EITI QUESTION BANK

Q1. Analyze top line and bottom line of business organizations.

The top line and bottom line are two of the most important lines on the income statement for a company. Investors and analysts pay particular attention to them for signs of any changes from quarter to quarter and year to year.

The top line refers to a company's revenues or gross sales. Therefore, when a company has "top-line growth," the company is experiencing an increase in gross sales or revenues.

The bottom line is a company's net income, or the "bottom" figure on a company's income statement. More specifically, the bottom line is a company's income after all expenses have been deducted from revenues. These expenses include interest charges paid on loans, general and administrative costs, and income taxes. A company's bottom line can also be referred to as net earnings or net profits.

Management can enact strategies to increase the **bottom line**. For starters, increases in revenue, or the top line, should filter down and boost the bottom line. This may be done through increasing production, lowering sales returns through product improvement, expanding product lines, or increasing prices.

Companies that see a surge in **top-line** growth are usually experiencing an increase in sales or revenues. There are various ways a company can grow its top line. For example, the marketing team might launch a new ad campaign that successfully brings in customers and increases sales by 20% over the previous quarter. The company could come out with a new product that generates additional revenue or a company could increase prices.

Q2. What do you mean by E commerce? State it's importance

E-commerce (electronic commerce) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer or consumer-to-business.

E-commerce is powered by the internet. Customers access an online store to browse through and place orders for products or services via their own devices.

Importance :

1. eCommerce Helps You Reduce Your Costs

To have an online store it is not necessary that you have all your products presented in a physical space. In fact, there are different companies that operate online where they only show all their inventory through their electronic commerce platform.

This implies not only saving by not needing a rental or purchase of premises but also everything that involves electricity, the Internet, etc.

2. eCommerce Helps Businesses Go Global

It allows you to put your products for sale anywhere in the world. They will not have the explicit need to travel to where you are to see what you have to offer.

If you are running a physical store, it will be limited by the geographical area that you can service, but owning an eCommerce website will give you the opportunity to increase your outreach. It'll offer your products & services to customers around the whole world, regardless of the distance and time zone.

3. eCommerce Can Be Done With Fewer Overheads & Fewer Risk

Starting an online store can mean significantly lower start-up costs compared to a brick-and-mortar retailer. The retailer or the online business owner doesn't have to take into consideration the high expenses of shop rental, hiring a salesperson to woo the customer, utility bills, security measures, etc.

4. eCommerce Offers Better Marketing Opportunities

Your eCommerce site is the best marketing tool that you would ever have. Thanks to the internet, now anyone can market through online tools like social media marketing, email marketing, search engine marketing, pay-per-click ads, and SEO help you build very useful links with marketing automation.

Q3. Elaborate the concept of digital economy, digital age and digital divide.

Digital economy is one collective term for all economic transactions that occur on the internet. It is also known as the Web Economy or the Internet Economy. With the advent of technology and the process of globalization, the digital and traditional economies are merging into one.

Digital economy is defined as an economy that focuses on digital technologies, i.e. it is based on digital and computing technologies. It essentially covers all business, economic, social, cultural etc. activities that are supported by the web and other digital communication technologies.

Digital economy has given rise to many new trends and start-up ideas. Almost all of the biggest companies in the world (Google, Apple, Microsoft, Amazon) are from the digital world. Let us look at some important merits of the digital economy.

Benefits of digital economy :

1. Promotes Use of the Internet
2. Rise in E-Commerce
3. Digital Goods and Services
4. Transparency

Digital age :

The Information Age (also known as the Computer Age, Digital Age, Silicon Age, or New Media Age) is a historical period that began in the mid-20th century. It is characterized by a rapid shift from traditional industries, as established during the Industrial Revolution, to an economy centered on information technology.

The onset of the Information Age has been linked to the development of the transistor in 1947,[1] the optical amplifier in 1957,[2] and Unix time,[3] which began on January 1, 1970.

The **digital divide** refers to the gap between demographics and regions that have access to modern information and communications technology and those that don't. Though the term now encompasses the technical and financial ability to utilize available technology—along with access (or a lack of access) to the

internet—the gap it refers to is constantly shifting with the development of technology.

