CHAPTER 1 HISTORICAL BACKGROUND OF COMMERCE IN THE SUB-CONTINENT

Very Short Answer Questions

1. What is meant by Barter system?
   - The barter system envisages mutual exchange of one’s goods to other without the intervention of money as a medium of exchange.

2. What is meant by Nallangadi?
   - Day market was called as Nalangadi according to Saint Poet Ilango in Silapathigaram

3. What is meant by ‘Angadi’
   - The place where the goods were sold was called ‘Angadi’ in their period according to Saint Poet Ilango in Silapathigaram

4. Who is Yavanars?
   - Foreigners who transacted business were known as Yavanars.

5. Who is Jonagar
   - Arabs who traded with Tamil were called ‘Jonagar’.

6. What is meant by Allangadi
   - the night market was called as Allangadi according to Saint Poet Ilango in Silapathigaram

Short Answer Questions

1. Explain the meaning of the term “Vanigam”.
   - Activities involving distribution of goods and services
   - It creates place utility by moving goods from producers to consumers
   - It represents demand side of goods and services

2. State the meaning of Maruvurapakkam and Pattinapakkam.
   - Big cities like Poompuhar had the “Maruvurappakam” (inland town) and ‘Pattinapakkam’ (coastal Town), had market and bazaars where many merchants met one another for the purpose of selling or buying different kinds of commodities and food stuff.

3. What are the ports developed by Pandiya kingdom?
   - Korkai,
   - Saliyur,
   - Kayal,
   - Marungaurpattinam
   - Kumari

4. What was focused in Arthasasthra about creation of wealth?
   - Kautilya gave importance for the State in relation to treasury, taxation, industry, commerce, agriculture and conservation of natural resources
   - Arthasasthra focused on creation of wealth as the means to promote the well being of the state.
   - He advocated maintenance of perfect balance between State management and people’s welfare through trading activities
Long Answer Questions

1. What are the hindrances of business?
   - Hindrance of person
   - Hindrance of place
   - Hindrance of time
   - Hindrance of risk of deterioration in quality
   - Hindrance of risk of loss
   - Hindrance of knowledge
   - Hindrance of exchange
   - Hindrance of finance
   - Hindrance of developing the exact product
   - Hindrance of both selection and delivery at doorsteps

2. Explain any five hindrances of business
   a. Hindrance of person
      - There is no direct connection between the consumer and the manufacturer is called hindrance of person
      - Trade removes Hindrance of person
   b. Hindrance of place
      - The space between the location of the consumption and the place of production is called Hindrance of place
      - Transport removes Hindrance of place
   c. Hindrance of time
      - The gap between production time and time of consumption is called Hindrance of time
      - Warehousing removes Hindrance of time
   d. Hindrance of risk of loss
      - Fire, theft, floods and accidents may bring huge loss to the business.
      - Insurance companies serve to cover the risk of such losses
   e. Hindrance of knowledge
      - Advertising and communication help in announcing the arrival of new products and their uses to the people

3. State the constraints in barter system.
   1. Lack of double coincidence of Wants
      - Unless two persons who have surplus have the demand for the goods possessed by each other, barter could not materialize
   2. Non-existence of common measure of value
      - Barter system could not determine the value of commodities to be exchanged as they lacked commonly acceptable measures to evaluate each and every commodity
3. Lack of direct contact between producer and consumers
   ➢ It was not possible for buyers and sellers to meet face to face in many contexts for exchanging the commodities for commodities,

4. Lack of surplus stock
   ➢ Absence of surplus stock was one of the impediments in barter system.
   ➢ If the buyers and sellers do not have surplus then no barter was possible

4. Explain the development of Commerce and Trade in North India.
   ➢ Balban was the first sultan who paved the way in the dense forest and helped traders and their commercial caravans to move from one market place to others
   ➢ Alauddin Khilji brought the price to a very low ebb.
   ➢ He encouraged import of foreign goods from Persia and subsidised the goods
   ➢ Arabs were dominant players in India’s foreign trade.
   ➢ They never discouraged Indian traders like Tamils, Gujaratis, etc.
   ➢ The Trade between the coastal ports were in the hands and Marwaris and Gujiratis.
   ➢ During Sultanate period, trade flourished due to the establishment of currency system based on silver and copper.
   ➢ Moorish traveller described the teeming market of big cities in the Gangetic plains, Malwar, Gujarat and South India.
   ➢ The important trade centres were Delhi, Mumbai, Ahmedabad, Sonar, Sonargoon, Jaunpur, Lahore and so on.
   ➢ India’s handicraft commanded a good foreign market
   ➢ Trade was conducted through overland roots with Afghanistan, Central Asia and Persia
   ➢ India conducted foreign trade via land route with Quetta, Khyber pass, Iraq and Bukhara.

5. Briefly explain the coastal trade in ancient Tamilnadu.
   ➢ Big cities like Poompuhar had the ‘Maruvurappakam’ (inland town) and ‘Pattinapakkam’ (coastal Town), had market and bazaars where many merchants met one another for the purpose of selling or buying different kinds of commodities and food stuff
   ➢ Port towns like Tondi, Korkai, Puhar and Muziri were always seen as busy with marts and markets with activities related to imports and exports.
   ➢ In such a brisk trade, people of the coastal region, engaged themselves in coastal trade and developed their intercontinental trade contacts.
   ➢ They were engaged in different kinds of fishing pearls, and conches and produced salts and built ships
Boats like ‘Padagu’, ‘Thimil’, ‘Thoni’, ‘Ambu’ ‘Odampunai’ etc... were used to cross rivers for domestic trade while Kalam, Marakalam, Vangam, Navai etc.. were used for crossing oceans for foreign trade.

6. What do you know about the overseas trading partners of ancient Tamilnadu?
   - Foreigners who transacted business were known as Yavanars.
   - Arabs who traded with Tamil were called ‘Jonagar’.
   - Pattinappalai praised Kaveripumpattinam as a city where various foreigners of high civilization speaking different languages assembled to transact business with the support of the then Kingdom.
   - The role of the State in trade related to two aspects namely adequate infrastructure to sustain the trade and administrative machinery for taxation.
   - During the Sangam period, the main trade routes were passing through thick forests over western ghats.
   - The State protected the merchant caravans on these trade routes from robbers and wild life.
   - Main roads known as Peruvali were built for surface transportation.
   - Besides state expanded infrastructure for shipping such as ports, lighthouse, warehouse etc.. to promote overseas trade.
   - Many such ports were developed during the Sangam period.
   - Kaveripumpattinam was the chief port of the Kingdom of Cholas while Nagapattinam, Marakannam, Arikamedu etc.. were other small ports on east coast.
   - Similarly Pandiyas developed Korkai, Saliyur, Kayal, Marungaur pattinam and Kumari for foreign trade.
   - The State Governments installed check posts to collect customs along the highways and the ports.

CHAPTER 2 OBJECTIVES OF BUSINESS

Very Short Answer Questions

1. Define Economic Activities.
   Economic activities are those activities which are undertaken to earn money or financial gain for livelihood.

2. What do you mean by Business?
   According to James Stephenson business refers to “Economic activities performed for earning profits.”

3. Define Profession.
   - Professions are those occupations which involve rendering of personal services of a special and expert nature.
   - A profession is something which is more than a job.

4. What do you mean by Employment?
   It refers to the occupation in which people work for others and get remuneration in the form of wages or salaries.
Short Answer Questions

1. What do you mean by human activities? Explain.
   - Human activity is an activity performed by a human being to meet his/her needs and wants or may be for personal satisfaction.
   - Human activities can be categorised into economic and non-economic activities.

2. Write short notes on:
   a) Business
      - Business refers to any human activity undertaken on a regular basis with the object to earn profit through production, distribution, purchase and sale of goods and services.
   b) Profession
      - Professions are those occupations which involve rendering of personal services of a special and expert nature.
      - A profession is something which is more than a job.

3. Explain the concept of ‘Business’.
   - Business refers to any human activity undertaken on a regular basis with the object to earn profit through production, distribution, purchase and sale of goods and services.
   - Business activities are connected with raising, producing or processing of goods.
   - Industry creates form utility to goods by bringing materials into the form which is useful for intermediate consumption (i.e., further use of material in order industry) or final consumption by consumers.

4. Briefly state the human objectives of a business.

   Economic Activities
   Activities undertaken with the object of earning money are called economic activities.
   Examples:
   i. Production of goods by manufacturers
   ii. Distribution of goods by wholesalers
   iii. Selling by retailers

   Non-Economic Activities
   Activities undertaken to satisfy social and psychological needs are called non economic activities.
   Examples:
   i. Cooking food for family
   ii. Celebrating festivals

Long Answer Questions

1. Explain the characteristics of Business
   i. Production or Procurement of Goods
      - Goods must be produced or procured in order to satisfy human wants.
   ii. Sale, Transfer or Exchange
      - There must be sale or exchange of goods or services.
2. Compare business with profession and employment

<table>
<thead>
<tr>
<th>Mode of Establishment</th>
<th>Business</th>
<th>Profession</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode of Establishment</td>
<td>Promoter’s decision registration and other formalities as prescribed by law</td>
<td>Membership of a professional body or certificate of practice</td>
<td>Service contract or letter of appointment</td>
</tr>
<tr>
<td>Nature of Work</td>
<td>Goods and services provided to the public</td>
<td>Personalized service of expert nature</td>
<td>Performing work assigned by the employer</td>
</tr>
<tr>
<td>Reward</td>
<td>Profits</td>
<td>Professional fee</td>
<td>Salary or wages</td>
</tr>
<tr>
<td>Risk</td>
<td>Profits are uncertain and irregular</td>
<td>Fee is regular and certain, never negative</td>
<td>Fixed and regular pay, no risk</td>
</tr>
<tr>
<td>Transfer of Interest</td>
<td>Transfer possible with some formalities</td>
<td>Not possible</td>
<td>Not transferable</td>
</tr>
</tbody>
</table>

3. Discuss any five objectives of business

A. Economic Objectives
- Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes creation of customers, regular innovations and best possible use of available resources.

B. Social Objectives
- Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society

C. Organizational Objectives
- The organizational objectives denote those objectives an organization intends to accomplish during the course of its existence in the economy like expansion and modernization, supply of quality goods to consumers, customers' satisfaction, etc.
CHAPTER 3 CLASSIFICATION OF BUSINESS ACTIVITIES

Very Short Answer Questions:

1. Define commerce.
   According to Evelyn Thomas, “Commercial operations deal with the buying and selling of goods, the exchange of commodities and the contribution of finished products”.

2. What do mean by industry?
   ➢ Industry refers to economic activities, which are connected with conversion of resources into useful goods.
   ➢ The production side of business activity is referred as industry

3. What is trade?
   ➢ The term ‘trade’ is used to denote buying and selling.
   ➢ It helps in making the goods produced available to ultimate consumers or users

4. Write a short note on transportation
   ➢ Goods are to be sent to different places where they are demanded.
   ➢ The medium which moves men and materials from one place to another is called transport.

### D. Human Objectives

Human objectives refer to the objectives aimed at the well-being as well as fulfilment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training.

### E. National Objectives

Being an important part of the country, every business must have the objective of fulfilling national goals and aspirations.

### 4. Distinguish between economic and non economic activity

<table>
<thead>
<tr>
<th>Basis</th>
<th>Economic activity</th>
<th>Non Economic activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motive</td>
<td>Sole motive is to earn money or financial gain.</td>
<td>Undertaken for satisfaction of social, psychological or emotional needs.</td>
</tr>
<tr>
<td>Money Measurement</td>
<td>All economic activities can be valued in monetary terms.</td>
<td>Non-economic activities cannot be valued in monetary terms.</td>
</tr>
<tr>
<td>Relationship</td>
<td>Economic activities are related to creation of wealth.</td>
<td>Non-economic activities do not create wealth.</td>
</tr>
<tr>
<td>Duration:</td>
<td>Economic activities are repetitive.</td>
<td>Non-economic activities may not be undertaken regularly.</td>
</tr>
<tr>
<td>Source of Initiation</td>
<td>Economic activities are initiated to satisfy human needs and wants</td>
<td>Non-economic activities are initiated to satisfy emotional or sentimental pleasures</td>
</tr>
</tbody>
</table>

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Short Answer Questions

1. Distinguish between Extractive industries and genetic industries.

<table>
<thead>
<tr>
<th>Extractive industries</th>
<th>genetic industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>These industries extract or draw out products from natural sources</td>
<td>These industries remain engaged in breeding plants and animals for their use in further reproduction</td>
</tr>
<tr>
<td>Examples: farming, mining, oil drilling, hunting and fishing operations.</td>
<td>Examples: nursery companies, poultry, diary, piggery, hatcheries, nursery</td>
</tr>
</tbody>
</table>

2. What do you mean by tertiary industries?
   - They do not produce goods.
   - These industries produce utility services and sell them at a profit.
   - They help trade, industry and commerce.

3. Write any three characteristics of commerce.
   - Activities involving distribution of goods and services
   - It represents demand side of goods and services
   - It creates place utility by moving goods from producers to consumers

4. Narrate commerce with an example.
   - Commerce is the exchange of goods, services or commodities on a large scale.
   - Nearly every business transaction is a form of commerce: purchasing food at a restaurant, buying stocks on the stock market, selling goods in a store, drilling for oil, etc.
   - The financial industry often breaks down commerce into more specific categories.

Long Answer Questions

1. Explain the various kinds of industries on the basis of size.
   1. Micro Industries
      - In case of Manufacturing Sector Investment in plant & machinery Does not exceed twenty five lakh rupees
      - In case of service Sector Investment in equipments Does not exceed ten lakh rupees
   2. Small Industries
      - In case of Manufacturing Sector Investment in plant & machinery More than twenty five lakh rupees but does not exceed five crore rupees
      - In case of service Sector Investment in equipments More than ten lakh rupees but does not exceed two crore rupees
   3. Medium Industries
      - In case of Manufacturing Sector Investment in plant & machinery More than five crore rupees but does not exceed ten crore rupees
      - In case of service Sector Investment in equipments More than two crore rupees but does not exceed five core rupees
   4. Large Industries
      - Large scale industries refers to those industries which require huge infrastructure, man power and a have influx of capital assets.
The term 'large scale industries' is a generic one including various types of industries in its purview.

All the heavy industries of India like the Iron and steel industry, textile industry, automobile manufacturing industry fall under the large scale industrial arena

2. Compare industry, commerce and trade.

<table>
<thead>
<tr>
<th>Basis</th>
<th>Industry</th>
<th>Commerce</th>
<th>Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEANING</td>
<td>Extraction, reproduction, conversion, processing and construction of useful products.</td>
<td>Activities involving distribution of goods and services</td>
<td>Purchase and sale of goods and services</td>
</tr>
<tr>
<td>SCOPE</td>
<td>Consists of all activities involving conversion of materials and semi-finished products into finished products.</td>
<td>Comprises trade and auxiliaries to trade.</td>
<td>Comprises exchange of goods and services.</td>
</tr>
<tr>
<td>CAPITAL</td>
<td>Generally large amount of capital is required.</td>
<td>Need for capital is comparatively less</td>
<td>Capital is needed to maintain stock and grant credit</td>
</tr>
<tr>
<td>RISK</td>
<td>Risk involved is usually high</td>
<td>Relatively less risk is involved.</td>
<td>Relatively less risk is involved.</td>
</tr>
<tr>
<td>SIDE</td>
<td>It represents supply side of goods and services.</td>
<td>It represents demand side of goods and services.</td>
<td>It represents both supply and demand.</td>
</tr>
</tbody>
</table>

3. What are the characteristics of commerce?

- Commerce is an economic activity because it is undertake to earn profit.
- Commerce involves the exchange of goods and services for profit.
- The primary objective of Commerce is to earn profit
- Commerce involves the creation of time and place utility for the products.
- Commerce consists of regular transaction.

4. Write short notes on:
   a. Analytical industry
      - **Analytical Industry** which analyses and separates different elements from the same materials, as in the case of oil refinery
   b. Genetic Industry
      - These industries remain engaged in breeding plants and animals for their use in further reproduction
      - Examples: nursery companies, poultry, diary, piggery, hatcheries, nursery
   c. Construction Industry
      - These industries are involved in the construction of building, dams, bridges, roads, as well as tunnels and canals.
4. Briefly explain the auxiliaries to trade

Following are the important auxiliaries to trade:

(a) Transportation
   - Production of goods generally takes place in particular location.
   - But these goods are demanded for consumption in different parts of the country.
   - This hindrance of place can be removed by transportation—road, rail or coastal shipping, etc.

(b) Communication:
   - The hindrance of information is removed by communication.
   - Communication helps in exchange of information between producers, consumers and traders.

(c) Banking and finance
   - Banks and financial institutions provide credit facility to provide finance for smooth flow of business activities.
   - Other facilities like collection and deposit of cheques, issue of bank draft, discounting of bills of exchange, etc. are also provided by banking institutions.

(d) Warehousing:
   - Goods are not consumed immediately when these are produced usually there is a time gap between production and consumption of goods. Special arrangement has to be made to store the goods to prevent the loss to goods and to keep them fresh.
   - Warehousing helps the businessman to overcome the problem of storage by creating time utility.

Chapter 4 SOLE PROPRIETORSHIP

Very short answer

1. Who is called a Sole Trader?
   "Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business" - **J.L. Hansen**

2. What are the Non-corporate enterprises?
   - Sole trading concern
   - Partnership Firm
   - Joint Hindu family business

3. What are the Corporate enterprises?
   - Government
     - Public Undertakings
     - Public Utilities
   - Private
     - Joint stock companies
   - Cooperative
4. For which of the following types of business do you think a sole proprietorship form of organisation would be more suitable, and why?
a. Grocery store  
b. Medical store  
c. Craft centre  
d. Legal consultancy  
e. Internet café  
f. Chartered accountancy firm

   ➢ Sole proprietorship form of business organisation will be more suitable for grocery store, medical store, craft centre and internet cafe.

   Reason:
   ➢ These businesses require less capital, limited managerial talent. These businesses also require personalised services and the risk is some how low in such business.
   ➢ On the other hand legal consultancy and chartered accountancy firm are not so much suitable for sole proprietorship as they require more capital, balanced decision-making, better management and the associated risk is also very high.

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Short Answer Questions

1. How is it possible to maintain secrecy in sole proprietorship?
   ➢ Absolute secrecy can be maintained by the sole proprietor,
   ➢ Secrecy is not practicable in other form of organization.
   ➢ The success of an enterprise in a competitive world mainly depends upon the capacity of the entrepreneur to keep his trade affairs as far as possible secrets from his competitors
   ➢ Moreover, a sole proprietor is not required to disclose his profits or financial position to the members of the public.

2. What is unlimited liability?
   ➢ Proprietor is liable for all the debts of the business.
   ➢ In case the assets are insufficient to meet the debts, the personal property of the proprietor can be attached.

3. Write any three characteristics of Sole Proprietorship.

   1. **Single ownership:**
      ➢ A sole proprietorship is wholly owned by one individual.
      ➢ The individual supplies the total capital from which his own wealth or from borrowed funds.

   2. **One man control**
      ➢ The proprietor alone takes all the decisions pertaining to the business.
      ➢ He is not required to consult anybody.
      ➢ Ownership and management are vested in a person.

   3. **No legal entity:**
      ➢ A sole proprietorship has no legal entity separate from its owner.
      ➢ The law makes no distinction between the proprietor and the business.
      ➢ The assets and liabilities of the business and its proprietor are not different.

