrial concerns which have carefully considered schemes for manufacture and expansion of a plant for the purpose of increasing their productive efficiency and capacity.
* Public sector undertakings can also avail of assistance from the corporation.
* The corporation gives priority to development of backward areas, new entrepreneurs and technocrats, cooperative sector, import substitution and export expansion.

# Functions, Scope and Forms of Assistance

* Granting loans and advances to debentures of industrial concerns.
* Guaranteeing loans raised by industrial concerns from the capital market and scheduled banks.
* Deferred payments for imports of capital goods manufactured in India.
* With the approval of the Central Government, loans raised from industrial concerns with any bank or financial institution outside India.
* Underwriting the issue of shares and debentures by industrial concerns.
* Acting as an agent of the Central Government.
* Providing guidance in project planning.

# Management

* IFCI is now a joint stock company owned and managed by the Government.
* The day-to-day management of the corporation is vested in a Board of Directors consisting of a whole time chairman and twelve directors.
* The Board of Directors will act on business principles with due regard to the interests of trade, industry and general public.
* There is also a Central Committee comprising the chairman and four directors.

# Working

* The importance of the industry in the economy.
* Competence of the management.
* Nature of the security offered.
* Adequacy of the supply of technical personnel and raw materials.
* Requirements of the product manufactured and its quality.

# Institutions Promoted by IFCI

* Tourism Finance Corporation of India ( TFCI)
* Management Development Institute ( MDI)
* Technical Consultancy Organisations (TCO)
* Investment Information and Credit Rating Agency of India (ICRA)
* Institute of Labour Development (ILD)

# Evaluation

* Assistance sanctioned for new projects has been only about 20 per cent of the total assistance.
* Equity finance has been compared to debt finance.
* Adequate focus has not been laid on backward regions and small scale sector.
* Percentage share of infrastructure projects in the total loans outstanding it just about 13 per cent.
* Assistance provided in foreign currency.
* Income of the IFCI has fallen sharply.

1. **Explain the Functions of Reserve Bank of India.**
   1. **Traditional Central Banking Functions**
      1. **Issue of Bank Notes**

* The RBI has the sole right to issue bank notes of all denominations.
* The RBI has a separate Issue Department to make issues of currency notes.
* It has adopted the minimum reserve system of note issue.

# Banker to Government

* It maintains and operates government deposits.
* It collects and makes payments on behalf of the government.
* It helps the government to float new loans and manages the public debt.
* It sells for the Central Government treasury bills of 91 days duration.
* It acts as the agent of the Government of India in the dealings with the International Institutions.
* It advices the government on all financial matters.

# Banker’s Bank

* The RBI keeps the cash reserves of all the scheduled banks are known as the ‘Reserve Bank’.
* The scheduled banks can borrow in times of nee from RBI.
* The RBI acts only as the banker’s bank but also the lender by providing rediscount facilities to scheduled banks.

# iv Controller of Credit

* The RBI controls the volume of credit created by banks in India.
* The RBI controls credit in order to ensure price stability and economic growth.

# Custodian of Foreign Exchange Reserves

* The RBI acts as the custodian of India’s reserve of international currencies.
* RBI has the responsibility of maintaining exchange rate of the rupee and of administering the exchange controls of the country.

# Clearing House Facility

* The central bank settles the claims of commercial banks and enables them to clear their dues through book entries.
* It makes debit and credit entries in their accounts for convenient adjustment of their daily balances with one another.

# Collection and Publication of Data

* The central bank conducts surveys and publishes reports.
* It may provide staff training facilities to the personnel of commercial banks.
* It maintains relations with international financial institutions such as World Bank, IMF etc.

# Regulatory Functions

* The RBI is the supreme banking authority in the country.
* Every bank has to get a license from the RBI to do banking business in India.
* The license can be cancelled if the stipulated conditions are violated.
* Each scheduled bank is acquired to send a return of its assets and liabilities to the RBI.
* The RBI controls the banking system through licensing, inspection and calling for information.

# Promotional Functions

* The RBI is expected to promote banking habit, extend banking facilities to rural and semi-urban areas, establish and promote new specialized financial agencies.
* The RBI has helped in the setting of the IFCI, UTI and IDBI etc.
* The RBI has developed the cooperative credit movement to encourage savings toe eliminate moneylenders from villages and short-term credit to agriculture.
* It also undertakes steps to develop bill market in the country.