The access divide: This is the most visible digital divide. It refers to the socioeconomic differences among people and the impact on their ability to afford the devices necessary to get online. In developing countries, many people have limited access to technology or the internet and do not have the skills necessary to use it effectively.

The use divide: This refers to the difference in the level of skills possessed by individuals. There is a generation gap when it comes to the skills necessary to use the internet. It is also affected by the quality of education that an individual receives. Younger, educated people tend to have more skills than older, less educated ones.

The quality-of-use gap: This measure is a little more complicated. It refers to the different ways that people use the internet and the fact that some people are far more able to get the information they need from it than others.

The digital divide describes the gap between people who have access to affordable, reliable internet service (and the skills and gadgets necessary to take advantage of that access) and those who lack it.

Q4. Explain venture capital and angel funding as sources for business finance

Angel investing, also called angel funding, private investing or seed investing, is the process by which investors give funds to a startup company earlier than typical investors would. In exchange for investing, they can become part owners of the startup or receive shares in stock. These investments can take place once, or they may continue as seed funding throughout the early stages of the business. These investors often are part of the business owner's network, and they may provide more favorable terms in their investment because they're investing more in the person than in the business.

Venture capital's a process in which investors fund and support startup businesses or small companies. They typically invest in companies they think have the potential for long-term growth, meaning companies that are strong enough to surpass the 10-year mark. This can provide investors with higher returns over time than the original amount they invested in the company. Venture capitalists (VCs) may provide these investments at different stages of the company's growth, though they normally do it in its early stages. Since this funding is often more significant, businesses and VCs may perform extensive research before making a deal.

- With angel investing, you typically receive funds in the form of money to put toward business expenses. With venture capital, you also receive money, but there are other ways venture capitalists can fund a company. Sometimes, venture capitalists fund companies by providing them with established professionals to work for their businesses.
- Angel investors typically fund startups with anywhere from $5,000 to $500,000. In contrast, because venture capitalists work as part of a larger institution, the amount of money they use to fund startups could total millions of dollars.
- Angel investors are family members, friends or wealthy individuals who are willing to use their own money toward a startup. In contrast, venture capitalists work as employees at venture capitalist firms, banks, universities or insurance companies. Therefore, the funding you receive from vendor capitalists comes from the institution they work for.

Q 5. Explain various phases of Business cycle.

A business cycle is completed when it goes through a single boom and a single contraction in sequence. The time period to complete this sequence is called the length of the business cycle.

A boom is characterized by a period of rapid economic growth whereas a period of relatively stagnated economic growth is a recession. These are measured in terms of the growth of the real GDP, which is inflation-adjusted.

Stages of the Business Cycle

In the diagram above, the straight line in the middle is the steady growth line. The business cycle moves about the line. Below is a more detailed description of each stage in the business cycle:

1. Expansion

The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services. Debtors are generally paying their debts on time, the velocity of the money supply is high, and investment is high. This process continues as long as economic conditions are favorable for expansion.

2. Peak

The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal point in the trend of economic growth. Consumers tend to restructure their budgets at this point.

3. Recession

The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages, etc., consequently start to fall.

4. Depression

There is a commensurate rise in unemployment. The growth in the economy continues to decline, and as this falls below the steady growth line, the stage is called a depression.

5. Trough

In the depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services, contract to reach their lowest point. The economy eventually reaches the trough. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

6. Recovery

After the trough, the economy moves to the stage of recovery. In this phase, there is a turnaround in the economy, and it begins to recover from the negative growth rate. Demand starts to pick up due to low prices and, consequently, supply begins to increase. The population develops a positive attitude towards investment and employment and production starts increasing.

Employment begins to rise and, due to accumulated cash balances with the bankers, lending also shows positive signals. In this phase, depreciated capital is replaced, leading to new investments in the production process. Recovery continues until the economy returns to steady growth levels.

This completes one full business cycle of boom and contraction. The extreme points are the peak and the trough.

Q6. Differentiate between microeconomics and macroeconomics.