4. Give some examples of Sole trading business.
   a. Grocery store  
   b. Medical store  
   c. Craft centre  
   d. Internet café

5. Define Sole trading business.
“Sole proprietorship is that form of business organisation which is owned and controlled by a single individual. He receives all the profits and risks all of his property in the success or failure of the enterprise”. - Wheeler

Long Answer Questions
1. Explain the characteristics of Sole trading business.
   4. Single ownership:
      ➢ A sole proprietorship is wholly owned by one individual.
      ➢ The individual supplies the total capital from which his own wealth or from borrowed funds.
   5. One man control
      ➢ The proprietor alone takes all the decisions pertaining to the business.
      ➢ He is not required to consult anybody.
      ➢ Ownership and management are vested in a person.
   6. No legal entity:
      ➢ A sole proprietorship has no legal entity separate from its owner.
      ➢ The law makes no distinction between the proprietor and the business.
      ➢ The assets and liabilities of the business and its proprietor are not different.
   7. No profit sharing:
      ➢ The proprietor is all alone entitled for all the profits and losses of the business.
      ➢ He bears the complete risk and there is nobody to share the risks, workload or any profit or losses.
   8. Small size
      ➢ The scale of operation carried out by sole proprietor is generally small.
   9. Unlimited liability
      ➢ Proprietor is liable for all the debts of the business.
      ➢ In case the assets are insufficient to meet the debts, the personal property of the proprietor can be attached.

2. What are the advantages of Sole trading business?
   1. Easy to form
      ➢ The outstanding advantage of sole proprietorship is that it can be formed very easily and quickly.
      ➢ No legal complications are involved except that a license has to be taken from the local authority.
   2. Secrecy of business
      ➢ Absolute secrecy can be maintained by the sole proprietor,
      ➢ Secrecy is not practicable in other form of organization.
   3. Flexibility in operation
      ➢ A sole proprietor can take full advantage of entrepreneurial opportunities.
      ➢ He can change the course or line of the business at any time as may be required by a particular situation.
4. Quick decision
   - Solo proprietorship is the only concern where the owner is supreme judge of his business.
   - He can avail of business opportunities as and when they arise.

5. Free from legal restriction
   - There is no special Act which governs sole proprietorship.
   - Even registration is not mandatory unless you want to avail same benefits.

3. What are the disadvantages of Sole trading business?
   1) Limited capital:
      - Its capital is limited due to the investment of a single owner.
      - Such limited capital is insufficient for large-scale production and marketing of goods and services.
   2) Limited managerial ability:
      - It is managed by a single owner who may not have adequate managerial skills and technical abilities.
      - So, it may face various managerial deficiencies.
   3) Unlimited liability
      - The sole trader does not have limited liability to his business capital.
      - The owner must pay the liability of his business even by selling his private properties if the assets of the business are not sufficient to meet such liabilities.
   4) Loss in absence
      - It may come to close if the proprietor remains absent from his business due to his illness or other reasons.
      - So, if the owner or proprietor is absent, the business may face the loss.
   5) Uncertain life
      - Its life is closely connected with the life of the owner.
      - So, it can be terminated any time due to death, lunacy, insolvency or disability of the owner.

Chapter 5 Hindu undivided family and Partnership

Very Short Answer Questions

1. Who is called KARTA?
   - The Karta is the manager of HUF and have wide powers by way of controlling the affairs of the HUF.
   - The Karta enjoys his position in the HUF by operation of law without any agreement and consent of other members of HUF.

2. What are the two schools of Hindu law?
   1. The Dayabhaga school,
   2. The Mitakshara school.

3. Who is a called a Partner?
   Persons who enter into partnership are individually called “Partners”
4. Who is a Sleeping partner?
The partners who merely contribute capital and do not take active interest in
the conduct of the business of the firm are called sleeping or dormant or financing
partner.

5. Who is a Minor?
- A minor is a person who has not completed 18 years of age,
- where a guardian is appointed by a court, his age of majority extends to 21
  years.

6. How many types of Dissolution?
a) Dissolution of firm
b) Dissolution of partnership

III. Short Answer Questions

1. What is the meaning of Joint Hindu Family Business?
“When two or more families agree to live and work together, invest their
resources and labour jointly and share profits or losses together, then this
family is known as composite family or HUF”

2. Write any 3 features of HUF.
Formation:
- To begin a Hindu Undivided Family there must be a minimum of two related family
  members.
- There must be some assets, business or ancestral property that they have inherited
  or will eventually inherit.
- The formation of a HUF does not require any documentation and admission of new
  members is by birth.

Liability
- The liability of all the various co-partners is only up to their share of
  the property or business.
- So they have limited liability.
- But the Karta being the head of the HUF has unlimited liability.

Control
- The entire control of the entity lies with the Karta.
- He may choose to confer with the co-partners about various
decisions, but his decision can be independent. His actions will be final
and also legally binding.

Continuity:
The HUF can be continued perpetually.
At the death of the Karta, the next eldest member will become the Karta

Minority
- The members are eligible to be co-parceners by the virtue of their birth into the family.
- So in this case, even minor members will be a part of the HUF.
- But they will enjoy only the benefits of the organisation

3. Explain the nature of liability of karta.

Liability
- The liability of all the various co-parceners is only up to their share of the property or business.
- So they have limited liability.
- But the Karta being the head of the HUF has unlimited liability.

4. What is the meaning of Coparceners?
- The members in the joint hindu family are called Coparceners
- The liability of all the various co-parceners is only up to their share of the property or business. So they have limited liability.

5. Define Partnership.
According to Prof. Haney, “The relations which exist between persons, competent to make contracts, who agree to carry on a lawful business in common with a view to private gain”.

6. What is the minimum and maximum number of members in the partnership concern?
- Minimum number of persons 2
- Maximum is restricted to 10 in the case of banking business and to 20 in all other cases.

7. What is the meaning of Partnership Deed?
- A Partnership Deed is a written agreement among the partners specifying rules and regulations and is signed by all the partners and stamped as per the Stamp Act with an aim to prevent possible disputes & disagreements among the partners at a future date.

8. Who is called a Secret partner?
- a partner whose membership in a partnership is kept secret from the public
- he is like rest of the partners in all respects

9. What is meant by Joint and Several Liability?
- The liability of partners is joint and several.
- The creditors of partnership firm can claim their dues from the private assets of all the partners taken together or they can take action against the private properties of any one of the partners to get back their dues
Long Answer Questions

1. What is the implied authority of Karta?
   - The Karta has an implied authority to contract debts for the purpose of family business or for any other family purposes.
   - The creditor can make the entire joint family liable for such debts.
   - The Karta can also execute a promissory note on behalf of the family.
   - The other members of the family may be sued on the note even if they are not parties to the note.
   - Their liability is limited to the share in the joint family property, though the Karta is personally liable on the note.

2. Can a minor is admitted in the Joint Hindu Family business – Why?
   - Yes, a minor is admitted in the Joint Hindu Family Business because the membership in this form of business organisation can be acquired only by birth or by marriage to a male person who is already a member of Joint Hindu Family

3. What are the contents of Partnership Deed?
   - **Name of the firm and Its Address**: The deed should contain of the firm and place of its business.
   - **Name and Address of Partners**: The deed should also contains the names and address of all partners.
   - **Nature of Firm’s Business**: The nature of business proposed to be carried and its limitation should be included in it.
   - **Duration of Partnership**: It the partnership is established for a fixed duration or for a fixed work, it should be stated in it.
   - **Partners’ Capitals**: The deed should contain the total amount of capital and contributions by each partner.
   - **Interest on Capital**: If the partners decide to change interest on their capitals, the rate should be mentioned in the deed.
   - **Drawing and Interest on Them**: The deed should contain the limit of drawings by every partner and the rate of interest to be charged.
   - **Division of Profit**: Profit and loss sharing ratio should be stated in the deed. If it is not mentioned partners are authorized to share equally according to Partnership Act.
   - **Accounts and Audit**: The procedure of keeping accounts and their audit should also be stated in it.
   - **Dissolution of Partnership**: The deed should contain the firm and the method of the final settlement of accounts.
3. Explain the types of dissolution of partnership firm.

By agreement (Sec. 40):

A firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners. Partnership is created by contract; it can also be terminated by contract.

Compulsory dissolution (Sec. 41):

A firm is compulsorily dissolved under any of the following circumstances:
(a) When all the partners, or all the partners but one, are adjudged insolvent; or
(b) When some event has happened which makes it unlawful for the business of the firm to be carried on or for the partners to carry it on in partnership

On the happening of certain contingencies (Sec. 42)

Subject to contract between the partners, a firm is dissolved:
(a) If constituted for a fixed term, by the expiry of that term;
(b) If constituted to carry out one or more adventures or undertakings, by the completion thereof;
(c) By the death of a partner
(d) By the adjudication of a partner as an insolvent.

By notice (Sec. 43)

Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. A notice of dissolution once given cannot be withdrawn without the consent of other partners

Dissolution by the Court (Sec. 44):

Dissolution of a firm by the Court is necessitated when there is a difference of opinion between the partners regarding the matter of dissolution
a. When a partner becomes insane
b. Permanent incapacity of any partner
c. Misconduct of any partner
d. Breach of agreement which makes the business impracticable
e. Transfer of interest to third person
f. Continued loss
g. When the court finds that it is just and equitable to dissolve the firm
4. Write any three differences between Dissolution of Partnership and Dissolution of Firm.

<table>
<thead>
<tr>
<th>BASIS FOR COMPARISON</th>
<th>DISSOLUTION OF PARTNERSHIP</th>
<th>DISSOLUTION OF FIRM</th>
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<tr>
<td>Nature</td>
<td>Voluntary</td>
<td>Voluntary or Compulsory</td>
</tr>
<tr>
<td>Business</td>
<td>Business of the firm continues as before.</td>
<td>Business of the firm comes to an end.</td>
</tr>
<tr>
<td>Economic relationship</td>
<td>Continues to exist but in a changed form</td>
<td>Comes to an end.</td>
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<tr>
<td>Account</td>
<td>Revaluation account is created.</td>
<td>Realisation account is prepared.</td>
</tr>
<tr>
<td>Books of Account</td>
<td>Books of accounts are not closed</td>
<td>Books of accounts are closed.</td>
</tr>
</tbody>
</table>

5. Write the procedure for Registration of a Firm.

Choose a partnership name.
- The partners are free to choose any name as they desire for their partnership firm

Create a partnership deed.
- The document in which the respective rights and obligations of the members of a partnership is written is called the Partnership Deed.
- A partnership deed agreement may be written or oral.

Consider whether additional clauses are needed. The partners may also mention any additional clause

Do the partnership deed in the appropriate form.
- The deed so created by the partners should be on a stamp paper in accordance with the Indian Stamp Act. Each partner should have a copy of the partnership deed

Decide whether or not to register the partnership firm.
- Partnerships in India are governed by the Indian Partnership Act, 1932.
- As per the Partnership Act, registration of partnership firms is optional and is entirely at the discretion of the partners

Register.
- The procedure for registration of a partnership firm in India is fairly simple.
- An application and the prescribed fees are required to be submitted to the Registrar of Firms of the State in which the firm is situated.

The following documents are also required to be submitted along with the application:
1. Application for Registration of Partnership in Form No. 1
2. Duly filled specimen of Affidavit
3. Certified True Copy of the Partnership Deed
4. Ownership proof of the principal place of business or rental/lease agreement thereof

Sign the application.
- The application or statement must be signed by all the partners, or by their agents especially authorised in this behalf
6. Explain different kinds of partners

1) Active Partner
- An active partner is one who takes active part in the day-to-day working of the business
- He may also be called a working partner.

2) Sleeping or Dormant Partner:
- A sleeping partner is one who contributes capital, shares profits and contributes to the losses of the business but does not take part in the working of the concern.

3) Nominal Partner:
- A nominal partner is one who lends his name to the firm.
- He does not contribute any capital nor does he share profits of the business.
- He is known as a partner to the third parties.
- A nominal partner is liable to those third parties who give credit to the firm on the assumption of that person being a partner in the firm.

4) Partner in Profit:
- A person may become a partner for sharing the profit only.
- He contributes capital and is also liable to third parties like other partners.

5) Partner by Estoppel or Holding Out:
- When a person is not a partner but poses himself as a partner, either by words or in writing or by his acts, he is called a partner by estoppel or by holding out.

7. Explain various types of Partnership firm?

1) General or Unlimited Partnership
   o A partnership in which the liability of all the partners is unlimited is known as unlimited partnership.
   o All the partners can take part in the working of the business.
General partnership can be classified into three types
1. partnership-at-will,
2. particular partnership
3. Joint venture.
   a. Partnership—at–will
      ➢ Partnership-at-will is a partnership which is formed to carry on business without specifying any period of time.
      ➢ The life of such a partnership continues as long as the partners are willing to continue it as such.
   b. Particular Partnership
      ➢ It is a partnership established for a stipulated period of time or for the completion of a specified venture.
      It automatically comes to an end with the expiry of the stipulated period or on the completion of the specified venture, as the case may be
   c. Joint Venture
      ➢ A joint venture is a temporary partnership which is formed to complete a specific venture or job during a specified period of time.
      ➢ Every partner does not have the right of implied agency.
      ➢ No partner can withdraw his interest in the firm before the completion of the venture.
      ➢ The partnership comes to an end if the construction is over.

2. Limited Partnership
   ➢ A partnership in which the liability of the partner is limited is called limited partnership.
   ➢ A limited partnership firm must have at least one partner whose liability is unlimited.
   ➢ The liability of remaining partners is limited.

8. Explain any five merits of Partnership firm?

1. **Easy to Form**
   ➢ it can be easily organized.
   ➢ There are no legal formalities required in this type of business.
   ➢ The partners enter into a partnership and start business.

2. **Favorable Credit Standing**
   ➢ The second merit is partnership enjoys a better credit rating in the eyes of creditors.
   ➢ As the liability of each partner in the organization is unlimited, the financial institutions can safely advance loans to the firms.

3. Large capital
   ➢ it brings more and more capital to the business by the joint efforts of the partners.
4. Great Management Ability

- there are many partners involved in the business operation of the partnership, due to which the firm can distribute the duties and responsibilities to each partner as best suited to him.

5. Profit incentive

- The profit is always shared by the partners according to the agreement.

9. Explain any five demerits of partnership firm?

A. Unlimited Liability

- One of the basic demerits of partnership is that the partners are personally and jointly responsible for all the debts of the firm.
- In case the business suffers losses and then the personal property of partners can be sold under the court order for the clearance of the debts of the business.

B. Limited Life of Firm

- The duration of business is always uncertain.
- It can be dissolved in case of partner’s death, withdraws and sell his interest etc.

C. Frozen Investment

- It is very easy to invest his money in the partnership by a partner but very difficult to withdrawn any funds from the business.

D. Possibility of Misuse of Resources

- As the resources of the firm are owned by the partners jointly leads to misuse these resources by the partner/ partners.

E. Loss of Business Opportunities

- One of the demerits is that in case of differences in view among the partners, a delay may take place in decision-making.
- This can cause loss to the business.
Chapter 6 Joint Stock Company

1. What are the different types of companies?
   1. The Basis of Incorporation
      a. Chartered Companies
      b. Statutory Companies
      c. Association Not for Profit

   2. Basis of Membership
      a. Private Company
      b. Public Company

   3. On the Basis of Liability
      a. Company Limited by Shares
      b. Company Limited by Guarantee
      c. Unlimited Company

   4. On the Basis of control
      a. Government Companies
      b. Holding Companies
      c. Subsidiary Companies

   5. On the Basis of Nationality
      a. Domestic Companies
      b. Foreign Companies
      c. Multi National Companies

2. Define a Company.
   “A company is an artificial person created by law having a separate entity with a perpetual succession and a common seal”. - Sec 2 of Companies Act 2013

3. What is meant by Limited liability?
   - The liability of the members of the company is limited to contribution to the assets of the company up to the face value of shares held by him.
   - A member is liable to pay only the uncalled money due on shares held by him.

4. Explain any two characteristics of a company.
   - Separate Legal Entity
     - The company is distinct and different from its members.
     - It has its own seal and its own name, its assets and liabilities are separate and distinct from those of its members.
   - Limited liability
     - The liability of the members of the company is limited to contribution to the assets of the company up to the face value of shares held by him.
     - A member is liable to pay only the uncalled money due on shares held by him.

5. What is meant by Chartered Company?
   - Chartered companies are established by the King or Queen of a country.
   - Powers and privileges of chartered company are specified in the charter.
   - Power to cancel the charter is vested with King/Queen.
Short Answer Questions
1. What are the advantages of Companies?
   (Any 3)
   2. What is meant by Private Company?
      ➢ Private Company is a company having minimum paid up capital of Rs. 1 lakh.
      ➢ It also restricts the right to transfer its shares, if any.
      ➢ It has limited members up to 200.
      ➢ It prohibits any invitation from public for subscription to shares/debentures and
        any acceptance of deposits from persons other than members/directors.
   3. What is meant by Government Company?
      “Government Companies” as any company in which not less than 51% of the [paid-up share capital] is held by. The Central Government; or Any State Government or Governments; or Partly by the Central Government and partly by one or more State Governments.
   4. What is meant by Foreign Company?
      These are companies incorporated outside India, establishing a place of business within India.

IV. Long Answer Questions
1. What are the contents of Memorandum of Association?

   Name Clause
   ➢ The name of the company should be stated in this clause.
   ➢ A company is free to select any name it likes.
   ➢ But the name should not be identical or similar to that of a company already registered.

   Situation Clause
   ➢ In this clause, the name of the State where the Company’s registered office is located should be mentioned.
   ➢ Registered office means a place where the common seal, statutory books etc., of the company are kept

   Objects Clause
   ➢ This clause specifies the objects for which the company is formed.
   ➢ It is difficult to alter the objects clause later on
   ➢ This clause mentions all possible types of business in which a company may engage in future.

   Liability Clause
   ➢ This clause states the liability of the members of the company.
   ➢ The liability may be limited by shares or by guarantee.

   Capital Clause
   ➢ This clause mentions the maximum amount of capital that can be raised by the company.
   ➢ The division of capital into shares is also mentioned in this clause
Subscription Clause

- It contains the names and addresses of the first subscribers.
- The subscribers to the Memorandum must take at least one share.
- The minimum number of members is two in case of a private company and seven in case of a public company.

2. What are the contents of Articles of Association?
   I. Amount of shares, capital, value and type of shares
   II. Rights of each class of shareholders regarding voting, dividend, return of capital
   III. Rules regarding issue of shares and debentures
   IV. Procedures as well as regulations in respect of making calls on shares.
   V. Manner of transfer of shares
   VI. Declaration of dividends
   VII. Borrowing powers of the company
   VIII. Rules regarding the appointment, remuneration, removal of directors
   IX. Procedure for conducting proxy, quorum, meetings etc.
   X. Procedures concerning keeping of books and audits
   XI. Seal of the company
   XII. Procedures regarding the winding up of the company.

3. What is meant by Prospectus?
   - According to Section 2(36) of the Companies Act, any document inviting the public to buy its shares or debentures comes under the definition of prospectus. It also applies to advertisements inviting deposits from the public.
   - A prospectus is “the only window through which a prospective investor can look into the soundness of a company’s venture”.

4. What is meant by Multi National Company?
   A Multi National Company (MNC) is a huge industrial organisation which,
   (i) Operates in more than one country
   (ii) Carries out production, marketing and research activities on international Scale in those countries.
   (iii) Seeks to maximise profits world over.
   A domestic company or a foreign company can be a MNC.

