Business Studies

Day & Date of the Examination: THURSDAY, 06.03.14

Subject: BUSINESS STUDIES

Marks of answering the paper: 1

No. of Supplementary answer-book(s) used: N/A

Category: B

Whether writer provided: Yes / No

Each letter must be written in one box and one box be left blank between each part of the name. In case Candidate's Name exceeds 24 letters, write first 24 letters.
Certified that I/we have evaluated this answer-book according to the correct set of question paper and strictly as per the marking scheme.
Management of people is concerned with managing the people with whom the basic task of management.

It has two aspects:

1. Dealing with subordinates as individuals with different needs.
2. Dealing with subordinates as a group of people.

The basic task of management is to make people work towards goals by making their strengths effective and weaknesses irrelevant.

The objective of method study is to find one best method of doing the task by minimizing the cost of production and maximizing quality and customer satisfaction.

Political environment of business includes:

1. Stability
2. Peace
3. Attitude of elected representatives that affects the business environment.
Policy (Strategic plan) are the general guidelines that bring uniformity in decision making to achieve the goals of the organisation. They define the broad parameters within which a manager may function. e.g. 30% vacancy for women.

Authority means the right of an individual to give orders and take action within the scope of his/her position. Authority is needed to discharge the given responsibility.

Formal organisation is a system of well-defined jobs each bearing a definite measure of authority, responsibility and accountability. Formal organisation helps in easy fixation of responsibility since mutual relationships are clearly defined.
When organisations use internal sources of recruitment, the competitive spirit among them gets hampered. They are likely to expect promotion by seniority, so they become lethargic. Moreover, frequent transfers and terminations reduce the productivity of employees.

8. Human resource management includes many specialised activities and duties which the human resource personnel must perform. These are:
   a) Analysing jobs, collecting information about jobs to prepare job descriptions.
   b) Defending the company in law suits and avoiding legal complications.


10. Encoding is the initial step in communication process. It includes converting the message into communication.
Capital structure refers to the financing pattern or proportion of use of different sources in raising funds. Basically, capital structure refers to the mix between owner's funds and borrowed funds.

As the price of raw material, labour, electricity, etc. rises, the business firm requires more working capital to maintain a constant volume of production and sales. So, inflation rises the working capital requirement.

The line from given paragraph “It was sufficient for him to fulfill basic needs of his family” indicates the fulfillment of basic physiological needs. Basic physiological needs are related to survival and maintenance of human life. E.g., food, clothing, shelter, etc. In organizational context, basic salary fulfills such needs.
The line from the paragraph, "The cycle company offered him a permanent pensionable job," indicates the fulfillment of safety/security needs.

Safety/security needs provide protection against physical or emotional harm. E.g.: safety of property, an organizational context, status, stability of income, pension plans satisfy such needs.

The two other needs which are still to be fulfilled include:

1) Social affiliation/belonging needs - It includes affection, acceptance, friendship.
   In organizational context, congruence, relationships with others.
   Friendship etc. fulfill such needs.

2) Esteem needs - Estee needs are those needs, the satisfaction of which leads to self-esteem, and self-reliance.
   In organizational context, recognition, status, etc.
   To satisfy such needs.
14. Directing is telling the people what to do and seeing that they do it to the best of their ability. Directing is the heart of management. It helps in efficient and effective functioning of the organisation in the following ways:

1) Directing initiates action in the organisation - Directing initiates action in the organisation towards the achievement of goals. For e.g., if a manager directs his/her subordinates and clarifies their doubts in the performance of work, it will help them to achieve the goals.

2) Directing integrates employees' efforts - Directing integrates employees' efforts in such a manner that each individual effort contributes to the achievement of goals. For e.g., a manager with good leadership skills should motivate his employees that individual efforts and team efforts will both lead to the achievement of goals.

3) Directing helps the employees to fully utilize their potential and capabilities - Directing helps the employees so by providing motivation and good leadership skills.
managers with good leadership and motivation skills is able to identify the potential of employees. He/she provides the needed confidence support whenever they fail to recognize their talent or skills. He/she provided training to them to improve their performance.

Financial market is the market for creation and exchange of financial assets. It plays an important role in the allocation of resources in an economy by performing various functions which include:

1. Mobilisation of funds and deployment of funds into most productive investment use - Financial market helps in raising funds. It acts as a link between savers and investors by mobilising the funds between them. It directs these funds into most productive investment use which leads to growth and development of country.

2. Liquidity - Financial markets provide easy purchase and sale of financial securities. This provides liquidity.
to financial assets which can be easily converted into
cash, whenever required.

3) Price discovery: In the financial markets, the household's
young consumers' supply and business firms indicate
demand. The interaction of these inputs in the fixation of
securities in the market.