BASIS FOR COMPARISON	MICROECONOMICS	MACROECONOMICS
Meaning	The branch of economics that studies the behavior of an individual consumer, firm, family is known as Microeconomics.	The branch of economics that studies the behavior of the whole economy, (both national and international) is known as Macroeconomics.
Deals with	Individual economic variables	Aggregate economic variables

BASIS FOR COMPARISON	MICROECONOMICS	MACROECONOMICS
Business Application	Applied to operational or internal issues	Environment and external issues
Tools	Demand and Supply	Aggregate Demand and Aggregate Supply
Assumption	It assumes that all macro-economic variables are constant.	It assumes that all micro-economic variables are constant.
Concerned with	Theory of Product Pricing, Theory of Factor Pricing, Theory of Economic Welfare.	Theory of National Income, Aggregate Consumption, Theory of General Price Level, Economic Growth.
Scope	Covers various issues like demand, supply, product pricing, factor pricing, production, consumption, economic welfare, etc.	Covers various issues like, national income, general price level, distribution, employment, money etc.
Importance	Helpful in determining the prices of a product along with the prices of factors of production (land, labor, capital, entrepreneur etc.) within the economy.	Maintains stability in the general price level and resolves the major problems of the economy like inflation, deflation, reflation, unemployment and poverty as a whole.
Limitations	It is based on unrealistic assumptions, i.e. In microeconomics it is assumed that there is a full employment in the society which is not at all possible.	It has been analyzed that 'Fallacy of Composition' involves, which sometimes doesn't proves true because it is possible that what is true for aggregate may not be true for individuals too.

Q7. Explain 5 Levels of the Capability Maturity Model

The Capability Maturity Model (CMM) is a developmental model that was created back in 1986 that has become a standard for many teams across various industries, including cybersecurity. This model was developed based on the process model, and was created to assess an organization on a five point maturity scale level; **Initial, Managed, Defined, Quantitatively Managed,** and **Optimizing**. Each of these levels represent a stage of growth in the maturity of organizational processes. These phases follow a path of increasingly organized and more systematically mature processes for the organization. The model is used today as a benchmark to compare like organizations on an even playing field for efficiency and process improvement.

CMM Level 1 — Initial

Organizations in the Initial level of the CMM are getting real work done, but often are finishing this work on a delayed timeframe and over their allotted budget. These organizations may have put a good group of talent together, but they lack the process necessary to be a cohesive and efficient team. Their processes are often unpredictable, fragmented, poorly controlled, and highly reactive in nature. This poor construction leaves little room for efficiency, and feels more like a cluster of individuals than a team working towards a common goal.

The focus for organizations stuck in the Initial level of the maturity model should be on controlling the efforts of the team, and finding a way for these efforts to be tracked. At level 1 the success of the team is likely to depend on individual efforts and not the team as a whole. These individual efforts can't be repeated, because they likely are not being sufficiently defined and documented to allow them to be replicated.

CMM Level 2 — Managed

Organizational process in the Managed level of the CMM is being managed at least on the project level. This is a huge area of improvement, as the work of the collective is able to be planned, performed, measured, and controlled. This is because basic and repeatable processes are firmly established, allowing successes from the group to be repeated on some level.

This development from level 1 to 2 signals the ability for organizations to rely on existing requirements, processes, work products, and services, especially in times of need. While there is major improvement in the function of an organization operating on the Managed level compared to the Initial level, there is plenty of room for improvement. This is because most of the work being done is still reactive, and is reliant on reacting to and documenting reactive successes as opposed to working proactively towards an overarching goal.

CMM Level 3 — Defined

Organizations in the Defined level of the CMM are on their way to a healthy composition and structure. Processes in level 3 are well characterized and understood, and often are described with standards, procedures, tools, and methods. What really makes the Defined level stand out from the Managed level is the scope of the standards, process descriptions, and overall procedures.

On top of the larger scope at the Defined level, processes are more widespread and uniform. In the Managed stage there are many processes and procedures, but they vary wildly on a case-by-case basis. Organizations and teams in the Defined level often have their own unique process that pays better attention to documentation, standardization, and integration. However, there are a couple steps to go before the process is perfect. The Defined level has made great strides in efficiency, but lacks the quantitative aspect of level 4.