5. What is meant by Holding and Subsidiary company?
   **Holding company**
   a company in which the holding company—
   (i) controls the composition of the Board of Directors; or
   (ii) exercises or controls more than one half of the total share capital either at its own or together with one or more of its subsidiary companies

   **Subsidiary company**
   “Subsidiary company” or “Subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company.
Chapter 7 cooperative organization

Very Short Answer Questions

1. What do you mean by cooperative organization?
   It is an organisation wherein persons voluntarily associate together as human beings on a basis of equality, for the promotion of economic interests of themselves.

2. Define cooperatives.
   Cooperation is a form of organization in which persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interests of themselves. - H. Calvert

3. What is Credit cooperatives?
   - Cooperative credit societies are those formed for the purpose of providing short term financial help to their members
   - Agriculturists, artisans, industrial workers, salaried employees, etc., form these credit societies.

3. Is low taxes possible in Cooperative society?
   - Yes, To promote the co-operative movement and also because of the fact that it is a non-profit enterprise, government provides various exemptions and tax concessions.

4. Who are Rochadale Pioneers?
   - At first, the cooperative movement was started by Robert Owen, in the year 1844.
   - He formed a consumer’s cooperative society in England with 28 workers as members, called “Rochdale Society of Equitable Pioneers”

Short Answer Questions

1. What are the disadvantages of Cooperatives? (Any 3)

Lack of Secrecy:
   - A cooperative society has to submit its annual reports and accounts with the Registrar of Cooperative Societies.
   - Hence, it becomes quite difficult for it to maintain secrecy of its business affairs

Lack of Business Acumen
   - The member of cooperative societies generally lack business acumen.
   - When such members become the members of the Board of Directors, the affairs of the society are expectedly not conducted efficiently.

Corruption
   - In a way, lack of profit motive breeds fraud and corruption in management.
   - This is reflected in misappropriations of funds by the officials for their personal gains.

2. Write a note on Housing cooperatives.
   - These cooperative housing societies are meant to provide residential accommodation to their members on ownership basis or on rent.
   - People who intend to build houses of their own join together and form housing societies.
   - These societies advance loans to members, repayable over a period of 15 to 20 years.
5. What is meant by Producers cooperative society?

- Producer cooperatives are established and operated by producers.
- Producers can decide to work together or as separate entities to help increase marketing possibilities and production efficiency.
- They are organized to process, market, and distribute their own products.

4. Write a note on cooperative farming societies.

- When various farmers in a village pool their land together and agree to treat the pooled piece of land as one big farm for the purpose of cultivation, purchase the necessary inputs for the cultivation, and market the crops jointly, they are assumed to have formed a cooperative farming society.
- Such a society, for its proper working elects its office bearers on the basis of one member-one-vote

6. Write a note on industrial cooperatives.

- An industrial co-operative is organised by small scale producers.
- Cooperative undertakings are a useful means of developing small scale and cottage industries.
- Industrial co-operatives are very useful in obtaining raw materials, in improving the quality of products.

**Long Answer Questions**

1. What are the principles of cooperatives? (Any 5)

i. **Voluntary and Open Membership**

   - Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination

ii. **Democratic Member Control**

   - Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions

iii. **Member’s Economic Participation**

   - Members contribute equally to, and democratically control, the capital of the cooperative.
   - This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.

iv. **Autonomy and Independence**

   - Cooperatives are autonomous, self-help organizations controlled by their members.
   - If the co-operative organisation enters into agreements with other organizations or raises capital from external sources

v. **Education, Training, and Information**

   - Cooperatives provide education and training for members, elected representatives, managers and employees
   - so they can contribute effectively to the development of their cooperative.
Members also inform the general public about the nature and benefits of cooperatives.

2. What are the advantages of cooperative society?
   - Voluntary organization
   - Easy formation
   - Democracy
   - Equal distribution of surplus
   - Limited liability
   - Separate legal entity
   - Each for all and all for each
   - Greater identity of interests
   - Government support
   - Elimination of middlemen
   - Tax concessions
   - Rural credit

3. Explain any five advantages of cooperative society?
   **Easy formation**
   - Cooperatives can be formed much easily when compared to a company.
   - Any 25 members who have attained majority can join together for forming a cooperative society by observing simple legal formalities

   **Separate legal entity**
   - A cooperative society enjoys separate legal entity which is distinct from its members.
     - Therefore its continuance is in no way affected by the death, insanity or insolvency of its members.
     - It enjoys perpetual existence.

   **Each for all and all for each**
   - Co-operative societies are formed on the basis of self help and mutual help.
   - Therefore members contribute their efforts to promote their common welfare

   **Government support**
   - The government with a view to promote the growth of cooperative societies extends all support to them.
   - It provides loans at cheap interest rates, provides subsidies etc

   **Tax concessions**
   - To promote the co-operative movement and also because of the fact that it is a non-profit enterprise, government provides various exemptions and tax concessions

4. What are the types of Cooperative society?

**Types of Cooperatives**

**A. Consumers Cooperatives**

- Consumers' co-operatives are enterprises owned by consumers and managed democratically which aim at fulfilling the needs and aspirations of their members.
They operate within the market system, independently of the state, as a form of mutual aid, oriented toward service rather than pecuniary profit.

Consumers' cooperatives often take the form of retail outlets owned and operated by their consumers, such as food co-ops.

B. Producers Cooperatives

- Producer cooperatives are established and operated by producers.
- Producers can decide to work together or as separate entities to help increase marketing possibilities and production efficiency.
- They are organized to process, market, and distribute their own products.

C. Marketing Cooperatives

- Cooperative marketing societies are associations of small producers formed for the purpose of marketing their produce.
- The marketing cooperatives perform certain marketing functions such as grading, warehousing, advertising etc.,
- They secure better prices for their members by transporting goods even to distant markets.

D. Credit Cooperatives

- Cooperative credit societies are those formed for the purpose of providing short term financial help to their members.
- Agriculturists, artisans, industrial workers, salaried employees, etc., form these credit societies.

E. Housing Cooperatives

- These cooperative housing societies are meant to provide residential accommodation to their members on ownership basis or on rent.
- People who intend to build houses of their own join together and form housing societies.
- These societies advance loans to members, repayable over a period of 15 to 20 years.

F. Cooperative Farming Societies

- When various farmers in a village pool their land together and agree to treat the pooled piece of land as one big farm for the purpose of cultivation, purchase the necessary inputs for the cultivation, and market the crops jointly, they are assumed to have formed a cooperative farming society.
- Such a society, for its proper working elects its office bearers on the basis of one member-one-vote.

5. Write a note on Consumer cooperative society.

- Consumers' co-operatives are enterprises owned by consumers and managed democratically which aim at fulfilling the needs and aspirations of their members.
- They operate within the market system, independently of the state, as a form of mutual aid, oriented toward service rather than pecuniary profit.
- Consumers' cooperatives often take the form of retail outlets owned and operated by their consumers, such as food co-ops.
- However, there are many types of consumers' cooperatives, operating in areas such as health care, insurance, housing, utilities and personal finance (including credit unions).
In some countries, consumers' cooperatives are known as cooperative retail societies or retail co-ops.
Consumers' cooperatives may, in turn, form cooperative federations.
These may come in the form of cooperative wholesale societies, through which consumers' cooperatives collectively purchase goods at wholesale prices and, in some cases, own factories.
Alternatively, they may be members of cooperative unions.
Consumer cooperation has been a focus of study in the field of cooperative economics.

6. Whether misuse of funds is possible in co-operatives.
   - If the members of the managing committee are corrupt they can swindle the funds of the co-operative society.
   - Many cooperative societies have faced financial troubles and closed down because of corruption and misuse of funds.

Chapter 8 multinational organisation

Very Short Answer Questions

1. Define Multinational Company.
   “A multinational corporation owns and manages business in two or more countries.” - Neil H. Jacoby

2. Write any two advantages of MNC.
   - They might unfavorably dominate the market.
   - They can push local firms out of business

3. Give two examples of MNC. Or

4. Name the type of business enterprise which operates in more than one country.
   - Bata Corporation
   - Colgate Palmolive
   - Micromax Informatics
   - INFOSYS

Short Answer Questions

1. What are the advantages of MNC's?
   - Their size benefits consumers
   - They can help a country in many ways.
   - They are cost-effective.
   - They can create jobs and wealth.
   - They help other companies.
   - They adhere to the best brand standards.
   - They ensure minimum standards.
   - They help improve standard of living.
   - Their large profits are consumed for development and research
   - They allow for a wider market.

2. What are the disadvantages of MNC's?
   - They might unfavorably dominate the market.
   - They might exploit the workforce.
They take advantage of consumer expense
They can push local firms out of business
They are willing to gain ridiculous profits at any cost.
They strive for a monopolized business.
They a great environmental threat.

Chapter 9 Government organisation

1. State the different types of public sectors enterprises.
   - Departmental Undertaking
   - Statutory Corporation
   - Government Company

2. What is the basic feature of a Departmental undertaking?
   - Part of the Government – central or State
   - Under direct control of ministry
   - Funds comes directly from Treasury
   - Employees are Government Employees

3. Give two examples for each of the following:
   - Private sector enterprises
     - Reliance Industries Limited
     - Tata Consultancy Services (TCS)
   - Global enterprises
     - Bata Corporation
     - Colgate Palmolive
     - Micromax Informatics
     - INFOSYS
   - Public enterprises
     - Bharat Heavy Electricals Limited (BHEL) : Government Company
     - Life Insurance Corporation (LIC) of India: Statutory Corporation

4. State the form of public enterprises which is most suitable for projects related to National Security.
   - Strategic industries like defence and atomic power cannot be better managed other than government departments.
   - Department undertakings can maintain secrecy in their working

5. The Industrial Policy Resolution 2001 exclusively reserved for few industries for the public sector. Name these industries
   - atomic energy
   - Arms
   - Rail Transport

Short Answer Questions

1. List the areas where the state or central ownership is a preferred form of business organisation. Justify your choice of areas.
2. Departmental form of organisation is necessary for public utility services. The motive of these industries is not to earn profits but to provide services at cheap rates
Strategic industries like defence and atomic power cannot be better managed other than government departments. Department undertakings can maintain secrecy in their working.

Railways, ship-building, energy producing concerns, etc., very huge investments is required which is beyond the means of private investors. Hence, government enters these fields and establishes its own undertakings.

2. What are the different kinds of organisations that come under the public sector?

1. Departmental undertakings: This is the oldest and most traditional form of organising public enterprises. Examples of these undertakings are railways, post and telegraph department.

2. Statutory corporations: Statutory corporations are public enterprises brought into existence by a special act of the parliament.

3. Government company: A Government company is established under the Indian Company Act, 1956 and is registered and governed by the provisions of the Indian Companies Act.

3. List the names of some enterprises under the public sector and classify them

(i) Indian Railways: Departmental Undertaking
(ii) Indian Post and Telegraph: Departmental Undertaking
(iii) Steel Authority of India Limited (SAIL): Government Company
(iv) Bharat Heavy Electricals Limited (BHEL): Government Company
(v) Life Insurance Corporation (LIC) of India: Statutory Corporation
(vi) State Trading Corporation: Statutory Corporation.

3. Define Departmental undertakings.

- These enterprises are established as departments of the ministry and are considered as part or an extension of the ministry itself.
- These undertakings may be under the Central or the State Government.
- Examples: Railways and; Post and Telegraph Department.

4. What is meant by Government Company?

- A government company means any company in which at least 51 per cent of the paid-up capital is held by the Central Government, or by any State Government or partly by Central Government and partly by one or more State Governments.
- These are established purely for business purposes.
Long Answer Questions
1. What are the advantages and disadvantages of Departmental undertaking?

Advantages of Departmental undertaking

**Easy Formation**
- It is easy to set up a departmental undertaking.
- The departmental undertaking is created by an administrative decision of the Government, involving no legal formalities for its formation.

**Direct and Control of Parliament or State Legislature:**
- The departmental undertaking is directly responsible to the Parliament or the State legislature through its overall head i.e. the minister concerned

**Secrecy Maintained**
- The departmental undertaking can maintain secrecy of important policy matters; as the Government can withhold any information, in public interest.

**Lesser Burden of Tax on Public**
- Earnings of departmental undertaking are paid into Government treasury, resulting in lesser tax burden on the public.

**Lesser Risk of Misuse of Public Money:**
- As the departmental undertaking is subject to budgeting, accounting and audit procedures of the government; the risk of misuse of public money is relatively less.

Disadvantages of Departmental undertaking

(i) **Read-Tape and Bureaucracy:**
- Its management and functioning are subject to excessive red-tap and bureaucracy.
- Red-tape means unnecessary and complicated officials rules which prevent things from being done quickly.
- As a result, the departmental undertaking loses all flexibility desired of a business enterprise.

(ii) **Incidence of Additional Taxation:**
- Losses incurred by a departmental enterprise are met out of the treasury.
- This very often necessitates additional taxation the burden of which falls on the common man.

(iii) **Lack of Competition**
- A departmental undertaking often enjoys monopoly in its field.
- As a result, it tends to become indifferent to the quality and price of its goods and services; and may not hesitate to exploit the society.

(iv) **Casual Approach to Work:**
- As officers of a departmental undertaking are subject to frequent transfers;
- they develop a sense of casual approach to work.
- As a result, the operational efficiency of the undertaking suffers a lot

(v) **Political Influence:**
- A departmental undertaking is subject to excessive political influence.
- Its fate depends on the balance of power between the ruling party and the opposition.
2. What are the features of Public corporation? (Any 5)

(i) **Special Statute:**
- A public corporation is created by a special Act of the Parliament or the State Legislature.
- The Act defines its powers, objectives, functions and relations with the ministry and the Parliament (or State Legislature).

(ii) **Separate Legal Entity**
- A public corporation is a separate legal entity with perpetual succession and common seal.
- It has an existence, independent of the Government.
- It can own property; can make contracts and file suits, in its own name.

(iii) **Capital Provided by the Government:**
- The capital of a public corporation is provided by the Government or by agencies controlled by the government.
- However, many public corporations have also begun to raise money from the capital market.

(iv) **Financial Autonomy**
- A public corporation enjoys financial autonomy.
- It prepares its own budget; and has authority to retain and utilize its earnings for its business.

(v) **Own Staff:**
- A publication corporation has its own staff; whose appointment, remuneration and service conditions are decided by the corporation itself.

3. What are the Features of Government company? (Any 5)

**Registration Under the Companies Act**
- A Government company is formed through registration under the Companies Act, 1956; and is subject to the provisions of this Act, like any other company.

**Executive Decision of Government:**
- A Government company is created by an executive decision of the Government, without seeking the approval of the Parliament or the State Legislature.

**Separate Legal Entity:**
- A Government company is a legal entity separate from the Government.
- It can acquire property;
- can make contracts and can file suits, in its own name.

**Whole or Majority Capital Provided by Government**
The whole or majority (at least 51%) of the capital of a Government company is provided by the Government; but the revenues of the company are not deposited into the treasury.

**Majority of Government Directors**
- Being in possession of a majority of share capital, the Government has authority to appoint majority of directors, on the Board of Directors of a government company.

4. What are the advantages and disadvantages of Public corporation?

**Advantages of Public corporation**

**A. Bold Management due to Operational Autonomy** –
- A public corporation enjoys internal operational autonomy; as it is free from Governmental control.

**B. Legislative Control:**
- Affairs of a public corporation are subject to scrutiny by Committees of Parliament or State Legislature.
- The Press also keeps a watchful eye on the working of a public corporation

**C. Qualified and Contented Staff:**
- Public corporation offers attractive service conditions to its staff
- Staff has a motivation to work hard for the corporation

**D. Tailor-Made Statute:**
- The special Act, by which a public corporation is created, can be tailor-made to meet the specific needs of the public corporation;
- so that the corporation can function in the best manner to achieve its objectives.

**E. Not Affected by Political Changes:**
- Being a distinct legal entity, a public corporation is not much affected by political changes.
- It can maintain continuity of policy and operations.

**Disadvantages of Public corporation**

**Autonomy and Flexibility, Only in Theory**
- Autonomy and flexibility advantages of a public corporation exist only in theory.
- In practice, there is a lot of interference in the working of a public corporation by ministers, government officers and other politicians.

**Misuse of Monopolistic Power:**
- Public corporations often enjoy monopoly in their field of operation.
As such, on the one hand they are indifferent to consumer needs and problems; and on the other hand, often do not hesitate to exploit consumers.

**Rigid Constitution**
- The constitution of a public corporation is very rigid.
- It cannot be changed, without amending the Statute of its formation.
- Hence, a public corporation could not be flexible in its operations.

**Low Managerial Efficiency:**
- Quite often civil servants, who do not possess management knowledge and skills, are appointed by the government on the Board of Directors, of a public corporation.
- As such, managerial efficiency of public corporation is not as much as found in private business enterprises.

**Problem of Passing a Special Act:**
- A public corporation cannot be formed without passing a special Act; which is a time consuming and difficult process.
- Hence, the scope for setting up public corporations is very restricted.

5. What are the features of Departmental organisation? (Any 5)

**Formation:**
- A departmental undertaking is established either as a separate full-fledged ministry or as a sub-division of a ministry (i.e. department) of the Government

**No Separate Entity:**
- A departmental undertaking does not have an independent entity distinct from the Government.

**Governmental Financing**
- The departmental undertaking is financed through annual budget appropriations by the Parliament or the State Legislature.
- The revenues of the undertaking are paid into the treasury.

**Accounting and Audit etc. as Applicable to Government Departments:**
- The departmental undertaking is subject to the normal budgeting, accounting and audit procedures, which are applicable to Government departments.

**Managed by Civil Servants:**
- The departmental undertaking is managed by civil servants, who are subject to same service conditions as applicable to civil servants of the Government.

**Sovereign Immunity:**
- A departmental undertaking cannot be sued at all, without the consent of the Government.
Chapter 10 RBI

1. What are the services included in Service businesses?

<table>
<thead>
<tr>
<th>Education</th>
<th>Medical</th>
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<tbody>
<tr>
<td>Insurance</td>
<td>Warehousing</td>
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<tr>
<td>Banking</td>
<td>Advertising</td>
</tr>
<tr>
<td>Salesmanship</td>
<td>Transport</td>
</tr>
</tbody>
</table>

2. Write the meaning of ‘Bank.’

According to Banking Regulation Act 1949, “Banking means 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, pay order or otherwise”.


- The central bank has been described as "the lender of last resort," which means it is responsible for providing its nation's economy with funds when commercial banks cannot cover a supply shortage. In other words, the central bank prevents the country's banking system from failing.

1. Mention the importance of banking services.
   - Banking service is the nerve center of industry and commerce in a country.
   - It plays a vital role by providing the money required for their regular functioning and development.
   - The word Bank, normally refers to commercial bank.
   - There are many types of banks rendering different types of services.
   - Central Bank is the most important one among them.

2. Explain the origin of RBI.

- In 1926 the Hilton-Young Commission or the Royal Commission on Indian Currency and Finance (J. M. Keynes and Sir Ernest Cable were its members) made recommendation to create a central bank.
- As a result, the RBI Act 1934 was passed and RBI launched in operations from April 1, 1935.
- RBI was established with a share capital of ₹5 crores divided into shares of ₹100 each fully paid up.
- The entire share capital was owned by private shareholders.
- Its head office was in Calcutta and moved to Mumbai in 1937.