# Discuss the Credit Control by RBI?

Credit control means the regulation of credit by the central bank for achieving the desired objectives. The control over credit is necessary for preventing too much money supply in the economy.

# General Methods

1. **Bank Rate**

* The standard rate at which the RBI is prepared to discount bills of exchange advances to the commercial banks is known as the bank rate.
* When the RBI increases the bank rate, borrowing from banks becomes costlier and the amount of borrowings from banks is reduced.
* Bank rate is limited due to certain constraints in the economy.

# Cash Reserve Ratio (CRR)

* Portion of total deposits of a commercial bank which it has to keep with the RBI in the form of cash reserves.
* By raising the CRR, the RBI reduces the amount of loanable funds with commercial banks.
* The volume of credit in the country gets reduced.

# Statutory Liquidity Ratio (SLR)

* Portion of total deposits of a commercial bank which it has to keep with itself in the form of cash reserves.
* An increase in the SLR has the same effect on the volume of credit as increase in the CRR.

# Open Market Operations

* These refer to the purchase and sale by the RBI of a variety of assets such as gold, government securities, foreign exchange and industrial securities.
* If the RBI wants to reduce the volume of credit, it sells these assets.
* Such sale reduces money supply with banks and leads to increase in rates of interest.

# Selective Credit Controls

* The purpose for which advances may or may not be made.
* The margins to be maintained in respect of secured advances.
* The maximum amount of advances to any borrower.
* The rate of interest and other terms and conditions for granting advances.

# Selective Methods

1. **Margin Requirements**

* Commercial banks have to keep a margin between the amount of loan granted and the market value of the security against which the loan is granted.
* When the Central Bank raises margin requirements, the volume of credit is reduced.
* Lowering of margin requirements leads to expansion of credit.

# Credit Rationing

* The Reserve Bank of India fixes a limit to the credit facilities available to commercial banks.
* The available credit rationed among them according to the purpose of credit.
* Credit rationing cannot be used for the expansion of credit in the economy.

# Moral Suasion

* The central bank requests the commercial banks not to grant credit for speculative and non- essential activities.
* The central bank may also issue directives to commercial banks to refrain from certain types of lending.

# Publicity

* The central bank issues reports and review statements of assets and liabilities.
* Commercial banks aware of conditions in the money market, public finance, trade and industry in the country.

# 6) Discuss the State Financial Corporations?

It provides financial assistance to large public companies and cooperative societies. Therefore need was felt for state level financial institutions to meet the financial needs of local, medium and small sized industries.

# Objectives

* It is to provide finance to medium and small scale industries and other enterprises which are outside the purview of the IFCI.
* Partnership firms and joint stock companies and cooperatives societies are authorized to borrow funds from these corporations.
* SFC seeks to supplement the operations of the IFCI.

# Functions

* Granting loans and subscribing to the debentures of industrial concerns.
* Guaranteeing loans raised by industrial concerns on such terms and conditions as may be mutually agreed upon.
* Guaranteeing deferred payments for the purchase of capital goods within India.
* Acting as the agent of Central and State Governments in the manner of disbursing loans to small scale units.
* Rediscounting bills of small scale of units.

# Management

* Each Stat Financial Corporation is managed by a Board of Directors consisting of a managing director and nine other directors.
* Four directors are nominated by the State Government and one each by the outside shareholders.
* There is also an Executive Committee selected by the Board of Directors.

# Working

* These corporations are providing concessional finance to small scale industries on behalf of the State Governments.
* The bulk of the assistance is granted by SFC’s to small scale industries including road operators.
* SFC’s have granted liberal financial assistance on concessional terms to industrial units in the specified backward areas and to entrepreneurs.
* The SFC’s must play as a credit to small scale sector and unemployed, particularly in backward areas.
* They must take measures to ensure that loans granted are invested projects.
* They must monitor the progress of the borrowing concerns.

# Criticism

* There is unnecessary delay in sanctioning and disbursement of loans.
* The rate of interest charged from borrowers is very high.
* There is favouritism in granting loans.
* SFC has limited financial resources due to small capital base.
* There is lack of professional attitude.