CMM Level 4 — Quantitatively Managed

Organizations in the Quantitatively Managed level of the CMM are realizing most of their full potential. The big drive in organizations and teams working at level 4 is the inclusions of data and other quantitative information in their processes. The improvement objectives for these individuals are predictable, and all align to meet the expectations of both internal and external stakeholders. These objectives are made based on the needs of the customer, end users, organization, and process implementers.

One reason for massive improvement from level 3 to 4 is the selection of sub-processes. These sub-processes greatly increase the efficiency of the overall process, as the sub-processes are controlled using statistics and other quantitative measures. Another reason for improvement is the higher predictability in outcomes from level 3 to 4, as the quantitative aspect of this level allows for greater accuracy when compared to qualitative measures. These improvements

allow for processes to be both measured and fully controlled, which largely fills the flaw that was present at the Initial level of maturity.

CMM Level 5 — Optimizing
The ultimate level of maturity for organizations and teams is level 5, Optimizing. The Optimizing level is focused on continuous improvement, and is built to pivot and respond to opportunity and change as it presents itself. This agility is based on the level of stability that the organization has built up over time. This stability allows a baseline of processes that can then be tweaked to better serve the needs of the organization at that present moment. To speak simply: This is an organization firing on all cylinders.
The Optimizing level of maturity gives organizations most everything they could need. Processes are established, clear, widespread, data-driven, and efficient in nature. This is a workplace that has been empowered with all the tools they need for success, something many organizations operating at this level enjoy. Improvement is actively a part of everyone's role, and this drives the future of the organization in a natural and healthy manner. While the organization is not perfect and will seek further process improvement, the team's efficiency is a far cry from the Initial level of organizational maturity.

Q8. Elasticity of Demand and its Types

Elasticity of Demand, or Demand Elasticity, is the **measure of change in quantity demanded of a product in response to a change in any of the market variables, like price, income etc.** It measures the shift in demand when other economic factors change.

In other words, the elasticity of demand is the **percentage change in quantity demanded divided by the percentage change in another economic variable**.

The demand for a commodity is affected by different economic variables:

1. Price of the commodity
2. Price of related commodities
3. Income level of consumers

3 Types of Elasticity of Demand

On the basis of different factors affecting the quantity demanded for a product, elasticity of demand is categorized into mainly three categories: **Price Elasticity of Demand (PED), Cross Elasticity of Demand (XED), and Income Elasticity of Demand (YED)**.

Let us look at them in detail and their examples.

1. Price Elasticity of Demand (PED)

Any change in the price of a commodity, whether it's a decrease or increase, affects the quantity demanded for a product. For example, when there is a rise in the prices of ceiling fans, the quantity demanded goes down.

This measure of responsiveness of quantity demanded when there is a change in price is termed as the Price Elasticity of Demand (PED).

The mathematical formula given to calculate the Price Elasticity of Demand is:

PED = % Change in Quantity Demanded % / Change in Price

The result obtained from this formula determines the intensity of the effect of price change on the quantity demanded for a commodity.

2. Income Elasticity of Demand (YED)

The income levels of consumers play an important role in the quantity demanded for a product. This can be understood by looking at the difference in goods sold in the rural markets versus the goods sold in metro cities.

The Income Elasticity of Demand, also represented by YED, refers to the sensitivity of quantity demanded for a certain good to a change in real income (the income earned by an individual after accounting for inflation) of the consumers who buy this good, keeping all other things constant.

The formula given to calculate the Income Elasticity of Demand is given as:

YED = *% Change in Quantity Demanded% / Change in Income*

The result obtained from this formula helps to determine whether a good is a necessity good or a luxury good.

3. Cross Elasticity of Demand (XED)

In a market where there is an oligopoly, multiple players compete. Thus, the quantity demanded for a product does not only depend on itself but rather, there is an effect even when prices of other goods change.

Cross Elasticity of Demand, also represented as XED, is an economic concept that measures the sensitiveness of quantity demanded of one good (X) when there is a change in the price of another good (Y), and that's why it is also referred to as Cross-Price Elasticity of Demand.

The formula given to calculate the Cross Elasticity of Demand is given as:

XED = *(% Change in Quantity Demanded for one good (X)%) / (Change in Price of another Good (Y))*

The result obtained for a substitute good would always come out to be positive as whenever there is a rise in the price of a good, the demand for its substitute rises. Whereas, the result will be negative for a complementary good.