The important product-related decision that was not
taken into consideration by the company was changing
people's label to be put on the package of product. Label
play a very important role in describing the product
and specifying its content. An appropriate label should
provide necessary information to customers such as
manufacturing expiry dates, its net weight, precautions, etc.
In hazardous goods like crackers, it is very necessary for
the customers to learn about the risks associated with
the product. Label provides all safety warnings and
measures that should be kept in mind while using the
product.
11) The two values which are violated by company are:
   (a) Legal responsibility - It is the legal responsibility of manufacturers to put appropriate label on packets of product under the Consumers Protect Act, 1986.
   (b) Endangering life of others - Because the mistake of company, people had to face accidents leading to severe brain injuries.

Consumer protection means protecting and providing the interest of consumers through speedy and inexpensive redressal of their grievances. The consumer protection plays a very important role in consumer's life in following ways:

(a) Consumer ignorance - In India, consumers are ignorant about the rights and relief available to him. So, it becomes very necessary to educate the customers about the same to achieve consumer awareness.
(b) Unorganised customers - In India, we do have many
consumer associations and NGO which are working in the field of protecting and promoting the interest of consumer. However, these organizations are small in number and not so powerful to take action against businesses experiencing unfair trade practice. So, it becomes necessary to educate the consumers about the same.

(c) Widespread exploitation of customers - With the growing competition and in an attempt to increase sales and profits, businesses often indulge in unfair trade practices such as holding and one-deal marketing, providing unsafe products, misleading advertisements. So, consumers are exposed to the risk of electric shock, paying higher prices, cheated by purchasing spurious products, etc. So, it becomes very necessary to protect the consumers against such risks.

(ii) Right to be informed - The consumer has the right to have complete knowledge about the product he/she intends to buy including its manufacturing date, expiry date, net weight when packed, price, ingredients, etc.
so the manufacturer of the product must provide all such information on the package and label of product.

(ii) Right to safety - The consumer has the right to be protected against the goods which are hazardous to life and health. For eg: the use of electrical appliances produced with substandard materials and not containing safety marks might cause serious injury. So the consumers are educated to buy also marked electrical appliances just for the assurance of quality. Similarly, Ipo for food products, hallmark for jewellery, and trademark for agricultural products form quality assurance.

Thus, the following objectives of management are fulfilled:

1. Economic objectives - Economic objectives of firms include:
2. Survival - Survival is the basic objective of business. Every management must ensure survival of organisation.
The business must earn enough revenue to cover costs.

(iii) Profit: Profit is an incentive for continue successful operation of business. Profit is essential for covering the cost and risks of business.

(iv) Growth: Every business seeks to add to its prospects in the long run. For this, it is important for the business to grow. The management must fully exploit the growth potential of business. Indicators of growth are: increase in sales turnover, employees, capital investment, etc.

(b) Social Objectives: Social objectives are related to creation of benefits for society such as:

(i) Providing quality products at reasonable price.

(ii) Generating employment opportunities for disadvantaged sectors of society.

(iii) Providing basic amenities like schools, hospitals, etc.

(iv) Use environment friendly techniques of production.

(v) Development of remote areas.
(c) Individual objectives (Personal objectives) - Personal objectives are related to employees of an organisation. Individuals must be able to satisfy their personal objectives while contributing to organisational objectives. For example, opening schools for children of employees.

(i) Value to use non-exhaustible sources of energy. It helps in sustainable development.

(ii) Value to develop society by generating employment opportunities in remote areas.

Business environment refers to sum total of all individuals or institutions and external forces that are outside the control of business but may affect its functioning. Business environment is important because:

(a) It enables the firm to identify opportunities and giving the firm more advantage. Opportunities refer to positive external environment trends and
changes that enable a firm to improve its performance. By keeping a close check on business environment, the firm is able to identify opportunities and find strategies to capitalize on these opportunities at the earliest. Foreign managers become the leader in small car market, because it was first one to recognize the environment of large middle class population & growing prices in India.

(b) It helps in assisting in planning & policy formulation. The manager who environment scanning helps in identifying opportunities and threats available in market. This may serve as basis for deciding the future course of action and training guidelines (policy).

(c) It helps in coping with rapid change. The managers who continuously monitor their environment and adopt suitable course of action are able to cope up with different market conditions, intense global competition, etc.

(d) It help in tapping various useful resources. The business firm is an open system which depends upon its environment for resources, converts them into goods.
Training is the process of increasing the knowledge and skills of employees such as intelligence, skills, etc. Training of employees is very beneficial to the organization in following ways:

(a) Systematic learning - Training is a systematic learning which is always better than hit and trial method which leads to wastage of resources and efforts.