3. Who are the persons involved in RBI administration?

- The RBI is governed by a Central Board of Directors
- The 21 member board is appointed by the Government of India.
- It consists of:
  a. one governor and four deputy governor appointed for a period of four years,
  b. ten directors from various fields
1. Classify the various functions of Reserve Bank of India.
   **Leadership and Supervisory Functions**
   a. **India’s Representative in World Financial Institutions**
      - RBI represents Government of India in International Bank for Reconstruction and Development (IBRD i.e. World Bank) and International Monetary Fund (IMF) in which India is a member since December 27, 1945.
   b. **Regulator and Supervisor of Indian Banking System**
      - The RBI has power to issue licenses, control and supervise commercial banks under the RBI Act, 1934 and the Banking Regulation Act, 1949.
      - It conducts inspection of the commercial banks and calls for returns and other necessary information from them.
   c. **Monetary Authority**
      - The RBI formulates, implements and monitors the monetary policy of the country in order to maintain price stability, controlling inflationary trends and economic growth.
   d. **Closely Monitoring Economic Parameters**
      - Broad economic parameters such as employment level, price levels and production levels, trade cycles, foreign investment flows, balance of payments, financial markets, etc., are closely monitored by the RBI in order to achieve economic stability and growth.
   e. **Promptly Responding to New Challenges**
      - Whenever challenges arose before Indian Banking System,
      - RBI promptly attend them by issuing Master Circulars and
      - by organising committees to analyse, review and strengthen Indian Banking

   **Traditional Functions**

   **A. Banker and Financial Advisor to the Government**
   - The RBI accepts money into the Central and State Governments’ accounts and make payments on their behalf.
   - It manages Government debt and is responsible for issue of new loans.
   - It advises the government on the quantum, timing and terms of new loans.

   **B. Monopoly of Note Issue**
   - The RBI is the sole authority for the printing and issue of all currency notes in India except one rupee note.
   - It is the duty of the RBI to ensure that sufficient number of good quality currency notes is available to the public.

   **C. Banker’s Bank**
   - The RBI maintains the current accounts of all commercial banks in the country.
   - All scheduled banks should deposit a percentage of cash reserve with RBI.
   - All banks can receive loans from RBI by rediscounting of bills and against approved securities.
D. Controller of Credit and Liquidity
- Controlling the credit money in circulation and the interest rate in the country is a major function of RBI.
- For this purpose, the RBI uses quantitative and qualitative methods of credit control.

E. Lender of the Last Resort
- In times of emergency any bank in India can approach RBI for financial assistance.
- RBI provides them credit. When other sources of getting credit are exhausted, all banks can obtain loan from RBI and hence it is called lender of last resort.

F. Clearing House Services
- RBI acts as clearing house and maintains a clearing system for all commercial banks in India.

G. Custodian of Foreign Exchange Reserves
- The RBI maintains a reserve of gold and foreign currencies.
- When foreign exchange reserves are inadequate for meeting balance of payments problem, it borrows from the International Monetary Fund (IMF).

H. Maintenance of Foreign Exchange Rate
- The RBI manages the exchange value of the rupee in order to facilitate India's foreign trade and payments.
- It ensures that normal short-term fluctuations in trade do not affect the exchange rate.

I. Collection and Publication of Authentic Data
- It has also been entrusted with the task of collection and compilation of statistical information relating to banking and other financial sectors of the economy.

Promotional Functions

A. Nurturing Banking Habits among the Public
- It is the responsibility of RBI to maintain the public confidence in the banking system.
- It protects the depositors’ interest and aim at providing cost-effective banking services in order to include more people to avail banking services.

B. Grievance Settlement Measures
- Banking Ombudsman Scheme is a speedy and inexpensive forum for resolution of customer complaints relating to certain services rendered by banks in India.

C. Agricultural Development
- Agriculture industry is specified as priority sector by the RBI.
- The loans of all scheduled banks should consist of a percentage of loans to priority sector.
- It works in close association with NABARD to develop agriculture in India.

D. Promotion of Small Scale Industries
- Micro Small and Medium Enterprises are included in the priority sector.
- All scheduled banks are required to open separate branches to specialise the financing of these industries.

E. Facilitates Foreign Trade
- The RBI has simplified the rules for credit to exporters, through which they can now get long term advance from banks.

F. Supports Cooperative Sector
- It helps cooperative banks by relaxing rules and providing indirect financing.
2. Explain the organizational structure of RBI.
   ➢ The head office of the RBI is situated in Mumbai.
   ➢ This central office has 33 departments in 2017.
   ➢ It has four zonal offices in Mumbai, Delhi, Calcutta and Chennai functioning under local boards with deputy governors as their heads.
   ➢ It also has 19 regional offices and 11 sub-offices (2017).
   ➢ The RBI is governed by a Central Board of Directors
   ➢ The 21 member board is appointed by the Government of India.
   ➢ It consists of:
     a. one governor and four deputy governor appointed for a period of four years,
     b. ten directors from various fields
     c. two Government officials
     d. four directors - one each from local boards.

11 Types of Banks

1. Give the meaning of Commercial Banks
   ➢ A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit.

2. What do you mean by Industrial Banks?
   ➢ Huge finance required for investment, expansion and modernisation of big industries and others are granted by a separate type of banks called development Banks.
   ➢ They are also called industrial banks.
   ➢ The objective of development banks is not profit.
   ➢ Their aim is to develop the country and create employment opportunities.
   ➢ Finance is provided by them for medium and long terms ranging from five to twenty years.

3. Briefly explain about Correspondent Banks?
   ➢ A correspondent bank is a bank that provides services on behalf of another, equal or unequal, financial institution.
   ➢ It can facilitate wire transfers, conduct business transactions, accept deposits, and gather documents on behalf of another financial institution.
   ➢ Correspondent banks are most likely to be used by domestic banks to service transactions that either originate or are completed in foreign countries, acting as a domestic bank's agent abroad.

4. What are Foreign Banks?
   ➢ Banks which have registered office in a foreign country and branches in India are called foreign banks.
   ➢ These banks open their offices in big cities and port towns only.
1. Write a short note on Local Area Banks, Give two examples.
   - LABs are small private sector banks established in rural and semi-urban areas.
   - Each bank serves two or three adjoining districts only.
   - Their main objective is to mobilise rural savings (accept deposits) and invest them in the same areas.
   - They have to follow the priority sector lending targets, including the targets on loans to weaker sections.

   **Examples:**
   i. Coastal Local Area Bank, Vijayawada, Andhra Pradesh.
   ii. Krishna Bhima Smruddhi Local Area Bank, Mahabubnagar, Telangana.

2. What are the objectives involved in Regional Rural Banks?
   - They are established as low cost institutions in rural areas.
   - Their objective is to develop rural economy and play supplementary role to cooperative societies.
   - They mobilise deposits from the rural public and provide finance to rural artisans, small entrepreneurs and farmers and try to avoid their dependency on money lenders.

3. Mention the purposes of Agricultural and Co-operative banks
   - The Land development banks are organized in 3 tiers namely; state, central, and primary level and
   - they meet the long term credit requirements of the farmers for developmental purposes.
   - The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state.
   - They are governed both by the state government and Reserve Bank of India.
   - Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD).
   - The sources of funds for these banks are the debentures subscribed by both central and state government.
   - These banks do not accept deposits from the general public.

1. Explain the various types of banks based on organization with examples

<table>
<thead>
<tr>
<th>S.No</th>
<th>Bank Name</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central bank</td>
<td>RBI 1935</td>
</tr>
<tr>
<td>2</td>
<td>Development Bank</td>
<td>IFCI, SIDBI</td>
</tr>
<tr>
<td>3</td>
<td>Commercial Bank</td>
<td>SBI, KARUR VYSYSA BANK</td>
</tr>
<tr>
<td>4</td>
<td>CO OPERATIVE BANK</td>
<td>Madurai District Central Cooperative Bank Ltd.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SALEM District Central Cooperative Bank Ltd</td>
</tr>
<tr>
<td>5</td>
<td>Foreign Banks</td>
<td>Bank of America - The USA</td>
</tr>
</tbody>
</table>
2. Explain the types of banks based on ownership pattern

**Public Sector Banks:**
These are owned and controlled by the government. In India, the nationalized banks and the regional rural banks come under these categories.

**Private Sector Banks:**
These banks are owned by the private individuals or corporations and not by the government or co-operative societies.

**Cooperative Banks:**
Cooperative banks are operated on the cooperative lines. In India, cooperative credit institutions are organised under the cooperative societies law and play an important role in meeting financial needs in the rural areas.

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Regional Rural Banks - RRBs</td>
<td>Pallavan Grama Bank, Salem, Pandian Grama Bank, Thirumangalam</td>
</tr>
<tr>
<td>7</td>
<td>Specialised Banks</td>
<td>Export - Import Bank of India National Housing Bank (NHB)</td>
</tr>
<tr>
<td>8</td>
<td>Local Area Banks</td>
<td>Coastal Local Area Bank, Vijayawada, Andhra Pradesh. Subhadra Local Area Bank Limited Kolhapur, Maharashtra</td>
</tr>
<tr>
<td>9</td>
<td>Small Finance Banks</td>
<td>ESAF SFB, Thiruvananthapuram, Kerala Fincare SFB, Ahmedabad, Gujarat</td>
</tr>
<tr>
<td>10</td>
<td>Payment Bank</td>
<td>Airtel Payment Bank Limited Paytm Payment Bank Limited</td>
</tr>
</tbody>
</table>

**12 FUNCTIONS OF COMMERCIAL BANK**

1. What is Mobile Banking?
Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or table.

2. Briefly explain the need for Debit card.
   - A debit card is a payment card that deducts money directly from a consumer’s checking account to pay for a purchase.
   - Debit cards eliminate the need to carry cash or physical checks to make purchases.
   - In addition, debit cards, also called check cards, offer the convenience of credit cards and many of the same consumer protections when issued by major payment processors like Visa or MasterCard.

3. Briefly explain the term - Credit card.
Credit cards allow a consumer to purchase goods and services by borrowing against an approved line of credit.
- It is a loan.
- Purchases made during the month are billed to the consumer and the consumer pays the bill at a later date.
- Should the consumer be unable to pay the entire balance due, then the credit card issuer charges the consumer interest.

4. What do you mean by ATM?
- Computerized machine that permits bank customers to gain access to their accounts with a magnetically encoded plastic card and a code number.
- It enables the customers to perform several banking operations without the help of a teller, such as to withdraw cash, make deposits, pay bills, obtain bank statements, effect cash transfers.
- Also called automated Banking machine, automatic till machine, or remote service unit.

5. Write a note on - ECS.
- ECS is an electronic mode of funds transfer from one bank account to another.
- It can be used by institutions for making payments such as distribution of dividend interest, salary, pension, among others.
- It can also be used to pay bills and other charges such as telephone, electricity, water or for making equated monthly installments payments on loans as well as SIP investments.
- ECS can be used for both credit and debit purposes.

1. What is E-Banking?
- a method of banking in which the customer conducts transactions electronically via the Internet.
- Online banking, also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.
- The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

2. Write a short note on - RTGS.
- The full form of RTGS is "Real Time Gross Settlement".
- RTGS can be defined as "the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting)"
- Minimum Amount: ₹ 2 lakhs
- Maximum Amount: No upper ceiling

3. Briefly explain the Diversified banking services of commercial banks.(any three)
   **Bank Assurance**
   - It refers to the offering of insurance policies or products by a bank in association with another insurance company
   **Merchant Banking**
1. Discuss the various primary functions performed by the commercial banks.

Accepting Deposits:
- It is the most important function of commercial banks.
- They accept deposits in several forms according to requirements of different sections of the society

The main kinds of deposits are
(i) Current Account Deposits or Demand Deposits:
1. Such deposits are generally maintained by businessmen with the intention of making transactions with such deposits.
2. They can be drawn upon by a cheque without any restriction.
3. Banks do not pay any interest on these accounts. Rather, banks impose service charges for running these accounts.

(ii) Fixed Deposits or Time Deposits
Fixed deposits refer to those deposits, in which the amount is deposited with the bank for a fixed period of time.
- Such deposits do not enjoy cheque-able facility.
- These deposits carry a high rate of interest.

(iii) Saving Deposits
These deposits combine features of both current account deposits and fixed deposits.
2. Explain the various secondary functions of commercial banks.

Secondary Functions

1. Overdraft Facility
   - It refers to a facility in which a customer is allowed to overdraw his current account up to an agreed limit.
   - This facility is generally given to respectable and reliable customers for a short period.
   - Customers have to pay interest to the bank on the amount overdrawn by them.

2. Discounting Bills of Exchange
It refers to a facility in which holder of a bill of exchange can get the bill discounted with bank before the maturity.
After deducting the commission, bank pays the balance to the holder.
On maturity, bank gets its payment from the party which had accepted the bill.

3. Agency Functions:
- Commercial banks also perform certain agency functions for their customers.
- For these services, banks charge some commission from their clients.

Some of the agency functions are:
- Transfer of Funds
- Collection and Payment of Various Items:
- Purchase and Sale of Foreign Exchange
- Purchase and Sale of Securities
- Income Tax Consultancy
- Trustee and Executor
- Letters of Reference

4. General Utility Functions:
Commercial banks render some general utility services like:
- Locker Facility:
- Traveller’s Cheques:
- Letter of Credit:
- Underwriting Securities:
- Collection of Statistics

13. Warehousing

1. What is Warehouse?

According to J. Stephenson, “a warehouse in an establishment for the storage or accumulation of goods”.

2. List the various types of Warehouses.

A. On the Basis of Ownership
- (a) Private Warehouses
- (b) Government Warehouses
- (c) Public Warehouses
- (d) Co-operative Warehouses
- (e) Bonded Warehouses
- (f) Institutional Warehouses
3. Give any three functions of Warehouses.

1. Storage:
   ➢ This is the basic function of warehousing. Surplus commodities which are not needed immediately can be stored in warehouses. They can be supplied as and when needed by the customers.

2. Price Stabilization:
   ➢ Warehouses play an important role in the process of price stabilization. It is achieved by the creation of time utility by warehousing. Fall in the prices of goods when their supply is in abundance and rise in their prices during the slack season are avoided.

3. Risk bearing:
   ➢ When the goods are stored in warehouses they are exposed to many risks in the form of theft, deterioration, explosion, fire etc. Warehouses are constructed in such a way as to minimise these risks. Contract of bailment operates when the goods are stored in wave-houses.

4. Financing:
   ➢ Loans can be raised from the warehouse keeper against the goods stored by the owner. Goods act as security for the warehouse keeper. Similarly, banks and other financial institutions also advance loans against warehouse receipts. In this manner, warehousing acts as a source of finance for the businessmen for meeting business operations.

5. Grading and Packing:
   ➢ Warehouses nowadays provide the facilities of packing, processing and grading of goods. Goods can be packed in convenient sizes as per the instructions of the owner.

3. Tabulate the three differences between warehouse warrant and warehouse receipt.

<table>
<thead>
<tr>
<th></th>
<th>warehouse warrant</th>
<th>warehouse receipt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>It is a document of title of goods</td>
<td>It is not a document of title of goods</td>
</tr>
<tr>
<td>2</td>
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<td>It cannot be transferred to others</td>
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<tr>
<td>3</td>
<td>It can be given a collateral security for getting financial assistance</td>
<td>It cannot be given as collateral security</td>
</tr>
</tbody>
</table>
5. Give a note on FCI

- It provides storage facilities for food grains.
- Food Corporation of India also hires storage capacity from other sources such as Central Warehousing Corporation, State Warehousing Corporation and private parties.

1. Differentiate the warehouse warrant from the warehouse receipt.

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<td>It can be given a collateral security for getting financial assistance</td>
<td>It cannot be given as collateral security</td>
</tr>
<tr>
<td>4</td>
<td>Delivery of goods effected by surrendering this warrant with endorsement</td>
<td>Delivery is effected by surrendering this receipt with letter from depositor.</td>
</tr>
<tr>
<td>5</td>
<td>It is not only an acknowledgement for the receipt of goods but also gives an authority to get delivery of goods by the owner or by third party</td>
<td>It is only an acknowledgement for the receipt of goods.</td>
</tr>
</tbody>
</table>

2. Comment on cold storage warehouse

- Goods are transported in refrigerated containers and stored in refrigerated warehouses.
- These warehouses are used for storing perishable goods like fruits, vegetables, eggs, butter, fish, meat, etc.
- Goods stored in cold storages without deterioration in quality, can be made available throughout the year.

1. Explain the different types of warehouses

A. On the Basis of Ownership
(a) Private Warehouses
Private warehouses are built and owned by private business enterprises in order to store the products produced by them

(b) Government Warehouses

They are created and operated by the Government to implement the programmes of the Government.

(c) Public Warehouses

They are set up to provide warehousing facilities to their members.

(e) Bonded Warehouses

Bonded warehouses are those warehouses, which are licensed by the government to accept storage of imported goods which are not cleared due to non-payment of customs duty by the importer.

(f) Institutional Warehouses

Different institutions and bodies have their own warehouses on account of the nature of their operations

(g) Distribution Centre Warehouses

Goods which need to be temporarily stored for one or two days so that they can be distributed to other offices or customers are stored in Distribution Centers.

They are owned by the manufacturer or wholesalers.

B. On the Basis of Commodities Stored

(a) General Warehouses

They are ordinary warehouses which are useful for storing most of the dry food grains, fertilisers, etc.

Protective measures against rat, insects, etc. are undertaken by them.

(b) Special Commodity Warehouses

These warehouses are specially constructed for storing specific type of commodities like tobacco, cotton, wool etc.

These warehouses reduce loss of quality and quantity to a great extent.

(c) Cold Storages or Refrigerated Warehouses

Goods are transported in refrigerated containers and stored in refrigerated warehouses.

These warehouses are used for storing perishable goods like fruits, vegetables, eggs, butter, fish, meat, etc.

Goods stored in cold storages without deterioration in quality, can be made available throughout the year.

(d) Climate Controlled Warehouses
The controlled climate environment can reduce the rate of metabolism in fruits and vegetables.
Humidity controlled environments for delicate products such as flowers in dirt-free facilities in these warehouses.

2. Explain the advantages of warehousing functions.

1. It safeguards the stock of the merchants who do not have storing place.
2. Warehouses reduce distribution cost of the traders by storing the goods in bulk and allow the trader to take the goods in small lots to his shop.
3. It helps in selection of channel of distribution. The producer will prefer whether to appoint a wholesaler or retailer.
4. It assists in maintaining the continuous sales and avoids the possibilities of “out of stock” position.
5. It creates employment opportunities for both skilled and unskilled workers, to improve their standard of living.

14 TRANSPORTATION

1. Define transport.
   ➢ According to K.K. Sexena, "the transport system acts with reference to the area it serves in the same way as a candle does in a dark room"
2. State any two services rendered by transport.
   ➢ Transport service facilitates the smooth carriage of goods from the place of producer to the place of consumer.
   ➢ Transport also facilitates travelling of people from one place to another place.
3. Write any two advantages of water transport.
   ➢ It is most suitable for heavy loads.
   ➢ There is lesser pollution in water transport.

1. What is bill of lading?
   ➢ Bill of Lading is a document containing the terms and conditions of the contract of carriage.
   ➢ It is issued by the shipping company and signed by the captain of the ship.
   ➢ It acknowledges the receipt of the goods described in it on board the ship.
2. What is charter party?
   ➢ When goods are to be consigned in large quantity, it is advantageous to hire the whole or substantial part of the ship.
   ➢ The document through which this contract is made is known as ‘Charter Party’ may also be known as ‘Voyage Charter’ or ‘Time Charter’

1. Explain different types of transport.
A. Surface Transport
- Transport of people and goods by land vehicles is known as Surface transport.
- It is also called as ‘Land Transport
- TYPES
  - Pack Animals
  - Bullock Carts
  - Road Transport
  - Motor Lorries and Buses
  - Tramways
  - Railway Transport

B. Water Transport
- Water transport is the process of moving people, goods etc. by barge, boat, ship or sailboat over a sea, ocean, lake, canal, river, etc.
- This category does not include articles on the transport of water for the purpose of consuming the water.
- Water Transports are of two types
  - (i) Inland Waterways
  - Inland Waterways comprise of rivers, canals and lakes.
  - It is also known as internal water transport.
  - Rivers that are naturally navigable are called natural waterways.
  - Canals and canalized rivers belong to the category of ‘Artificial Waterways’.
  - (ii) Ocean or Sea Transport
  - International trade owes its growth to ocean transport.
  - Ocean transport enjoys a pride of place in aiding international trade.
  - Cheapness is its great virtue. In the transportation of low-grade, bulky goods among the countries, the role of ocean transport is commendable.