These three types of Elasticity of Demand measure the sensitivity of quantity demanded to a change in the price of the good, income of consumers buying the good, and the price of another good.

Q9. What Is the Law of Supply and Demand?

The law of supply and demand is based on two other economic laws: the law of supply and the law of demand. The law of supply says that when prices rise, companies see more profit potential and increase the supply of goods and services. The law of demand states that as prices rise, customers buy less.

Theoretically, a free market will move toward an equilibrium quantity and price where supply and demand intersect. At that point, supply exactly

matches the demand — suppliers produce just enough of a good or service, at the right price, to satisfy everyone's demands.

The Law of Supply.

The law of supply predicts a positive relationship between pricing and supply. As prices of goods or services rise, suppliers increase the amount they produce — as long as the revenue generated by each additional unit they produce is greater than the cost of producing it. Seeing a greater potential for profits, new suppliers may also enter the market. For example, prices of lithium and other metals used in batteries have soared as sales of electric vehicles have increased. That has encouraged mining companies to explore new sources of lithium and expand production at existing mines in order to increase the supply and generate higher profits.

The Law of Demand.

The law of demand says that rising prices reduce demand. So as prices rise, customers buy less. That's particularly true if they can substitute cheaper goods. When the famous musician comes to town, not everyone may be able to afford a ticket even if they'd like to go. So, if the theater sets prices too high, fewer people will decide it's a worthwhile purchase, and the show organizers will be left with empty seats. Fans who want to resell their tickets may need to lower their asking price. Some people may decide to see another artist instead, if those tickets are cheaper.

The Law of Supply and Demand.

The price where supply and demand meet is known as the equilibrium price. At that price point, suppliers produce just enough of a good or service to satisfy demand, and everyone who wants to purchase the product can do so. In practice, of course, balancing supply and demand is more complex. As supply and demand fluctuate, the equilibrium price can vary over time. Furthermore, the law of supply and demand assumes that all other factors that can affect pricing remain constant. In reality, that's often not the case. For example, fluctuating production costs or supply chain problems can have a big impact on pricing.

4 Basic Laws of Supply and Demand

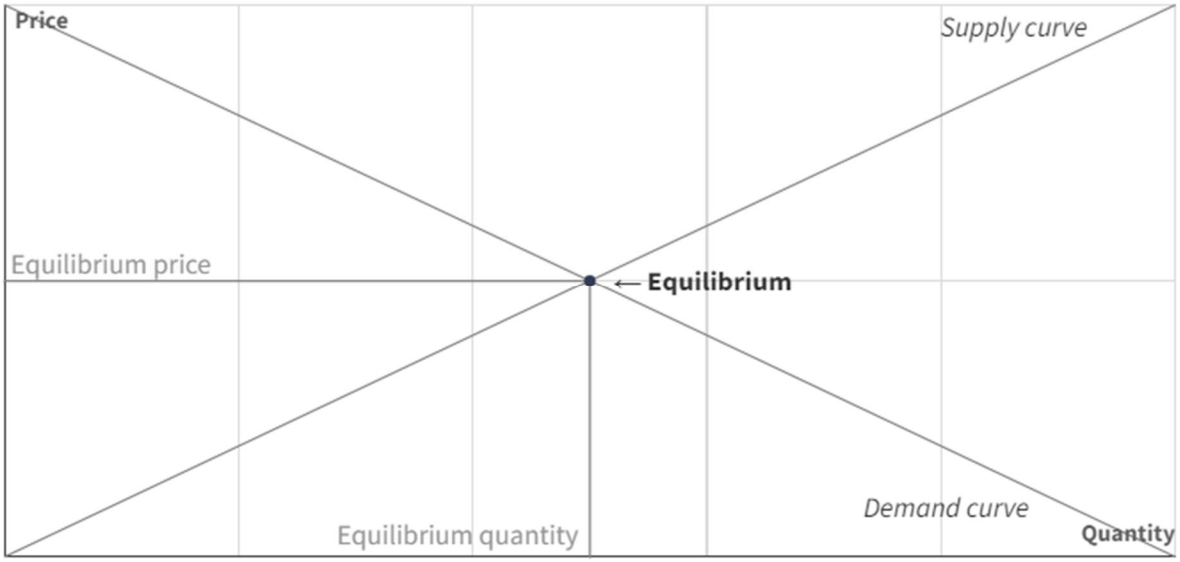
The law of supply and demand predicts four ways that changes in either demand or supply will drive changes in pricing:

1. **Prices fall when supply increases and demand remains constant.**
   If supply increases without a change in demand, a surplus usually occurs. This can happen for many reasons, including surges in productivity. To move excess stock, especially if there's a pending expiration date, suppliers tend to lower prices to try to boost demand.