(b) Higher performance - Training increases the productivity of employees both in respect of quality and quantity which leads to higher profit in the organization.

c) Develops managerial talent - Training helps to develop future managers who can manage...
entrepreneur in case of emergency

(a) reduces absenteeism and employee turnover. Planning increases the morale and motivation of employees which reduces absenteeism and employee turnover.

Financial planning means estimating the funds requirements of a business and determining the sources of funds for investment in current and fixed assets and future expansion prospects.

The following points highlight the importance of financial planning:

(a) Financial planning enables a firm to tackle the uncertainties in respect of availability and timing of funds. This helps in smooth functioning of business.

(b) It helps to forecast what may happen in different business situations. By doing so, it makes the firms better prepared to face the future. For eg:- sales of 10% is predicted. However, the growth rate turns out to be 5% or 15%. The revenues and cost are different in all
the three situations. By preparing a blueprint of these three situations, a business may decide what must be done in each of these situations.

(c) Detailed plans of action reduce waste, duplication of efforts and gaps in financial planning.

(d) It tries to link the present and future. It helps in preventing business risks and snags and prepares a blueprint of an organisation's future preparations.

Planning is concerned with what to do and how to do.

The following points highlight the limitation of planning:

(1) Planning leads to rigidity - once a well-defined plan has been established, managers may not be in a position to change it. They cannot have the enough flexibility to cope up with changed circumstances. So, planning leads to a rigid view of functioning for managers.

However, following a predetermined plan when circumstances have changed may not be in organisation's interest.
b) Planning is time consuming - Planning involves collection of information, its analysis and interpretation. All these activities take so much time that much time is lost for implementation of plans. Planning is a futile exercise if it is not implemented on time.

c) Planning incurs costs - When plans are drawn up, huge costs are incurred in formulation of plans such as expenditures on board meetings, etc. If the costs incurred in plan is more than benefits derived from it, it may have an adverse effect on enterprise.

d) Planning may not guarantee success - The success of an organisation is possible only when the plans are properly drawn up and implemented. However, the managers have a tendency to follow previously tried plans. Moreover, it is not necessary that plans which have worked earlier will again work effectively. Moreover, there are many unknown factors on which managers have no control like natural calamities.

Planning reduces creativity - Top management prepares plans.
Middle and Lower Level Management are neither allowed to deviate from plans nor act on their own. Thus, much of the initiative or creative ability in these Gastoxic reductions. There is nothing new or innovative. For example, a unit was assigned a target producing 150 units. Due to the habit of doing things differently, an idea struck him that not only would achieve the target but also exceed him. But, instead of appreciating him, the manager ordered him to work to compute it as per predetermined ways.

<table>
<thead>
<tr>
<th>Capital Market</th>
<th>Money Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>Participants involved are RBI, commercial banks, large corporates, banks, foreign investors, houses, mutual funds, etc.</td>
</tr>
<tr>
<td>are commercial</td>
<td>are non-commercial</td>
</tr>
<tr>
<td>development</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(ii) Relationship between traded instruments and traded instruments in money

Instruments traded are equity shares, treasury bills, commercial bills, commercial paper, shares, bonds, etc.

Instruments in money traded are cash money, certificates, and deposits, etc.

(ii) Investment in capital vs. investment in money

Outlay market does not require market requires huge capital outlay because capital outlay because the value of securities is very low. Treasury bills are quite expensive. 100 and minimum in Treasury bills are trading long shares is kept available for minimum sum of $2,000 and in small investors can purchase multiple thereof.
(iii) Duration: The securities are held for long periods of time. So, there is scope of earning higher returns.

(iv) Duration: The instruments traded here have a maturity period of more than one year.

(v) Liquidity: Capital market instruments are highly liquid. They are liquid as they are listed on stock exchanges and can be traded to the extent a buyer may need to sell them.

Money market instruments are not actively traded in the market and may not find a buyer easily.
Price may be defined as the amount paid by buyer in consideration to the purchase of a product. Price determines the success or failure of a product as it determines its demand. Generally, low price increases the demand of a product. Price is the single most factor that affects the revenue or profits of a business firm.

The factors determining the fixation of price of a product are:

a) Product Cost: Product cost is the minimum level or floor price of a product. It is the cost incurred in acquiring, selling, and distributing goods. It is necessary that the price of a product must cover the cost of product in the long run along with a margin of profit. 20% and above the cost.

b) Competition: The level of competition in the market also affects the fixation of price. If a firm faces no competition in the market, it can enjoy the freedom of fixing any price for its product. However, if the level of competition is high, the firm should fix lower
In order to attain target and standards, an economic principle of cooperation and management must be adopted. By following this principle, society can be considered

(a) Producing many varieties of a product. The marketing and distribution of such goods would ensure the price of the product is not affected by the quantity of goods produced.