C. Air Transport
- Air transport is the fastest and the costliest mode of transport. Commercial air transport is now one of the most prominent modes of overseas transport.
- Air transport is a form of travel in vehicles such as helicopters, hot air balloons, blimps, gliders, hang gliding, parachuting, airplanes, jets or anything else that can sustain flight

2. Discuss the advantages of transport.

A. Better Production in both Agriculture and Industrial Sectors:
- Transport system has helped in the growth in industrial and agricultural production.
- It has been transporting raw materials and labour to the places of production and by carrying the products produced by these sectors to different parts of the country and other countries of the world.

B. Reduction in Cost of Production:
- The transportation network reduces the cost of manufactured goods and lowers the price in the markets.

C. Reduction in Scarcity:
D. Growth in Foreign Trade
- It helps in promoting foreign trade of the country. A country’s exports/imports cannot develop without good parts, shipping and cargo facilities.
- Thus, transportation system makes a network for transactions among different regions as well as with other countries.

E. Specialization of Labour and Mobilization of Resources:
- By the efficient and effective transportation system, the benefits of specialization of labour and proper mobilization can be achieved.
- Thus, an economic system makes the best use of resources through good transport system.

F. Promotion of Tourism
- An ideal transportation promotes tourism system or services all over the country.

G. Expands the Market:
- Markets for both industrial and agricultural produce expand both on the domestic and international front with the expansion of transport network.

15 INSURANCE

1. List any five important type of life insurance policies.
   Whole Life Policy
   Endowment Life Assurance Policy
   Joint Life Policy (JLP)
   Annuity Policy
   Children’s Endowment Policy

2. What is health insurance?
   - Health insurance is a type of insurance coverage that covers the cost of an insured individual's medical and surgical expenses.

1. Define Insurance.
   “Insurance is a plan by themselves which large number of people associate and transfer to the shoulders of all, risk that attacks to individuals” - John Merge

2. Give the meaning of crop insurance
   - Crop insurance is purchased by agricultural producers, and subsidized by the federal government, to protect against either the loss of their crops due to natural disasters, such as hail, drought, and floods, or the loss of revenue due to declines in the prices of agricultural commodities.
   - The two general categories of crop insurance are called crop-yield insurance and crop-revenue insurance

3. Write a note on IRDAI
IRDAI – Insurance Regulatory Development and Authority of India is the statutory, independent and apex body that governs, regulates and supervises the Insurance Industry in India.

It was constituted in the year 2000 by Parliament of India Act called IRDAI Act, 1999.

Presently IRDAI headquarters is in Hyderabad.

1. Explain the various types of Insurance
   1. Life Insurance (or) Life Assurance
      - Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being.
      - The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period.
      - This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance a payment is made at the accident.
   2. Non-life Insurance (or) General Insurance
      - The general insurance includes property insurance, liability insurance and other forms of insurance.
      - Fire and marine insurances are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent.
      - The strictest form of liability insurance is fidelity insurance, whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

It can be further classified into:

(i) Fire Insurance;
   - Fire insurance covers risks of fire. In the absence of fire insurance, the fire waste will increase not only to the individual but to the society as well.
   - With the help of fire insurance, the losses, arising due to fire are compensated and the society is not losing much.

(ii) Marine Insurance;
   - Marine insurance provides protection against loss of marine perils. The marine perils are collision with rock, or ship attacks by enemies, fire and capture by pirates, etc.
   - These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight.

(iii) Health Insurance
   - Health insurance is a type of insurance coverage that covers the cost of an insured individual's medical and surgical expenses
2. Explain the principles of insurance.

1. **Utmost Good Faith**
   - According to this principle, both insurer and insured should enter into contract in good faith.
   - Insured should provide all the information that impacts the subject matter.
   - Insurer should provide all the details regarding insurance contract

2. **Insurable Interest**
   - The insured must have an insurable interest in the subject matter of insurance.
   - Insurable interest means some pecuniary interest in the subject matter of the insurance contract.

3. **Indemnity**
   - Indemnity means security or compensation against loss or damages. In insurance, the insured would be compensated with the amount equivalent to the actual loss and not the amount exceeding the loss.

4. **Causa Proxima**
   - The word ‘Causa proxima’ means ‘nearest cause’.
   - According to this principle, when the loss is the result of two or more cause, the proximate cause, i.e. the direct.
   - The direct, the most dominant and most effective cause of loss should be taken into consideration.
   - The insurance company is not liable for the remote cause.

5. **Contribution**
   - The same subject matter may be insured with more than one insurer then it is known as ‘Double Insurance’.
   - In such a case, the insurance claim to be paid to the insured must be shared on contributed by all insurers in proportion to the sum assured by each one of them.

6. **Subrogation**
   - Subrogation means ‘stepping the shoes on others’.
   - According to this principle, once the claim of the insured has been settled, the ownership right of the subject matter of insurance passes on to the insurer.

7. **Mitigation**
   - In case of a mishap, the insured must take off all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance.

3. Discuss the causes of risk

I. **Business Risks Arise Due to Uncertainties**
   - Uncertainty refers to the lack of knowledge about what is going to happen in the future.
   - Natural calamities, change in demand and prices, changes in government policy, improvement in technology, are some of the examples of uncertainty which create risks for business because the outcome of these future events is not known in advance.

II. **Risk is an Essential Part of Business**
   - Every business has some risk.
   - No business can avoid risk, although the amount of risk may vary from business to business.
Risk can be minimized, but cannot be eliminated

III. Degree of Risk Depends Mainly Upon the Nature and Size of Business
➢ Nature of business (i.e. type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business

IV. Profit is the Reward for Risk Taking:
➢ ‘No risk, no gain’ is an age-old principle which applies to all types of business.
➢ Greater the risk involved in a business, higher is the chance of profit.
➢ An entrepreneur undertakes risks under the expectation of higher profit.
➢ Profit is thus the reward for risk taking.

16 emerging service business in India

1. Who is a franchisee?
➢ The individual who acquires the right to operate the business or use the trademark of the seller is known as the franchisee

2. State two disadvantages of franchising?

**Fixed royalty payment:**
➢ The franchisee has to make payment of royalty to the franchiser on a regular basis. This considerably reduces the income of the franchisee

**Franchising fees:**
➢ The initial franchising fee and the subsequent renewal fees can be very high in case of successful businesses.
➢ From the franchisee’s point of view, this may be a deterrent.

3. Who is a factor?
➢ A factor is a type of trader who receives and sells goods on commission (called factorage).
➢ A factor is a mercantile fiduciary transacting business in his own name and not disclosing his principal.
➢ A factor differs from a commission merchant in that the former takes possession of goods (or documents of title representing goods, e.g. a bill of lading) on consignment, whereas the latter sells goods not in his possession on the basis of samples

4. Define outsourcing
➢ Mr.C.S.Kalyanasundaram defines factoring as “a continuing arrangement under which a financing institution assumes the credit and collection functions for its clients, purchases receivables as they arise (with or without recourse for credit losses, i.e., the customer’s financial inability to pay), maintains the sales ledgers, attends to other book-keeping duties relating to such accounts, and performs other auxiliary duties”.

5. What is need for outsourcing?
➢ outside help to take care of their business tasks and functions,
➢ to help a business operate smoothly.
➢ Business owners and corporations do this as a part of efficient management.
6. State the importance of BPO
   - To focus on key function
   - Benefit of specialization / efficiency
   - Cost cutting
   - Economic growth and development
   - Increasing profit
   - Catering to the dynamic demand

7. What are the benefits of KPO?
   - Usage of best skills
   - Ultimate use of knowledge
   - Finding solution to complex problem
   - Reduction of expenditure
   - Special focus on principal functions
   - Outsources reduces risk

8. Define Logistics.
   - Logistics Management is defined as ‘Design and operation of the physical, managerial, and informational systems needed to allow goods to overcome time and space (from the producer to the consumer)’.

9. What is the need for Logistics?
   - Or
   - Meeting customer demand and providing superior service is one of the most important benefits of good logistics management
   - Logistics management is also important for creating visibility into a company’s supply chain

10. Write about the importance of Logistics.
    - Meeting customer demand and providing superior service is one of the most important benefits of good logistics management
    - Logistics management is also important for creating visibility into a company’s supply chain

11. What are the types of Logistics Applications?
    i. Forecasting Models
    ii. Mathematical Programming Models
       - Location Models, Allocation Models, Distribution Network Design Models
    iii. Inventory Models
    iv. Routing Models
    v. Scheduling Models
    vi. Alternatives Analysis

12. What do you mean by e-commerce?
    - E-Commerce or Electronic Commerce is the buying and selling of goods and services through electronic networks like internet

1. What are the types of franchising?

**Product Franchising**
Under this, dealers were given the right to distribute goods for a manufacturer. For this right, the dealer pays a fee for the right to sell the trademarked goods of the producer.
Manufacturing Franchising
Under this arrangement, the franchisor (manufacturer) gives the dealer (bottler) the exclusive right to produce and distribute the product in a particular area.

Business-format Franchising:
Business-format franchising is an arrangement under which the franchisor offers a wide range of services to the franchisee, including marketing, advertising, strategic planning, training, production of operations manuals and standards and quality – control guidance.

2. List the steps in factoring process.
Step I. The customer places an order with the seller (the client).
Step II. The factor and the seller enter into a factoring agreement about the various terms of factoring.
Step III. Sale contract is entered into with the buyer and the goods are delivered. The invoice with the notice to pay the factor is sent along with.
Step IV. The copy of invoice covering the above sale is sent to the factors, who maintain the sales ledger.
Step V. The factor prepays 80% of the invoice value
Step VI. Monthly Statements are sent by the factor to the buyer.
Step VII. If there are any unpaid invoices follow up action is initiated.
Step VIII. The buyer settles the invoices on expiry of credit period allowed.
Step IX. The balance 20% less the cost of factoring is paid by the factor to the client.

3. Explain the points of differences between Logistics and Supply Chain Management.

<table>
<thead>
<tr>
<th>Goals and Aims</th>
<th>Logistics</th>
<th>Supply Chain Management</th>
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</thead>
<tbody>
<tr>
<td>Organizations Involved</td>
<td>Single Organization Involved</td>
<td>Multiple Organizations Involved</td>
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<tr>
<td>Evolution and Development</td>
<td>Traditional</td>
<td>Modern</td>
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<tr>
<td>Relationship with One Another</td>
<td>Within Supply Chain Management</td>
<td>Incorporates Logistics</td>
</tr>
<tr>
<td>Relationship With Other Departments</td>
<td>Minimal Relationship with other Departments</td>
<td>Significant Interactions with other Departments</td>
</tr>
</tbody>
</table>
4. What is the impact of e-commerce on buyers?
   ➢ Buyers could have a global access to information about variety of products and services available in the market
   ➢ They could buy the products/services round the clock from anywhere in world
   ➢ Electronic and software products could be downloaded immediately after purchase through e– commerce mode
   ➢ Individuals could sell their used products through e– commerce mode with relative ease.

1. Enumerate the characteristics of franchising.
   ➢ It is an agreement to sell the products or services of some owner paying him / her specified fee or commission.
   ➢ It does not give franchisee the ownership of the product or service
   ➢ It is an agreement for a fixed period of time ranging from five years to thirty five years.
   ➢ It is a replication of some successful business format.
   ➢ It takes place in case of businesses with a good track record of profitability
   ➢ It applies to business which are easily duplicated and replicated.
   ➢ It can be terminated before the expiry of franchising period
   ➢ In franchising, one is in business/or oneself not by oneself.
   ➢ It is a turnkey (complete) operation in which franchiser dictates most of the operation, from store hours to the colour of the carpet,

2. Elucidate the features of factoring.
   (i) Credit Cover:
       The factor takes over the risk burden of the client and thereby the client’s credit is covered through advances.
   (ii) Case advances
       The factor makes cash advances to the client within 24 hours of receiving the documents.
   (iii) Sales ledging
       As many documents are exchanged, all details pertaining to the transaction are automatically computerized and stored.
   (iv) Collection Service
       The factor, buys the receivables from the client, they become the factor’s debts and the collection of cheques and other follow-up procedures are done by the factor in its own interest.
   (v) Provide Valuable advice
       The factors also provide valuable advice on country-wise and customer-wise risks. This is because the factor is in a position to know the companies of its country better than the exporter clients.
3. Describe the benefits of Outsourcing.

1. **Focusing on Core Activities**
   - Companies can focus on their core competence, a few areas where the company has distinct capability.
   - The rest of the activities (non core) can be outsource to outside agencies.

2. **To Fill up Economic Development**
   - Outsourcing stimulates entrepreneurship, encourages employment opportunities, expands exports, enables tremendous growth of the economy.

3. **Encourages Employment Opportunities**
   - Companies that are outsourcing their non core activities provide chances for other small business units to take up the activities.
   - This paves way for more job opportunities and new employment avenues.

4. **Reduction in Investment**
   - Companies through outsourcing avails the services of outsiders which in turn reduces the investment requirements.
   - The amount so available can be utilized productively and this increases the profits.

5. **Quest for Excellence**
   - Outsourcing enables the firms to pursue excellence in two ways namely excelling themselves in the activities they do and excel outsiders by extending their capabilities through contracting out.

4. Explain the points of differences between BPO and KPO

<table>
<thead>
<tr>
<th>BASIS</th>
<th>BPO</th>
<th>KPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acronym</td>
<td>Business Process Outsourcing</td>
<td>Knowledge Process Outsourcing</td>
</tr>
<tr>
<td>Meaning</td>
<td>BPO refers to the outsourcing of non-primary activities of the organization to an external organization to minimize cost and increase efficiency.</td>
<td>KPO is another kind of outsourcing whereby, functions related to knowledge and information are outsourced to third party service providers.</td>
</tr>
<tr>
<td>Based on</td>
<td>Rules</td>
<td>Judgement</td>
</tr>
<tr>
<td>Degree of complexity</td>
<td>Less complex</td>
<td>High complex</td>
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<tr>
<td>Requirement</td>
<td>Process Expertise</td>
<td>Knowledge Expertise</td>
</tr>
<tr>
<td>Relies on</td>
<td>Cost arbitrage</td>
<td>Knowledge arbitrage</td>
</tr>
<tr>
<td>Driving force</td>
<td>Volume driven</td>
<td>Insights driven</td>
</tr>
</tbody>
</table>
5. Write a note on e-commerce models.

1. **Business to Customers (B 2 C)**
   - This is fastest growing segment in e-commerce sphere.
   - Under this model, business concern sells directly to consumers.

2. **Business to Business (B 2 B)**
   - Under the model, business concerns transact with one another through internet.
   - For instance, Snapdeal, Flipkart, Alibaba, Indiamart, Trade India. Com etc.

3. **Consumer to Consumer (C 2 C)**
   - Under this model, customers sell directly to other customers through online classified advertisement or through auction or through mobile or through market places.

4. **Customer to Business (C 2 B)**
   - This model is reverse to auction model.
   - Products like automobile, electronic items furniture and similar product are traded by customer through websites.

5. **Business to Government (B 2 G)**
   - This model envisages selling products and services by business consumer to Government organization.
Chapter 17

2 marks

1. What do you mean by Social Responsibility?
   “Social Responsibility refers to the obligation to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society.” – Howard R.

2. Give the meaning of Social Power
   Kingsley Davis defines power as "the determination of behavior of others in accordance with one's own ends."
   According to Sheriff, power denotes the relative weights of behavior by member in a group structure.
   In general it means the ability to influence the behavior of the other person.

3. What is a free enterprise?
   ➢ A free enterprise system is an economic system where a government places very few restrictions on the types of business activities or ownership in which citizens participate.
   ➢ This type of system is often referred to by others as a free market, or capitalism.

4. Who are called Stakeholders?
   A stakeholder is anybody who can affect or is affected by an organisation, strategy or project. They can be internal or external and they can be at senior or junior levels.

5. What is ethical Responsibility?
   Ethical responsibility is the ability to recognize, interpret and act upon multiple principles and values according to the standards within a given field and/or context.

3 marks

1. Define the Concept of Social Responsibility?
   “Social Responsibility refers to the obligation to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society.” – Howard R.

2. Why you do think Social Responsibility of business is needed?
   A businessman must perform social responsibilities because of the following reason
   (i) Self interest
   (ii) Better environment for business
   (iii) Public image
   (iv) Avoidance of government interference
   (v) Social power
   (vi) Resources used for moral justification
   (vii) Contribution to social problems

3. What are the benefits derived by employees of a Socially Responsible business enterprise?
   Responsibilities towards Employee
   (a) Providing fair compensation and benefits
   (b) Providing good and safe working conditions
(c) To give them opportunities to participate in decision making

4. Enumerate the points relating to why business units are Socially Responsible?
1. Employees want demand their company to be socially responsible
2. Consumers expect better business practices (and will pay for it)
3. It creates competitive immunity (and makes your business more sustainable in the long-term)
4. Capitalism is evolving, and society is, too
5. It is a moral imperative

5. List the kinds of Social Responsibility
(i) Economic Responsibility
(ii) Legal Responsibility
(iii) Ethical Responsibilities
(iv) Discretionary Responsibilities

5 marks

1. Explain in detail the concept and need for Social Responsibility?

Social Responsibility
- Social responsibility is the obligation of businessmen towards the society. Businessmen must review the impact of their decisions and actions on the other sections of the society.
- According to Peter F Druker, “Social responsibility requires managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony.”

Need for Social Responsibilities
A businessman must perform social responsibilities because of the following reason
(i) Self interest
(ii) Better environment for business
(iii) Public image
(iv) Avoidance of government interference
(v) Social power
(vi) Resources used for moral justification
(vii) Contribution to social problems

2. Illustrate with examples the arguments for Social Responsibility?

1. Protection of Stakeholders Interest
- A business organisation is a coalition of several interest groups or stakeholders. Example – shareholders, customers, employees, suppliers, etc. Business should, therefore, work for the interest of all of them rather than for the benefit of shareholders / owners alone.

2. Promotion of Society
- Business is a sub-system of society.
- It draws support and sustenance from society in the form of inputs.
- Socially responsible behaviour is essential to sustain this relationship between business and society.

3. Assessment of Social Impact
- During the course of its functioning, a business enterprise makes several decisions and actions.
- Its activities exercise a strong influence on the interests and values of society.
4. Discuss the different groups benefited out of Social Responsibility of business?

**Responsibilities towards Consumers**

(i) **Production of safe items by maintaining quality standards**
(ii) **Being truthful in advertising**
(iii) **To follow fair trade practices.**

**Responsibilities towards Employee**

(a) **Providing fair compensation and benefits**
(b) **Providing good and safe working conditions**
(c) **To give them opportunities to participate in decision making**
(iii) **Responsibilities towards the Owners / Shareholders / Investors**
(a) To ensure safety of investment
(b) To ensure fair and regular return on investment
(c) To ensure appreciation of investment by proper utilisation of resources

(iv) **Responsibilities towards the Government**
(a) To abide by rules, regulations and laws
(b) To pay taxes and duties on time
(c) To help in solving social problem

(v) **Responsibilities towards the Community**
(a) To protect the environment from all types of pollution
(b) To provide more employment opportunities
(c) To help the weaker section of the society

(vi) **Responsibilities towards Suppliers**
(a) To ensure regular payment to the supplier
(b) To adopt fair dealing with the suppliers
(c) To protect and assist small scale suppliers by placing order with them

5. How do you classify Social Responsibility?
(i) Economic Responsibility
In an economic responsibility, business is expected to produce goods and services that are beneficial for society and society which wants and sell them at a profit.