2. **Prices fall when demand decreases and supply remains constant.**
   A surplus can also occur when customers want less of a good or service, even without a change in supply. The effect is the same: lower prices.

3. **Prices rise when supply decreases and demand remains constant.**
   If supply drops, shortages occur. In that situation, customers are often willing to pay higher prices to get the goods and services they want. Supply constraints can occur for many reasons, including supply chain problems. If the problem is temporary, prices tend to return to their baseline once supply is restored.

4. **Prices rise when demand increases and supply remains constant.**
   A shortage can occur if the demand for a product increases but the supply doesn't — or if demand increases faster than production can ramp up. When supply eventually catches up with demand, prices tend to stabilize.



Q10. Explain deflation and recession

What is Recession?

Several indicators, including real income, retail and wholesale sales, gross domestic product, and industrial output, have all pointed to a downturn in economic activity in a country during the past two quarters. In general, recessions begin just after an economy has achieved its peak level of activity and end when it has fallen to its lowest level. The decline in a country's GDP is a common economic indicator of a recession.

Most recessions are very short and uncommon, yet they can cause enormous harm to economies when they do occur. But recessions are inevitable during business cycles, which are otherwise characterized by rising unemployment, slow or negative growth, and the collapse of financial institutions.

What is Deflation?

In this instance, over time, the value of both consumer goods and assets declines. At first look, this may seem like a great opportunity for consumers since they will now be able to buy things at lower prices. Although shoppers appreciate price cuts, they have their sights set on even lower costs in the future for many commodities. However, this lowers product demand, which

stunts the company's expansion. Recession follows, causing a cascade of negative effects, including less investment, lower profits, job losses, and lower salaries.

The common causes of deflation include

- Slow growth in the economy
- Relatively high-interest rates

The only true indicator of deflation is a decline in the Consumer Price Index. It's important to remember that the CPI doesn't track key economic indicators like home prices or stock market performance. The possibility of deflation in any of these sectors will go unnoticed if the CPI is used as the indicator of deflation.

Similarities – Recession and Deflation

- Because of both of these factors, fewer investments are made, wages are reduced, unemployment rates rise, and fewer goods are manufactured.
- In all cases, interest rates are lowered as a means of rescuing the situation.

Differences – Recession and Deflation

The following table highlights how Recession is different from Deflation –

Characteristics	Recession	Deflation
Definition	When economic indicators like gross domestic product (GDP), real income, retail and wholesale sales, and industrial output all decline for two consecutive quarters, we say that the country is in recession.	When both prices at the register and the value of a person's possessions fall over time, we say that the economy is in a state of deflation.

Importance	The GDP is one statistic that may be used to measure the severity of a recession.	Deflation is measured by a decrease in the Consumer Price Index.
Components	A recession often starts not long after an economy hits its peak and continues until it reaches its minimum.	Deflation is characterized by a broad decrease in pricing for products and services.

Q11. Labour intensive vs capital intensive industries

Labour-intensive industries and capital-intensive industries are two different types of economic sectors characterized by the primary input they rely on for production: labor or capital.

1. Labour-Intensive Industries:

Labour-intensive industries are those that require a substantial amount of human labor for production. These industries typically have a high ratio of labor to capital investment. Examples of labor-intensive industries include agriculture, retail, hospitality, healthcare, and construction.

Characteristics of Labour-Intensive Industries:

- High dependence on manual labor: These industries rely heavily on the physical effort, skills, and expertise of workers to carry out tasks.

- Low initial capital investment: The investment required to start a labor-intensive industry is relatively low, as the main cost is associated with hiring and training workers rather than purchasing expensive machinery or equipment.