(b) Producing goods with high quality, it can ensure the price of the product

(c) In order to product and maintain the quality of goods, it is important to

(d) Setting the price from the product's quality.
principle is an extension of "Harmony not Discord". The management should not close its ears to constructive suggestion by subordinates but should reward such suggestions which result in substantial time and cost reduction. The workers must be made a part of management and part of all important decisions. The workers in their part should make reasonable demands and not go on strikes.

According to Fayol, there should be equitable distribution of work between workers and management. The management should help encourage and try to smoothen their way for employees. This is called paternalistic style of management whereby the employer takes care of needs of employees.

Fayol suggested that a good company should have an employee suggestion plan system. Whenever suggestions which result in substantial time or cost reduction should be rewarded. Fayol adopted the administrative
principle: 'Initiative'. Initiative means taking the first step with motivation. It means thinking out and executing the plans. It is one of the traits of an intelligent system.

According to Fayol, employees should be encouraged to develop and carry out plans for their self-development such as employee suggestion systems in the company. However, initiative should be encouraged but it does not mean freedom to do whatever they want. They should exercise discipline also.

Organising is the process that initiates implementation of plans by clarifying jobs and working relationship and effectively deploying the resources for the attainment of organisational goals. Organising involves a series of steps which include:

1) Identification and division of work - The first step in organising is identifying and dividing the total work into small manageable units called jobs.
2) Departmentalisation: The second step in organizing is grouping the similar or related jobs into departments. This is called departmentalization or departmentalisation. Departments can be created on the basis of:

(i) Product (cosmetics, footwear, etc)
(ii) Territory (east, west, north, south)
(iii) Functions (production, marketing, etc).

3) Assignment of Duties: Once the departments have been formed, it is necessary to assign necessary duties and responsibilities to members in accordance to their skills and abilities. In other words, work must be assigned to those who are best fitted to perform it well.

4) Establishing Reporting Relationship: Merely allocating work is not enough. Authority responsibility relationship needs to be established so that member may know from whom he/she has to take orders or to whom he/she is accountable.
controlling function measures the accomplishment of goals according to plans and takes corrective action to ensure the performance of work according to targets. The following points highlight the importance of controlling:

1) accomplishing organizational goals—controlling measures the progress towards goals, identifies deviations if any, and takes the corrective action to ensure the accomplishment of goals.
b) Judging accuracy of standards - Controlling helps the management to judge whether the standards set are accurate and reliable. It keeps a careful check on changes taking in the environment and helps to review, revise and update standards in the light of such changes.

c) Optimum utilization of system - By exercising control, a manager judiciously hostage of resources. All the activities are performed as per predetermined standards. Thus, control controlling helps in the optimum utilization of resources.

d) Ensures order and discipline - Controlling reduces the dishonest behaviour on part of employees by keeping a careful check on their activities. Thus, it ensures order and discipline in organization.
(i) Stability of earnings: If a company has stable earnings, it is likely to declare higher dividends. On the other hand, if the company has unstable earnings, it can only pay smaller dividends.

(ii) Growth opportunities: If a company has high growth opportunities, it is likely to pay low dividends and retain more money out of profits to invest in profitable projects. On the other hand, a non-growth company can pay higher dividends.

(iii) Cash flow position: If the cash flow position means outflow of cash, availability of cash is essential to pay dividends. However, if the cash flow position of a company is strong, it can pay high dividends. But sometimes it is possible that a company may have strong cash flow position, but may fall short of cash, so, it can pay
smaller dividend only.

High Dividend Policy - Dividend are free of taxes in the hands of shareholders. So, they prefer higher dividend. But, a dividend distribution tax is levied on the company. So, if the rate of tax is high, company must pay less dividend, and if the rate of tax is low, it can payecause higher dividend.

36. Advertising is any paid form of non-personal presentation and promotion of goods, services, ideas, etc. undertaken by an identifiable sponsor.

Though advertising is one of the most frequently used medium of promotion of goods & services, yet it attracts a lot of objections from which are:

10. Dollar to cost - Companies spend lakhs of rupees on a few seconds of advertisement. Similarly, advertisements in TV and magazine cost the marketer huge sum of money. Such expenses are added to cost and passed to th
Buyers in the form of high prices.

(b) Advertising undermines social values. Advertising leads to materialism and multiplicity needs. It encourages the customers to buy new latest products, thereby discarding old, but still functional ones.

(c) Confuses the buyer rather than help everyday, see constant hundreds of advertisements on TV, newspaper, etc. about a single product of various brands. Foreign advertisement of TV of various brands such as Sony, etc. This confuses the buyer and it becomes difficult for the buyer to make a right choice as every claim that they are best.

Some advertising makes false claims - Some advertisements make false claims about the quality of produce, eg. a brand bag, Bratz rapunzel doll. 

Conclusion - Though there are certain objections but they can be excluded as today's customer is smart enough to make right the