(ii) Legal Responsibility
Every business enterprise is expected to operate within the legal framework of our society. A law abiding enterprise gets no interference of government and is considered as a socially responsible enterprise.

(iii) Ethical Responsibilities
Ethics is much more than law, while behaving ethically businessmen should not be involved in adulteration, black marketing, etc.

(iv) Discretionary Responsibilities
This responsibility is purely voluntary. This includes contribution in charity. Participation in social service projects, setting up educational and training institutions etc helping people affected by flood, earthquake etc.
UNIT 18 BUSINESS ETHICS

2 MARKS

1. What is ethics?
   Ethics, also called moral philosophy, the discipline concerned with what is morally
   good and bad, right and wrong. The term is also applied to any system or theory of
   moral values or principles.

2. What do you mean by code?
   The organisation principles are defined in the written document called code

3. State two ways by which ethics influences behaviour

Personal Code of Ethics
   A man’s personal code of ethics that is what one considers moral is the foremost
   responsible factor influencing his behavior.

Government Rules and Regulations
   Laws support Government regulations regarding the working conditions, product
   safety, statutory warning etc. These provide some guidelines to the business
   managers in determining what are acceptable or recognized standards and
   practices.

4. What is need for Corporate Governance?
   • Balanced economic development is made possible through transparent
     management under corporate governance. All Stakeholders interests are protected
     and promoted through corporate governance.

5. What are MNCs?
   • MNC is defined to be an enterprise operating in several countries but managed from
     one country.

3 marks

1. Define business ethics.
   According to Andrew Crane, "Business ethics is the study of business situations,
   activities, and decisions where issues of right and wrong are addressed."
   According to Raymond C. Baumhart, "The ethics of business is the ethics of
   responsibility. The business man must promise that he will not harm knowingly."

2. What do you mean by the concept of business ethics?
   • It governs the behaviour, derived from the moral standards which help to determine
     right or wrong, good or evil.
   • Ethical behaviour is the acts consistent with the moral standards or codes of conduct
     established by society.
   • It may change over time and differ from culture to culture.
3. Why is ethics necessary in business?

**Credibility with the Employees:**
- When employees are convinced of the ethical values of the organisation they are working for, they hold the organisation in high esteem.
- It creates common goals, values and language.

**Better Decision Making:**
- Respect for ethics will force a management to take various economic, social and ethical aspects into consideration while taking the decisions.
- Decision making will be better if the decisions are in the interest of the public, employees and company's own long term good.

**Profitability:**
- Being ethical does not mean not making any profits. Every organisation has a responsibility towards itself also i.e., to earn profits.
- Ethical companies are bound to be successful and more profitable in the long run though in the short run they can lose money.

4. What are the benefit of Corporate Governance to Share holders

1. Good corporate governance enables corporate success and economic development.
2. Ensures stable growth of organizations.
3. Aligns the interests of various stakeholders.
4. Improves investors' confidence and enables raising of capital.
5. Reduces the cost of capital for companies.
6. Has a positive impact on the share price

5. Illustrate with example the working of a MNC

The two main characteristics of MNCs are their large size and the fact that their worldwide activities are centrally controlled by the parent companies.
- Importing and exporting goods and services
- Making significant investments in a foreign country
- Buying and selling licenses in foreign markets
- Engaging in contract manufacturing — permitting a local manufacturer in a foreign country to produce their products
- Opening manufacturing facilities or assembly operations in foreign countries
5 marks

1. Explain the different key elements of business ethics.

   1. Top Management Commitment
      - Top management has a very important role to guide the entire organization towards ethical behaviour.
      - The top level personnel in any organization should work openly and strongly committed towards ethical conducts and guide people working at middle and low level to follow ethical behaviour

   2. Publication of a “Code”
      - The organisation principles are defined in the written document called code.
      - The code of conduct covers various areas such as health and safety in the workplace, fair dealing in selling and marketing activities, ethical practices in the business etc.

   3. Establishment of Compliance Mechanism
      - To make sure that actual decisions match with a firm’s ethical standards, suitable mechanism should be established
      - The organisation must provide for an environment where the employees are to free to report about the matters of unethical behaviour.

   4. Involving Employees at All Levels
      - It is the employees at different levels who implement ethics policies to make ethical business a reality.
      - Therefore, their involvement in ethics programmes becomes a must.

   5. Measuring Results
      - The organisations from time to time keep a check on ethical practise followed.
      - Although it is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards.
      - The top management team and other employees should then discuss the results for further course of action.

2. Describe the code of business ethics.
   - Code of ethics documents the generally accepted principles of ethical conduct.
   - They are statements of values and principles which define the purpose of an organisation.
   - It gives a clear picture of the standards that employees should follow.
   - It guides them in decision making.

The code of business ethics can include the following:
   1. To offer goods at fair prices.
   2. To supply quality goods and not to deal in spurious and substandard products.
   3. To listen to consumer’s complaints and to reduce them.
   4. Not to raise the price of its products unjustifiably.
   5. Not to resort to hoarding and black marketing.
   6. Not to resort to price cutting with the sole aim of killing competition.
3. Explain the significance of Corporate Governance from the point of Stakeholders
   1. Good corporate governance enables corporate success and economic development.
   2. Ensures stable growth of organizations.
   3. Aligns the interests of various stakeholders.
   4. Improves investor’s confidence and enables raising of capital.
   5. Reduces the cost of capital for companies.
   6. Has a positive impact on the share price.
   7. Provides incentive to managers to achieve organizational objectives.
   8. Eliminates wastages, corruption, risks and mismanagement.
   9. Improves the image of the company.
   10. The organization is managed to benefit the stakeholders.
   11. Ensures efficient allocation of resources.
   12. Creates a strong brand as an ethical business.

4. Discuss the role of International Benchmarking on the working of Companies in India

**ASIA**
- Independent Directors are a requirement for listed companies in all Asian economies, where most require at least 1/3rd of the Board to be independent.
- Committees of Boards such as audit, remuneration and Board nomination are required in all Asian economies except Vietnam.
- In China, the Audit Committee is to be composed of Independent Directors only.

**USA**
- The Council of Institutional Investors (CII), Corporate Governance Policies state that at least 2/3rd of the directors should be independent.
- The U.S. National Association of Corporate Directors (NACD), recommends that the Governance Committee should be responsible for ensuring that a process exists for the Board to routinely assess its own performance.

**JAPAN**
- In early 2014, Japanese Prime Minister announced the goal of increasing the percentage of women in executive positions at Japanese companies to 30% by 2020.

**UK**
- UK businesses had voluntary targets first set in 2011 i.e. to have 25% women on FTSE100 (The Financial Times Stock Exchange) Boards by 2015.

**FRANCE**
- French parliament adopted a bill that requires public companies making at least 50 million Euros in turnover and employing more than 500 workers to have 40% female Board representation by 2017.
5. Describe the benefits of increasing the number of MNCs.

   I. Low Cost Labour
   - MNC set up their facilities in low cost countries and produce goods/service at lower cost.
   - It gains cost advantage and sells its products and services of good quality at low cost.

   II. Quality Products
   - The resource, experience and expertise of MNCs in the sphere of research and development enables the host country to establish its research and development system which helps in producing quality goods and services at least possible cost.

   III. Proper Use of Idle Resources
   - Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country.
   - This results in an increase in the National Income of the host country.

   IV. Improvement in Balance of Payment Position
   - MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position

   V. Technical Development
   - MNCs carry the advantages of technical development to host countries.
   - In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

UNIT 19 SOURCE OF BUSINESS FINANCE

1) Write a short notes on debentures.
   - A debenture is one of the capital market instruments which is used to raise medium or long term funds from public.
   - A debenture is essentially a debt instrument that acknowledges a loan to the company and is executed under the common seal of the company.
   - The debenture document, called Debenture deed contains provisions as to payment, of interest and the repayment of principal amount and giving a charge on the assets of a such a company, which may give security for the payment over the some or all the assets of the company.
   - It is an important source of finance.

2) What do you mean by public deposits?
   - Under this method, companies invite public deposits by giving advertisement in the media. It offers deposit schemes for a longer tenure.
   - Person interested in making public deposit has to undergo a simple formality.
   - The interest rates offered by companies on public deposits are relatively higher than the bank.

3) Name any two sources of funds classified under borrowed funds.
   - The term ‘borrowed funds’ denotes the funds raised through loans or borrowings.
"Finance is that business activity which is concerned with the acquisition and conservation of capital fund in meeting the financial needs and overall objectives of business enterprises." - B.O.Wheeler

2. What is pledge?
- A customer transfers the possession of an article with the creditor (banker) and receives loan.
- Till the repayment of loan, the article is under the custody of the borrower.
- If the debtor fails to refund the loan, creditor (banker) will auction the article pawned and adjust the outstanding loan from the sale proceeds.


**Short term finance**
1. Loans and Advances
2. Bank Overdraft
3. Discounting Bills of Exchange
4. Trade Credit
5. Pledge
6. Hypothecation
7. Mortgage
8. Loans Against the Securities
9. Clean Loan
10. Commercial Paper (CP)
11. Hire Purchase Finance
12. Factoring

**Long term finance**
1. Shares
2. Debentures
3. Retained earning

4) Name any two internal sources of business finance.
- This includes all those sources generated from within the business enterprises.
- For instance retained earnings, collection from receivables (trade debtors and bills receivable), surplus from disposal of old assets and so on.

5) State any two factors that affect the choice of source of finance.

1. Cost
   - Business enterprises have to analyse the cost of mobilising and utilizing the funds.
   - For instance where the interest rate is relatively lower, public deposits, debentures, term loan etc. may be desirable options

2. Time Period
   - The period for which business finance is required determines the suitable source

3 marks
4. Public Deposit
5. Long term loan from commercial bank

4. For which purpose fixed capital is needed in business?
   - Purchase of plant,
   - Purchase of machinery,
   - Purchase of furniture & fixtures,
   - Purchase of vehicles, and so on,

5. What do you mean by working capital requirement of business?
   - Working capital requirements include purchase of raw materials, payment of salary and wages, incurring operating expenses like telephone bills, carriage inward and outward, electricity charges, premium, stationery, etc.

1. List out the various sources of financing.

   Short term finance
   1. Loans and Advances
   2. Bank Overdraft
   3. Discounting Bills of Exchange
   4. Trade Credit
   5. Pledge
   6. Hypothecation
   7. Mortgage
   8. Loans Against the Securities
   9. Clean Loan
   10. Commercial Paper (CP)
   11. Hire Purchase Finance
   12. Factoring

   Medium term finance
   1. Loans from Banks
   2. Loan from Financial Institutions
   3. Lease Financing

   Long term finance
   1. Shares
   2. Debentures
   3. Retained earnings
   4. d earning
   5. Public Deposit
   6. Long term loan from commercial bank

2. What are the different types of short term finances given by commercial banks?
   1. Loans and Advances
      - Loan is a direct advance made in lump sum which is credited to a separate loan account in the name of borrower.
      - The borrower can withdraw the entire amount in cash immediately.
      - It can be repaid in one or more instalments
      - It may be secured or unsecured
   2. Bank Overdraft
Bank overdraft refers to an arrangement whereby the bank allows the customers to overdraw the required amount from its current deposit account within a specified limit.

Interest is charged only on the amount actually overdrawn.

3. Discounting Bills of Exchange

Discounting bills of exchange refers to an act of selling a bill to obtain payment for it before its maturity.

4. Pledge

- A customer transfers the possession of an article with the creditor (banker) and receives loan.
- Till the repayment of loan, the article is under the custody of the borrower.
- If the debtor fails to refund the loan, creditor (banker) will auction the article pawned and adjust the outstanding loan from the sale proceeds.

5. Hypothecation

- This is loan taken by depositing document of title to the property with the banker.
- Of course the physical possession of asset property is with the borrower.
- It is a loan taken on the security of movable asset

6. Mortgage

- This is a type of loan taken from the bank by lodging with the banker title deeds of immovable assets like land and building.
- Business people raise loans by depositing the title deeds of the properties with the bank

7. Loans Against the Securities

- Banks accept various types of securities like fixed deposit receipt, book debts, insurance policies, book debt, and so on, and provides loan on the basis of the aforesaid securities

8. Clean Loan

- Banks provide clean loan to certain customer of outstanding credit worthiness on the basis of their character, capacity and capability.
- clean loan is loan given without any security or with personal security.

3. Write short notes on

1. Retained Earnings

- Retained earnings refer to the process of retaining a part of net profit year after year and reinvesting them in the business.
- It is also termed as ploughing back of profit. profit making company would retain a portion of the net profit in order to finance its growth and expansion in near future.
- It is described to be the most convenient and economical method of finance

2. Lease financing

- Lease financing denotes procurement of assets through lease. For many small and medium enterprises, acquisition of plant and equipment and other permanent assets will be difficult in the initial stages.
- In such a situation Leasing is helping them to a greater extent. Leasing here refers to the owning of an asset by any individual or a corporate body which will be given for use to another needy business enterprise on a rental basis.
- Lease finance is a popular method of medium term business finance.

4. Write short notes on
a) owner's funds
- Owner's funds mean funds which are provided by the owner of the enterprises who may be an individual, or partners or shareholders of a company.
- The profits reinvested in the business (ploughing back of profit or retained earnings) come under owner's funds.
- These funds are not required to be refunded during the life time of business enterprise.
- It provides the owner the right to control the management of the enterprise.
b) borrowed funds
- The term 'borrowed funds' denotes the funds raised through loans or borrowings.
- These borrowed sources of funds provide specific period before which the fund is to be returned.
- Borrower is under legal obligation to pay interest at given rate at regular intervals to the lender.
- Generally borrowed funds are obtained on the security of certain assets like bonds, land, building, etc

4. Explain any four personal investment avenues.
   1. **Public Provident Fund (PPF)**
   - It is the safest long-term investment option for the investors in India.
   - It is totally tax-free. PPF account can be opened in bank or post office.
   - The money deposited cannot be withdrawn before 15 years and an investor can earn compound interest from this account
   2. **Mutual Funds**
   - An individual investor who wants to invest in equities and bond with a balance of risk and return generally can invest in mutual funds.
   - Nowadays people invest in stock markets through a mutual fund.
   - Systematic investment plan is one of the best investment options in India.
   3. **Direct Equity or Share Purchase**
   - An individual can opt for investment in shares.
   - But he has to analyse the market price of various shares traded in stock exchange, reputation of the company, consistency in the payment of dividend, the nature of the project undertaken by the company, growth prospects of industry in which a company is operating, before investing in shares.
   - If the investment is made for a long time, it may yield good return.
   - However there is equally risky to invest in shares as there is no guaranteed return therein.
   4. **Real Estate Investment**
   - Real estate is one of the fastest growing sectors in India.
   - Buying a flat or plot is supposed to be the best decision amongst the investment options.
   - The value of the real asset may increase substantially depending upon the area of location and other support facilities available therein.
   5. **Investing in Metals**
   - Investment in metals like gold, silver and platinum is one of the oldest and evergreen investment products.
UNIT 20 INTERNATIONAL FINANCE

1) Who are Foreign Institutional Investors?
A foreign institutional investor (FII) is an investor or investment fund registered in a country outside of the one in which it is investing. Institutional investors most notably include hedge funds, insurance companies, pension funds and mutual funds. The term is used most commonly in India and refers to outside companies investing in the financial markets of India.

2) What is a Depository Receipt?
A depositary receipt is a negotiable certificate issued by a bank representing shares in a foreign company traded on a local stock exchange. The depositary receipt gives investors the opportunity to hold shares in the equity of foreign countries and gives them an alternative to trading on an international market.

3) What is a GDR (Global Depository Receipt)?
A global depositary receipt or GDR is a bank certificate issued in more than one country for shares in a foreign company.

4) What is an American Depositary Receipt (ADR)?
An American depositary receipt (ADR) is a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange.

5) What is a Foreign Currency Convertible Bond?
- A foreign currency convertible bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency.
- In other words, the money being raised by the issuing company is in the form of a foreign currency.
- A convertible bond is a mix between a debt and equity instrument.
- It acts like a bond by making regular coupon and principal payments, but these bonds also give the bondholder the option to convert the bond into stock.

3 MARKS

1. Explain the importance of international finance.
   1. International finance helps in calculating exchange rates of various currencies of nations and the relative worth of each and every nation in terms thereof.
   2. It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
   3. It helps in ascertaining the economic status of the various countries and in judging the foreign market.

2. What are Foreign Currency Convertible Bonds?
   - A foreign currency convertible bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency.
   - In other words, the money being raised by the issuing company is in the form of a foreign currency.
A convertible bond is a mix between a debt and equity instrument. It acts like a bond by making regular coupon and principal payments, but these bonds also give the bondholder the option to convert the bond into stock.

3. Explain any three disadvantages of FDI

1. **Exploiting Natural Resources:**
   - The FDI Companies deplete natural resources like water, forest, mines etc.
   - As a result such resources are not available for the usage of common man in the host country.

2. **Heavy Outflow of capital**
   - Foreign companies are said to take away huge funds in the form of dividend, royalty fees etc.
   - This causes a huge outflow of capital from the host country

3. **Creating Monopolistic Environment**
   - Multi National Companies (MNCs) which enter the host country through FDI route create monopolistic conditions in the host countries through their market power.
   - They may not create competitive environment in the host country.
   - Contrarily they may affect the competition altogether and establish supremacy.

4. State any three features of ADR.
   - ADRs are denominated only in US dollars
   - They are issued only to investors who are American residents
   - The depository bank should be located in US.

5. State any three features of GDR.
   - It is a negotiable instrument and can be traded freely like any other security.
   - GDRs are issued to investors across the country. It is denominated in any acceptable freely convertible currency
   - GDR is denominated in any foreign currency but the underlying shares would be denominated in local currency of the issuer.

5 MARKS

1. Describe the importance of international finance?
   1. International finance helps in calculating exchange rates of various currencies of nations and the relative worth of each and every nation in terms thereof.
   2. It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
   3. It helps in ascertaining the economic status of the various countries and in judging the foreign market.
   5. It helps in understanding the basics of international organisations and maintaining the balance among them.
   6. International finance organisations such as IMF, World Bank etc. mediate and resolve financial disputes among member nations.