- Flexible production capacity: Since labor is the primary input, the production capacity of labor-intensive industries can be easily adjusted by hiring or laying off workers based on demand fluctuations.

- Relatively low technological complexity: These industries often utilize basic technology and machinery, focusing more on the manual skills and abilities of workers.

- Higher employment potential: Labor-intensive industries tend to create more job opportunities, particularly for low-skilled or semi-skilled workers.

Advantages of Labour-Intensive Industries:

- Lower initial investment: Starting a labor-intensive business requires less capital, making it accessible to entrepreneurs with limited funds.

- High employment generation: These industries have the potential to create a large number of jobs, contributing to economic growth and reducing unemployment rates.

- Skill development: Labor-intensive industries can provide opportunities for workers to acquire new skills and gain work experience.

Disadvantages of Labour-Intensive Industries:

- Higher labor costs: Labor-intensive industries face the challenge of managing and maintaining a large workforce, including wages, benefits, and training costs.

- Limited scalability: The growth potential of labor-intensive industries may be constrained by the availability of skilled labor and the ability to scale operations without compromising quality.

2. Capital-Intensive Industries:

Capital-intensive industries, on the other hand, rely more on machinery, equipment, and advanced technology for production. These industries have a high ratio of capital investment to labor. Examples of capital-intensive industries include manufacturing, mining, telecommunications, oil and gas, and transportation.

Characteristics of Capital-Intensive Industries:

- High capital investment: Capital-intensive industries require significant investment in machinery, equipment, technology, and infrastructure to facilitate production processes.

- Lower labor requirements: These industries rely more on automation, advanced technology, and specialized machinery, resulting in a smaller workforce compared to the output.

- High fixed costs: The bulk of expenses in capital-intensive industries is associated with maintaining and upgrading equipment, machinery, and technology.

- Economies of scale: Capital-intensive industries often benefit from economies of scale, where the cost per unit decreases as production volume increases.

- Greater dependence on skilled labor: While these industries employ fewer workers, they typically require highly skilled technicians, engineers, and operators to manage and maintain the sophisticated machinery and technology.

Advantages of Capital-Intensive Industries:

- High production efficiency: Capital-intensive industries can achieve high levels of productivity and output due to the use of advanced technology and machinery.

- Lower labor costs: Although capital investment may be high, reduced labor requirements can lead to lower long-term labor costs.

- Scalability and production capacity: Capital-intensive industries often have the ability to scale operations and increase production levels without relying heavily on additional labor.

Disadvantages of Capital-Intensive Industries:

- High initial investment: Starting a capital-intensive industry requires substantial capital for the purchase of equipment, technology, and infrastructure.

- Technological obsolescence: Rapid advancements in technology can render existing equipment and machinery outdated, necessitating regular upgrades to remain competitive.

- Limited employment opportunities: Capital-intensive industries tend to have a lower

labor demand, which can result in reduced job creation and potential unemployment in regions relying heavily on these industries.

In summary, the key difference between labor-intensive and capital-intensive industries lies in the primary input they rely on for production. Labor-intensive industries emphasize human labor, while capital-intensive industries focus on capital investment in machinery, equipment, and technology. The choice between these two types of industries depends on factors such as the availability of skilled labor, capital resources, technological advancements, and the overall business environment.

Q12. Explain merger and acquisitions.

A merger occurs when two separate entities combine forces to create a new, joint organization. Meanwhile, an acquisition refers to the takeover of one entity by another. Mergers and acquisitions may be completed to expand a company's reach or gain market share in an attempt to create shareholder value.

KEY TAKEAWAYS

- A merger occurs when two separate entities combine forces to create a new, joint organization.
- An acquisition refers to the takeover of one entity by another.
- The two terms have become increasingly blended and used in conjunction with one another.

Mergers

Legally speaking, a merger requires two companies to consolidate into a new entity with a new ownership and management structure (ostensibly with members of each firm). The more common distinction to differentiating a deal is whether the purchase is friendly (merger) or hostile (acquisition). Mergers require no cash to complete but dilute each company's individual power.