2. Distinguish between GDR and ADR.

<table>
<thead>
<tr>
<th>BASIS</th>
<th>GDR</th>
<th>ADR</th>
</tr>
</thead>
<tbody>
<tr>
<td>PREPARED BY K. VIJAYAKUMAR M.COM., M.Phil., B.Ed., PGDLAL.</td>
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<td>PG ASSITIN COMMERCE, GHSS, PANAGATUR, SALEM DT. PH, 8220015115</td>
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</tbody>
</table>
2. State any five features of FCCB. (Foreign Currency Convertible Bond)
   1) FCCB is issued by an Indian company in foreign currency.
   2) These are listed and traded in foreign stock exchange and similar to the debenture.
   3) It is a convertible debt instrument. It carries interest coupon. It is unsecured.
   4) It gives its holders the right to convert for a fixed numbers of shares at a predetermined price.
   5) It can be converted into equity or depository receipt after a certain period.
   6) The amount received from the issue of FCCB should be utilised as per the guidelines of External Commercial Borrowing (ECB)

4. Explain any five advantages of FDI.
   1. **Achieving Higher Growth in National Income**
      - Developing countries get much needed capital through FDI to achieve higher rate of growth in national income
   2. **Faster Economic Development**
      - FDI brings technology, management and marketing skills along with it. These are crucial for achieving faster economic development of developing countries.
   3. **Help in Addressing BOP Crisis**
      - FDI provides inflow of foreign exchange resources into a country. This helps the country to solve adverse balance of payment position.
   4. **Encouraging Competition in Host Countries**
      - Entry of FDI into developing country promotes healthy competition therein.
      - This leads to enterprise in developing countries operating efficiently and effectively in the market.
      - Consumers get a variety of products of good quality at market determined price which usually benefits the customers.
   5. **Generating Employment Opportunities**
Unit 21 MSME’S AND SHGS

2 MARKS

1) What do you understand by the manufacturing enterprises?
They refer to the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

2) What is the aim of NEEDS?
- To encouraging the educated youth to become the first generation entrepreneurs.
- The Scheme envisages providing entrepreneurship development training to educated young entrepreneurs, preparing business plans and helping them to tie up with financial institutions to set up new business ventures, besides linking them with major industrial clients.

3) What is a Self Help Group?
- A self-help group (SHG) is a village-based financial intermediary committee usually composed of 10–20 local women or men.
- A mixed group is generally not preferred.
- Most self-help groups are located in India, though SHGs can be found in other countries, especially in South Asia and Southeast Asia

4) State the investment limit for small enterprise in manufacturing and service sector.

<table>
<thead>
<tr>
<th>Manufacturing sector</th>
<th>Service sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than ‘25 lakhs but not exceeding ‘5 Crores</td>
<td>More than ‘10 lakhs but not exceeding ‘2 crores</td>
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</tbody>
</table>

3 MARKS

1. State the investment limit for medium enterprise engaged in Manufacturing and service sector.

<table>
<thead>
<tr>
<th>Manufacturing sector</th>
<th>Service sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than ‘5 Crores but not exceeding ‘10 Crores</td>
<td>More than ‘2 Crores but not exceeding ‘5 crores</td>
</tr>
</tbody>
</table>

2. List out the products produced by MSME in Tamil Nadu?
- In Tamil Nadu MSMEs sector produces a wide variety of products in almost all fields.
- The prominent among them are the textile, electronic products, engineering products, auto ancillaries, leather products, chemicals, plastics, garments, jewellery etc.

3. What is the role and significance of MSMEs in Indian Economy?
   1. Employment Potential
   2. Low Production Cost
3. **Low Investment**  
4. **Quick Decision Making**  
5. **Supplementary Role**  
6. **Establishment of Socialistc Pattern of Society**  
7. **Balanced Regional Development**  
8. **Promotion of Self Employment and Self Reliance Spirit**  
9. **Higher Contribution to Manufacturing and Export**

4. Explain any three features of Self Help Group.
   1. The motto of every group members should be “saving first – credit latter”
   2. Self Help Group is homogeneous in terms of economic status.
   3. The ideal size of a Self Help Group ranges between 10 and 20 members.
   4. The groups need not be registered.

5. What are the different ways in which banks fund Self Help Groups?  

   1. **What is the definition of MSME?**  

   **Definition**  
   In accordance with the provisions of Micro, Small and Medium Enterprises Development Act 2006, the micro, small and medium enterprises are classified into two classes. 

   **Manufacturing enterprises**  
   They refer to the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

   **Service enterprises**  
   They refer to the enterprises engaged in providing or rendering of services.

   The limit of investment in plant and machinery/equipment for manufacturing/ Service Enterprises is notified as under.

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Manufacturing sector</th>
<th>Service sector</th>
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<tbody>
<tr>
<td>Micro enterprises</td>
<td>Does not exceed ` 25 lakhs</td>
<td>Does not exceed ` 10 lakhs</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>More than <code>25 lakhs but not exceeding </code> 5 Crores</td>
<td>More than <code>10 lakhs but not exceeding </code>2 crores</td>
</tr>
<tr>
<td>Medium enterprises</td>
<td>More than <code>5 Crores but not exceeding</code> 10 crores</td>
<td>More than <code>2 crores but not exceeding</code> 5 crores</td>
</tr>
</tbody>
</table>

2. **Explain the advantages of MSMEs?**

   1. **Employment Potential**  
   - MSMEs generate more employment opportunities than large business concerns.
   - They are mostly labour intensive, thus they provide more employment opportunities to a larger number of people in India.

   2. **Low Production Cost**  
   - MSMEs do not require skilled labourers or professionals to run the organisation.
   - It employs cheap labour and thus minimizes the overhead.
   - These units are more cost efficient than large scale units, thus facilitates production of goods at low cost.

   3. **Low Investment**  
   - MSMEs do not require a huge capital to start the unit.
   - It can employ locally available resources within the reach of the owner.
4. **Quick Decision Making**
   - MSMEs need not hire professional managers to run the management on a day to day basis.
   - In most cases, owner himself manages the enterprises. Hence, timely decision making becomes easy and effective.

5. **Supplementary Role**
   - MSMEs play a complementary role to serve as a feeder to large scale industries.
   - They supply accessories, spare parts and components to large scale industries.

6. **Establishment of Socialistic Pattern of Society**
   - MSME sector contributes towards the establishment of socialistic pattern of society by reducing the concentration of income and wealth.

7. **Balanced Regional Development**
   - By encouraging MSMEs in industrially backward areas of India, balanced development can be achieved across all regions.
   - It will also help greatly in preventing the people from migrating to cities and towns in pursuit of employment.

8. **Promotion of Self Employment and Self Reliance Spirit**
   - MSMEs help to a great deal in developing a class of entrepreneurs.
   - It promotes self employment and a spirit of self reliance in the society, thereby contributing an increase in per capita income or economic development.

9. **Higher Contribution to Manufacturing and Export**
   - MSMEs contribute 45% to the total manufacturing output and 40% to the exports from the country.
   - It helps in earning precious foreign exchange in various countries across the world.

3. What are the objectives of SHGs?
   1. Focusing on empowerment of women.
   2. Saving people from the clutches of money lenders.
   3. Building capacity of women and to enable them to participate in generating activities.
   4. Creating the habit of saving in the minds of the people who are economically backward.
   5. Promoting entrepreneurship skills among women.
   6. Creating awareness about the importance of credit circle or revolving credit and the payment of the circle.
   7. Elevating the economic standard of the member’s families.
   8. Developing skills and facilitating credit linkages for eventual economic empowerment.
   9. Promoting awareness among the members about finding solutions for their economic problems.
   10. Identifying the common interest of the group members and carrying out their operations in the most efficient and economic way.
   11. Enabling the members to overcome all social and economic barriers.
   12. Promising and ensuring human rights to women at all stages of their life cycle.
Chapter 22

2 marks

1. Give the meaning of Trade?
   Trade involves the transfer of goods or services from one person or entity to another, often in exchange for money. A system or network that allows trade is called a market.

2. What is Internal Trade?
   Buying and selling of goods and services within the boundaries of a nation are called internal trade.

3. Mr. Vikram who runs a textile industry regularly procures cotton from Germany. Name the type of trade he is engaged in. - **Import**

4. When Vikram of India sells cotton shirts to Amal of England, what type of trade he is engaged in? - **Export**

5. How do you classify Trade?
   (i) Internal trade
      a. whole sale
      b. retail
   (ii) External trade
      a. Export
      b. Import
      c. entrepot

6. What are the classifications of internal trade?
   (i) Internal trade
      a. whole sale
      b. retail

7. What is import trade?
   Import trade means buying goods from a foreign country for domestic use

8. Explain the meaning of Entrepot trade.
   ➢ Entrepot trade means importing of goods from one country and exporting the same to foreign countries. It is also known as ‘Reexport trade’.

9. TVS is selling motor bikes in Europe. Under which type of trade can this be classified? **Export**

10. What is the currency used in India in internal trade?
    ➢ It depends on the agreement between the buyer & seller of the goods & services
    ➢ Crude Oil is primarily traded denominated in the U.S. Dollar. There are likely other goods & services similar.

3 marks

1. What is the classification of Foreign trade?
   a. **Export** - It means the sale of goods and services to a foreign country. In this trade the goods and services are sent outside the country.
   b. **Import** - It refers to purchase of goods and services from a foreign country.
   c. **Entrepot** - Entrepot trade means importing of goods from one country and exporting the same to foreign countries. It is also known as ‘Reexport trade’.

2. Give two examples of Entrepot trade.
a. Import raw diamonds from south Africa and re-export them to the International Diamond Market in Amsterdam.

b. An Indian company imports rubber from Thailand and exports it to Japan.

c. What do you mean by Export trade?
   It means the sale of goods and services to a foreign country. In this trade the goods and services are sent outside the country.

d. What is Wholesale trade?
   “Purchase of goods in bulk from the manufacturers and selling them in smaller quantities to other intermediaries” is known wholesale trade.

e. State the meaning of Retail trade.
   Retail trade deals with the distribution of goods in small quantities to the consumers.

f. Name any three retail traders in your locality
   Kannan departmental stores
   Senthil stores
   Rajeswari maligai

7. State the main aim of trade.
   ➢ To earn profit

5 marks

1. What are the features of Internal trade?

a. The buying and selling of goods takes place within the boundaries of the same country.

b. Payment for goods and services is made in the currency of the home country.

c. It involves transactions between the producers, consumers and the middlemen.

d. It consists of a distribution network of middlemen and agencies engaged in exchange of goods and services.

e. In home trade the risk of transportation is very less when compared to the foreign trade.

f. In home trade the laws prevailing in that country only have to be followed.

g. The aim of home trade is to provide the goods and services economically.

h. The goods must be a part of domestic production.

i. Goods must be purchased from an individual or a firm established within a country.

j. Goods can be delivered using locally available modes of transport.

k. It does not involve any custom/import duty, but buyers need to pay the taxes to the Government.

2. Explain briefly the different types of Foreign trade?

a. Export
   ➢ It means the sale of goods and services to a foreign country. In this trade the goods and services are sent outside the country.

b. Import
   ➢ It refers to purchase of goods and services from a foreign country. Countries import goods which are not produced by them either because of cost disadvantage or because of physical difficulties or even those goods which are not produced in sufficient quantities so as to meet their requirements.

c. Entrepot
Chapter 23  channels of distribution

1. Who is a middleman?
   - The term ‘Middlemen’ refers to all those who are in the link between the primary producer and the ultimate consumer in the exchange of goods or service.

2. Define Wholesaler.
   - According to Evelyn Thomas “a true wholesaler is himself neither a manufacturer nor a retailer but act as a link between the two”.

3. Define Retailer.
   - According to Cundiff and Still “a retailer is a merchant or occasionally an agent whose main business is selling directly to the ultimate consumers”.

4. Who is a broker?
   - A broker is a mercantile agent to whom goods are entrusted for sale by a principal and takes physical possession of the goods, but does not obtain ownership.

5. What are the classifications of the merchant middlemen?
   1. Wholesaler, 2. Retailer

6. Who are the mercantile agents?
   - Mercantile Agents are also called functional middlemen.
   - A businessman appoints a person to buy and sell goods on his behalf and gives him the right to borrow money on the security of goods.
   - He is known as mercantile agent.
   - He is not given ownership title of the goods.
   - He is paid commission on his turnover.

3 marks

1. What do you understand by channels of distribution?
   - According to American Marketing Association, “A channel of distribution is the structure of intra company organization units and extra company agents and deals wholesale and retail through which a commodity or product or service is marketed”.

2. Who is a factor?
   - A factor is a mercantile agent to whom goods are entrusted for sale by a principal.
   - He takes physical possession of the goods, though he does not obtain ownership of the goods.
   - A factor sells goods in his own name without revealing the name of his principal.

3. Explain the types of mercantile agents.
   - i. Brokers
     - A Broker is one who bargains for another and receives commission for his service.
   - ii. Factors
     - A factor is a mercantile agent to whom goods are entrusted for sale by a principal
   - iii Commission Agents
3. Wholesalers sell different varieties of a particular variety of product.

4. What are the services rendered by the wholesalers to the manufacturers? (any three)***

a. **Economies in Large Scale:**
   - A wholesaler buys goods in bulk and, thereby, enables the producers to produce goods on a large scale. Large scale production helps to reduce the cost of production per unit.

b. **Assistance in Distribution:**
   - Wholesalers collect orders from a large number of retailers scattered over a wide area and buy goods in bulk from producers. He enables producers to reach customers scattered over different parts of the country by distributing goods through retailers located in different areas. Therefore producer can concentrate only on production.

c. **Warehousing Facility:**
   - A wholesaler holds large stock of goods in his private warehouse or in a rented warehouse. In this way he relieves the manufacturer from the function of warehousing.

d. **Forecasting of Demand:**
   - A wholesaler collects information from retailers about the nature and extent of demand and passes it onto the producers and enables them to produce goods according to the needs, tastes and fashions prevailing in the market.

e. **Publicity of Goods:**
   - Often wholesalers launch advertising campaign to boost the demand for the goods. Producers get the benefit of such publicity and thus enabled to spend less on advertising.

f. **Financial Assistance:**
   - A wholesaler often makes advance payments to producers. He buys the goods as soon as they are produced. Producers need not lock up their capital in maintaining huge stock of goods.

g. **Risk-bearer:**

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PREPARED BY K. VIJAYAKUMAR M.COM., M.Phil., B.Ed., PGDLAL,
PG ASSITIN COMMERCE, GHSS, PANAGATUR, SALEM DT. PH, 8220015115
5 marks

1. What are the characteristics of retailers?
(i) A retailer is the link between a wholesaler and the ultimate consumer and he is the last intermediary in distribution.
(ii) A retailer buys goods from wholesaler in bulk and resells them to consumers in small quantities.
(iii) A retailer maintains a personal contact with his customers.
(iv) A retailer makes sufficient shop display of his wares to attract customers.
(v) Retailers perform all the marketing functions which a wholesaler performs and in addition emphasises on advertisement.
(vi) Retailers deal in a variety of merchandise and are often known as general merchants.
(vii) Usually retailers are classified into two major groups, viz., small scale retailers and large scale retailers.
(vii) Retailers aim at providing maximum satisfaction to their customers in limited area.

2. What are the functions of Wholesalers?
   a. Collection of Goods:
      ➢ Wholesaler collects the goods from manufacturers or producers in bulk.
   b. Storage of Goods:
      ➢ Wholesaler collects and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage facility.
   c. Distribution:
      ➢ Wholesaler sells goods to different retailers. Thus he performs the function of distribution.
   d. Financing:
      ➢ Wholesalers provide financial support to producers and manufacturers by providing money in advance to them. He also sells goods to retailer on credit. Thus, at both ends wholesaler acts as a financier.
   e. Risk Taking:
      ➢ Wholesaler buys finished goods from the producer and keeps them in the warehouses till the time they are sold and assumes the risk arising from price, spoilage of goods, and changes in demand.
   h. What are functions of Retailers?

(i) Buying:
A retailer deals in a variety of merchandise and so he buys collects large number of goods his stocks from a variety of wholesalers. He selects the best from each store them and bears wholesaler and also pays the most economical price. He brings all the goods marketing risks, under one roof and then displays them in shop. Thus he performs the twin _ functions of buying and assembling of goods.

(ii) Storage:
After assembling the goods, the retailer stores them in his godown so that they are held as reserve stocks for the future. Storage of goods in ready stock is also necessary.

(iii) Selling:
The ultimate aim of every retailer is to sell the goods he buys. So he employs efficient methods of selling to dispose off his products at a faster rate so that he can increase his turnover in a period of time.

(iv) Risk-bearing:
The retailer bears the risk of physical damage of goods and also that of price fluctuations. Moreover, risk of fire, theft, deterioration and spoilage of goods has also to be borne by him. Changes in fashions, tastes and demand of his customers also have an adverse effect on his sales; nevertheless a retailer does not lose heart. He bears all these trade risks which come in his way during the normal course of business.

(v) Packing:
A retailer packs his goods in small packets and containers for his customers. Occasionally he may be required to grade the goods also.

(vi) Credit:
Often retailers grant credit to customers and also bear the risk of bad debts, which go along with credit sales.

(vii) Supply Information:
Retailers supply valuable market information to both wholesalers and customers.

(viii) Advertising:
Retailers display goods and spend on advertisement also.

i. Explain the services rendered by wholesalers to retailers.

1. Financial Assistance:
   - Wholesalers provide financial assistance to retailers by selling goods on credit. This is done by allowing credit to retailers purchasing goods from them and makes payment to them after receiving money from their customers. This helps retailers to manage their business with small amount of working capital.

2. Meeting the Requirements:
   - Due to limited capital and lack of space in his facility a retailer cannot hold large variety of products. The wholesaler removes this difficulty by selling goods as and when the retailer requires.

3. Introduction of New Products:
   - Wholesalers bring new products and their uses to the notice of retailers. Thus retailers get knowledge about innovated products and innovated features.

4. Price Stability:
   - Wholesalers reduce price fluctuations by adjusting supply and demand and save the retailers from loss arising from price fluctuations.

5. Economy in Transport:
   - A wholesaler often delivers goods at the door steps of retailers and save their time and cost of transport.

6. Regular Supply:
   - Wholesalers keep large stock of varieties of goods and provide a regular supply of goods as per the retailer’s need. Retailers can purchase as much as they like, from time to time and need not maintain a large stock of goods.

5. What are the services rendered by retailers to wholesalers?

1. Help in Distribution
   - Retailers relieve the manufacturers and wholesalers of the burden of collecting and executing a large number of small orders from various consumers.

2. Market Information
   - Retailer supply valuable information to wholesalers about changes in tastes, preferences, fashion etc. of consumers

3. Large Scale Operation
   - The manufacturers and wholesalers are freed from the trouble of making individual sales to consumers in small quantities.
   - This enables them to operate on, at relatively large scale and thereby fully concentrate on their other activities.
4. Help in Promotion
   ➢ Retailers participate in the promotional activities carried by manufacturers and wholesalers such as short time offers, coupons, free gifts, sales contests, etc. Retailers help in promoting the sale of the products.

5. Personal Attention
   ➢ The retailer is able to provide more personal attention to his customers than the wholesaler is. He gives special services on the spot when the articles require minor repairs.

6. Explain the services rendered to consumers by Retailers.
   1. **Regular Supply of Goods:**
      ➢ Retailers maintain a ready stock of various products of different manufacturers for sale to consumers. This enables the buyers to buy products as and when needed.
   2. **New Products Information:**
      ➢ The retailers provide important information about the new arrival of products through their personal. Selling efforts and effective display of products.
   3. **Credit Facilities:**
      ➢ Sometimes retailers provide credit facilities to their customers and enable them to increase their level of consumption.
   4. **Wide Selection:**
      ➢ Retailers generally keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods.

5. **Miscellaneous Services**
   1. Retailers provide free door delivery services to the customers.
   2. They provide after sale service to customers.
   3. They allow cash discounts on their sales.

7. What are the factors affecting a channel of distribution?

(A) Considerations Related to Product
When a manufacturer selects some channel of distribution he/she should take care of such factors which are related to the quality and nature of the product. They are as follows:

1. **Unit Value of the Product:**
   ➢ When the product is very costly it is best to use a small distribution channel
   ➢ For less costly products long distribution channel is used

2. **Standardised or Customised Product**
   ➢ Standardised products are those for which are pre-determined and there has no scope for alteration. For example: utensils of MILTON. To sell this long distribution channel is used.
   ➢ On the other hand, customised products are those which are made according to the discretion of the consumer and also there is a scope for alteration, for example; furniture. For such products face-to-face interaction between the manufacturer and the consumer is essential. So for these Direct Sales is a good option.