In practice, friendly mergers of equals do not take place very frequently. It's uncommon that two companies would benefit from combining forces with two different CEOs agreeing to give up some authority to realize those benefits. When this does happen, the stocks of both companies are surrendered, and new stocks are issued under the name of the new business identity.

Typically, mergers are done to reduce operational costs, expand into new markets, boost revenue and profits. Mergers are usually voluntary and involve companies that are roughly the same size and scope.

Due to the negative connotation, many acquiring companies refer to an acquisition as a merger even when it is clearly not.

There are five basic categories or types of mergers:

1. **Horizontal merger:** A merger between companies that are in direct competition with each other in terms of product lines and markets
2. **Vertical merger:** A merger between companies that are along the same supply chain (e.g., a retail company in the auto parts industry merges with a company that supplies raw materials for auto parts.)
3. **Market-extension merger:** A merger between companies in different markets that sell similar products or services
4. **Product-extension merger:** A merger between companies in the same markets that sell different but related products or services
5. **Conglomerate merger:** A merger between companies in unrelated business activities (e.g., a clothing company buys a software company)

Acquisitions

In an acquisition, a new company does not emerge. Instead, the smaller company is often consumed and ceases to exist with its assets becoming part of the larger company.

Acquisitions, sometimes called takeovers, generally carry a more negative connotation than mergers. As a result, acquiring companies may refer to an acquisition as a merger even though it's clearly a takeover. An acquisition takes place when one company takes over all of the operational management decisions of another company. Acquisitions require large amounts of cash, but the buyer's power is absolute.

Companies may acquire another company to purchase their supplier and improve economies of scale–which lowers the costs per unit as production increases. Companies might look to improve their market share, reduce costs, and expand into new product lines. Companies engage in

acquisitions to obtain the technologies of the target company, which can help save years of capital investment costs and research and development.

Examples

Merger: Exxon and Mobil

Exxon Corp. and Mobil Corp. completed their merger in November 1999 following approval from the Federal Trade Commission (FTC). Exxon and Mobil were the top two oil producers, respectively in the industry prior to the merger. The merger resulted in a major restructuring of the combined entity, which included selling more than 2,400 gas stations across the United States.1 The joint entity continues to trade under the name Exxon Mobil Corp. (XOM) on the New York Stock Exchange (NYSE).2

Acquisition: AT&T Buys Time Warner

On June 15, 2018, AT&T Inc. (T) completed its acquisition of Time Warner Inc., according to AT&T's website.3 However, due to intervention by the U.S. government to block the deal, the acquisition went to the courts, but in February 2019, an appeals court cleared AT&T's takeover of Time Warner Inc.4

Q13. Explain concept of agile organization

Agile organizations are able to adapt and react quickly to changing circumstances. They embrace a complex and unpredictable environment by being customer-centric rather than profit-centric, adopting fast learning and decision cycles, and building a network of empowered teams and individuals enabled by technology and driven by a shared purpose.

Traits of an Agile Organization:

1. Customer-centricity.

Instead of focusing on optimizing operational processes to increase profit margins, agile organizations focus on understanding the needs of their customers and creating customized solutions.

Making a profit is by no means less important to agile organizations and is generated by creating value for customers.

2. A network of teams.

While agile organizations maintain a traditional top-level hierarchical structure, the remainder of the organization is essentially a system of autonomous networked teams with a shared purpose and vision.

3. A shared purpose.

An organizational culture that focuses on its people by investing in their development builds a strong community of empowered employees. Inspiring leadership and a people-centric organizational culture are key to connecting employees to a company's vision and purpose.

4. Open communication.

Adopting a transparent and open style of communication makes it easier for teams and individuals to get the information to make good decisions. It also allows them to do so much at a faster rate than they would be able to in a system that enforces a communication structure defined by detailed policies and protocols for every eventuality.

5. Fast learning and decision cycles.

In order to respond to an unpredictable and ever-changing environment fast, agile organizations have short learning, product development, and decision cycles. This allows them to make continuous small and focused changes that incrementally add value.

6. Seamless integration of technology.

Rather than simply digitalizing existing processes, agile organizations strive to truly integrate new technologies into their operational processes and practices. New collaboration, communication, and management tools, for example, do not only introduce a new way of working together and managing projects but can also save a lot of time.