3. **Perishability**
A manufacturer should choose minimum or no middlemen as channel of distribution for such an item or product which is of highly perishable nature. On the contrary, a long distribution channel can be selected for durable goods.

4. **Technical Nature**
   If a product is of a technical nature, then it is better to supply it directly to the consumer. This will help the user to know the necessary technicalities of the product.

**(B) Considerations Related to Market**

5. **Number of Buyers:**
   If the number of buyer is large then it is better to take the services of middlemen for the distribution of the goods. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.

6. **Types of Buyers**
   Buyers can be of two types: General Buyers and Industrial Buyers. If the more buyers of the product belong to general category then there can be more middlemen. But in case of industrial buyers there can be less middlemen.

7. **Buying Habits**
   A manufacturer should take the services of middlemen if his financial position does not permit him to sell goods on credit to those consumers who are in the habit of purchasing goods on credit.

8. **Buying Quantity:**
   It is useful for the manufacturer to rely on the services of middlemen if the goods are bought in smaller quantity.

9. **Size of Market**
   If the market area of the product is scattered fairly, then the producer must take the help of middlemen.

8. Explain any three characteristics of wholesalers.
   1. Wholesalers buy goods directly from producers or manufacturers,
   2. Wholesalers buy goods in large quantities and sell in relatively smaller quantities,
   3. Wholesalers sell different varieties of a particular variety of product
   4. They employ a number of agents or workers for distribution of products
   5. They need large amount of capital to be invested in his business,
   6. They generally provide credit facility to retailers,
   7. They also provide financial assistance to the producers or manufacturers
   8. In a city or town, they are normally located in one particular area of the market.

9. What are the services rendered by the wholesalers to the manufacturers?(any five)***

   j. **Economies in Large Scale:**
      ➢ A wholesaler buys goods in bulk and, thereby, enables the producers to produce goods on a large scale. Large scale production helps to reduce the cost of production per unit.

   k. **Assistance in Distribution:**
Wholesalers collect orders from a large number of retailers scattered over a wide area and buy goods in bulk from producers. He enables producers to reach customers scattered over different parts of the country by distributing goods through retailers located in different areas. Therefore producer can concentrate only on production.

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   Often wholesalers launch advertising campaign to boost the demand for the goods. Producers get the benefit of such publicity and thus enabled to spend less on advertising.

4. **Financial Assistance:**
   A wholesaler often makes advance payments to producers. He buys the goods as soon as they are produced. Producers need not lock up their capital in maintaining huge stock of goods.

5. **Risk-bearer:**
   A wholesaler provides ready market to producers by placing advance orders and relieves the manufacturer from the risk of loss due to fluctuation in demand and storage of goods. He also reduces the risk by matching seasonal demand.

Chapter 24 RETAILING

**Two marks**

1. **What is Retailing?**
   Retailing is the process of selling the goods and services directly to the ultimate consumers in small quantities.

2. **State the meaning of multiple shops.**
   A number of identical retail shops with similar appearance normally deal in standardised and branded consumer products established in different localities owned and operated by manufacturers or intermediaries are called as Chain stores or Multiple shops.

3. **Mention any two benefits of Vending machines.**
   - Vending Machines are very easy to manage as nobody has to be there to sell any goods
   - Vending machines work 24 h day 365 days a year

4. **What are specialty stores**
   - Speciality Stores deal in a particular type of product under one product line only.
3 marks

1. Explain the features of general stores.
   - General Stores sell a wide variety of products under one roof, most commonly found in a local market and residential areas to satisfy the day-to-day needs of customers residing in nearby localities.
   - They remain open for long hours at convenient timings and often provide credit facilities to their regular customers.
   - For example, a provision store deals in grocery, bread, butter, toothpaste, soaps, washing powder, soft drinks, confectionery, stationery, cosmetics, etc.

2. Give any four points of distinction between hire purchase system and instalment system of selling. (*** it may be five marks)

<table>
<thead>
<tr>
<th>S.no</th>
<th>Basis</th>
<th>hire purchase system</th>
<th>instalment system of selling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nature Of Contract</td>
<td>It is a hiring goods agreement.</td>
<td>It is an agreement of sale.</td>
</tr>
<tr>
<td>2</td>
<td>Ownership</td>
<td>Ownership of goods is transferred after the payment of final instalment.</td>
<td>Ownership of the goods passes to the buyer just signing the agreement.</td>
</tr>
<tr>
<td>3</td>
<td>Right</td>
<td>The buyer can not sell, destroy or transfer the goods.</td>
<td>The buyer can sell, destroy or mortgage or transfer as his/her wish</td>
</tr>
<tr>
<td>4</td>
<td>Risk</td>
<td>All the risks are borne by the vendor before the payment of final instalment.</td>
<td>All the risks are to be borne by the buyer from the date of agreement.</td>
</tr>
<tr>
<td>5</td>
<td>Right Of Return</td>
<td>The buyer can return the goods before making the final instalment.</td>
<td>The buyer can not return the goods to the seller</td>
</tr>
<tr>
<td>6</td>
<td>Repair And Maintenance</td>
<td>The liability of repair and maintenance lies with the seller provided that the buyer takes the utmost good care.</td>
<td>The buyer is responsible for repair and maintenance.</td>
</tr>
<tr>
<td>7</td>
<td>Forfeiture Of Instalment Paid</td>
<td>In case of default in payment of instalment, paid instalment will be forfeited and treated as hire charges</td>
<td>The act of forfeiture can not be activated.</td>
</tr>
</tbody>
</table>

3. Explain the characteristics of super markets.

1. Supermarkets are generally situated at the main shopping centres.
2. The goods kept on racks with clearly labelled price and quality tags in such stores,
3. The customers move into the store to pickup goods of their requirements, bring them to the cash counter, make payment and take home delivery.
4. The goods are sold on cash basis only. No credit facilities are made available.
5. Supermarkets are organised on departmental basis.
6. It requires huge investment.
3. What is meant by ‘mail order retailing’?
Mail order houses are the retail outlets that sell their merchandise through mail. There is generally no direct personal contact between the buyers and the sellers in this type of trading.

**Five marks**

1. State the features of Departmental stores.

i. **Large Size:**
A department is a large scale retail showroom requiring a large capital investment by forming a joint stock company managed by a board of directors. There is a Managing Director assisted by a general manager and several department managers.

ii. **Wide Choice:**
It acts as a universal provider of a wide range of products from low priced to very expensive goods (Pin to Car) to satisfy all the expected human needs under one roof.

iii. **Departmentally organised**
Goods offered for sale are classified into various departments. Each department specialises in one line of product and operates as a separate unit.

iv. **Facilities provided:**
It provides a number of facilities and services to the customers such as restaurant, rest rooms, recreation, packing, free home delivery, parking, etc.

v. **Centralised purchasing**
All the purchases are made centrally and directly from the manufacturers and operate separate warehouses whereas sales are decentralised in different departments.

[Or]

(i) Departmental stores are large-scale retail establishments.
(ii) They have a number of departments organised under one roof.
(iii) Each department specialises in a particular kind of trade
(iv) Their basic principle is that it is easier to sell more goods to the same customers by providing a large variety of goods than to sell the same kind of goods to many customers.
(v) Their aim is to provide quality goods and services to the customers. Restaurants, telephone facilities, recreational facilities, reading rooms etc. are also provided by them.
(vi) They are located in the important central places of the big cities.
(vii) A huge amount of capital is required to establish a departmental store.
(viii) To attract the customers they have to make an extensive use of advertising.
(ix) The running expenses of a departmental store are very high due to the various services rendered by them, high rents, advertising etc.
(x) Their control and management are centralised.

2. What is meant by Consumer Cooperative Store? Explain its merits in brief.

**Consumer Cooperative Store**
A consumer cooperative store is a retail unit owned and controlled by consumers.

Any consumer can join the consumer cooperative store by buying its shares.

Each member has only one vote irrespective of his shareholding.

Members get dividend in proportion to their shares held in the cooperative store.

Cooperative stores are run by the consumers themselves for their mutual benefits.

Merits
1. Consumers get goods of good quality
2. Goods are sold without adulteration
3. Goods are sold in correct measurement. Irregularities found in measurement of goods are avoided.
4. Middlemen are eliminated
5. Prices are comparatively cheaper
6. Regular supply of goods is assured.
7. No credit is allowed. So, there is no fear of bad debts.
8. Consumer cooperatives are located conveniently in residential areas, thus they are quite accessible.

3. Describe the role of chambers of commerce in promotion of internal trade.

The Chamber of Commerce and Industry is an association of business and industrial houses like merchants, financiers, manufacturers, etc. in a locality, region, or state.

The main objective of these associations is to promote and protect the interest and goals of Indian commerce and industry.

These associations are non-profit making organisation and its members are institutional members.

FUNCTIONS
1. They act as national guardians of trade, commerce and industry.
2. They act as a catalyst in strengthening the internal trade of the country.
3. Interact with Government with regard to formulation and implementation of related policies.
CHAPTER 25 INTERNATIONAL BUSINESS

2 MARKS

1. What do you mean by international business?
   Roger Bennet defines, International business involves commercial activities that cross national frontiers

2. What is meant by Export Trade?
   It means the sale of goods and services to a foreign country. In this trade the goods and services are sent outside the country.

3. What is meant by Import Trade?
   It refers to purchase of goods and services from a foreign country. Countries import goods which are not produced by them either because of cost disadvantage or because of physical difficulties or even those goods which are not produced in sufficient quantities so as to meet their requirements.

4. What is meant by Entrepot Trade?
   Entrepot trade means importing of goods from one country and exporting the same to foreign countries. It is also known as 'Reexport trade'.
   Here, the goods are imported not for consumption or sale in the country but for re-exporting to a third country.

5. Give any two reasons for International Business.
   i. Unequal Distribution of Natural Resources
   ii. Uneven Availability of Factors of Production

3 MARKS

1. Describe importance of the external trade to an economy
   1) Greater Variety of Goods Available for Consumption
   2) Efficient Allocation and Better Utilization of Resources:
   3) Promotes Efficiency in Production
   4) More Employment:
   5) Consumption at Cheaper Cost
   6) Reduces Trade Fluctuations
   7) Utilization of Surplus Produce
   8) Fosters Peace and Goodwill

2. What is the necessity for entrepot trade?
   a. Sometimes due to some political factors two countries are not willing to maintain direct trade relationship. In this case entrepot trade will be of immense help.
   b. There may be a sense of communication which gives rise to entrepot trade
   c. Sometimes shipping difficulty arises due to prohibitive freight rates. In such a case, the problem can be solved by entrepot trade.
   d. When banking facilities are absent direct trade between two countries are affected
3. What are the limitations of international business?

(i) **Political Dependence**: International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

(ii) **Mis-utilisation of Natural Resources**: Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

(iii) **Import of Harmful Goods**: Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

5 MARKS

1. List out the advantages of international trade (**Any five exam point of view**)

   (i) **Optimal use of natural resources**: International trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided.

   (ii) **Availability of all types of goods**: It enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs.

   (iii) **Specialisation**: Foreign trade leads to specialisation and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour.

   (iv) **Stability in prices**: International trade irons out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

   (v) **Exchange of technical know-how and establishment of new industries**: Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large.
(vi) **Increase in efficiency:** Due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

(vii) **Development of the means of transport and communication:** International trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible.

(viii) **International co-operation and understanding:** The people of different countries come in contact with each other. Commercial intercourse amongst nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, cordial relations amongst various nations.

(ix) **Ability to face natural calamities:** Natural calamities such as drought, floods, famine, earthquake etc., affect the production of a country adversely. Deficiency in the supply of goods at the time of such natural calamities can be met by imports from other countries.

(x) **Other advantages:** International trade helps in many other ways such as benefits to consumers, international peace and better standard of living.

2. Enumerate the disadvantages of international trade (**Any five exam point of view**)

**A. Impediment in the Development of Home Industries:**
International trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

**B. Economic Dependence:** The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.
C. **Political Dependence:** International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

D. **Mis-utilisation of Natural Resources:** Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

E. **Import of Harmful Goods:** Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

F. **Storage of Goods:** Sometimes the essential commodities required in a country and in short supply are also exported to earn foreign exchange. This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country.

G. **Danger to International Peace:** International trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace.

H. **World Wars:** International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

I. **Hardships in times of War:** International trade promotes lopsided development of a country as only those goods which have comparative cost advantage are produced in a country. During wars or when good relations do not prevail between nations, many hardships may follow.

3. Distinguish between internal and international trade (**Any five/seven exam point of view**)
<table>
<thead>
<tr>
<th>BASIS</th>
<th>INTERNAL/ Home TRADE</th>
<th>INTERNATIONAL/Foreign TRADE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  MEANING</td>
<td>Home trade refers to the trade within the borders of the country.</td>
<td>Foreign Trade refers to the trade between two or more countries.</td>
</tr>
<tr>
<td>2 Exchange of Currencies</td>
<td>There is no exchange of currencies takes place in the Home trade because there is a same currency in the country.</td>
<td>Foreign Trade involves the exchange of currencies between the nations which are involved in the trade.</td>
</tr>
<tr>
<td>3 Restrictions on transfer of goods</td>
<td>Home trade usually doesn't have any restrictions on movement inside the country.</td>
<td>Foreign Trade is subjected to many restrictions on transfer to certain goods to certain countries.</td>
</tr>
<tr>
<td>4  Transportation costs</td>
<td>Home Trade generally has fewer transportation costs and risks to transfer the goods.</td>
<td>Foreign Trade involves very high transportation costs and risky situations to transfer goods from one country to another.</td>
</tr>
<tr>
<td>5  Transport Systems</td>
<td>Home Trade depends upon the network and internal transport systems like roads, railways, etc.</td>
<td>Foreign Trade depends upon the seaways and the airways between the countries involved in the trade.</td>
</tr>
<tr>
<td>6  Benefit to Country</td>
<td>Home trade leads to economic development and self-sufficiency of the country</td>
<td>Foreign Trade leads to the economic interdependence between the countries.</td>
</tr>
<tr>
<td>7  Approvals</td>
<td>The home trade involves fewer documentations and approvals from the government to transfer the goods.</td>
<td>Foreign Trade involves more documentations and approvals from government and it is a long process to get approvals from government.</td>
</tr>
<tr>
<td>8  Volume of Trade</td>
<td>The volume of the trade depends upon the population of the country, demand for the product, etc</td>
<td>Foreign Trade has many restrictions imposed on free entry of goods and many duties and taxes have to be paid to trade goods between countries.</td>
</tr>
<tr>
<td>9  Time Gap</td>
<td>Home trade usually have less time gap between the goods dispatched and goods received and payment received for the consignment.</td>
<td>Foreign Trade involves wide time gap between the goods dispatched from the home country and goods received by the other country.</td>
</tr>
<tr>
<td>10 Credit Problems</td>
<td>In the case of Home Trade, there are fewer credit problems between the sellers and buyers in the country.</td>
<td>Foreign trade involves special steps to find out the credit worthiness of the importer by the exporter of the goods.</td>
</tr>
</tbody>
</table>

CHAPTER 26 EXPORT AND IMPORT PROCEDURES

1. What is meant by Indent?
Order for goods (placed often through a local or foreign agent of a foreign supplier) under specified conditions of sale, the acceptance of which by the supplier (or the agent) constitutes a contract of sale.

2. Write any two export promotion institutions.
   ➢ Export Promotion Council[EPC] - Promotion and Development of certain export commodities
   ➢ State Trading Corporation(STC) - Promoting trade among different partners of the world

3. Mention the types of Indent.
   ➢ open indent,
   ➢ closed indent and
   ➢ confirmatory indent.

4. What is the Letter of credit?
   An official letter from a bank allowing another bank in foreign country to pay an exporter on behalf of the importer.

SHORT ANSWER QUESTIONS

1. What are the contents of Indents?
   **Content of an Indent**
   a. Quantity of goods sent
   b. Design of goods
   c. Price
   d. Nature of packing shipment
   e. Mode of shipment
   f. Period of delivery
   g. Mode of payment

2. What is meaning of consular invoice?
   ➢ An invoice covering a shipment of goods certified by the consul of the country for which the merchandise is destined.
   ➢ The invoice is used by customs officials of the country to verify the value, quantity, and nature of the merchandise imported to determine the import duty.
   ➢ In addition, the export price may be examined in the light of the current market price in the exporter’s country to ensure that dumping is not taking place.

3. What is meant Charter Party?
   A charter party is a formal agreement between ship owner and the exporter under which exporter hires an entire ship or a major part of ship either for a particular voyage or for a specific time period when the shipping is heavy.

4. Write a short note on Mate’s receipt?
   ➢ Mate’s Receipt is the document issued by the captain of the ship acknowledging the receipt of goods on board by him to the port of specified destination.
   ➢ This contains details like quantity of goods shipped, number of packages condition for packing, etc.,
   ➢ Where the Mate is satisfied with packing he/she issues clean receipt.
   ➢ If he/she is not satisfied with packing, he/she issues foul receipt.
5. What is Bill of Lading?
Bill of Lading, refers to a document signed by ship owner or to his agent mentioning that goods specified have been received and it would be delivered to the importer or his agent at the port of destination if good condition subject to terms and conditions mentioned therein.

IV. Long Answer Questions
1. What are the procedures relating to Export trade?
   Basic Export Procedures
   1. Market Research and Setting Objectives of Distribution:
      Selecting target markets, methods of exportation and channels, setting foreign market objectives on pricing and terms
   2. Trade Regulations:
      Export regulations and requirements
      Overseas import regulations and requirements
      Patent, trademark and copyright
   3. Making Contacts:
      Investigations from interested overseas buyers
      Checking buyer's background from ECIC and / or banks
   4. Quotation and Terms:
      Making offers and quotation for potential buyers
      Costs, quotations and pro forma invoices, and terms of sale
   5. Sales Contract:
      the sales contract and terms of transaction such as payment terms.
   6. Contract Execution:
      Producing or sourcing goods
      Packing and labelling
      Arranging shipment
      Preparing exports documentation
      Arranging insurance, if necessary
   7. Customs Clearance:
      Arranging export declaration and applying for export licence when necessary.
   8. Getting paid:
      Subject to the payment terms specified in the sales contract, the exporter should present the required documents to the relevant parties for payment

2. Distinguish between Bill of Lading and Charter Party

<table>
<thead>
<tr>
<th>BASIS</th>
<th>BILL OF LADING</th>
<th>CHARTER PARTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Contract And Evidence</td>
<td>Charter party is a contract between the ship owner and shipper about hiring the ship.</td>
<td>Bill of lading is an evidence of receiving the goods.</td>
</tr>
<tr>
<td>2 Transferable</td>
<td>Charter party is not transferable.</td>
<td>A bill of lading can be transferred by endorsement and delivery.</td>
</tr>
<tr>
<td>3 Title To The Goods</td>
<td>Charter party is not a document which declares the title of the goods.</td>
<td>A bill of lading is a document which declares the title to the goods specified.</td>
</tr>
</tbody>
</table>
3. What are the documents used in Export Trade?

(a) **Export invoice**: Export invoice is a seller’s bill for merchandise. It is a basic document in export transaction. The invoice contains information about the description of goods, value of goods, terms of shipment, marks and numbers of packages, etc. It also contains date, name and address of both buyer and seller, name of shipping vessel, port of destination, terms of delivery and payments, etc.

(b) **Packing List**: A packing list is a consolidated statement of the contents of a number of cases or packs. It gives a detail of the nature of goods which are being exported and the form in which these are sent. The description is given in such a manner as to permit checks of the contents by the customs on arrival at the port of destination as well as by the recipient.

(c) **Certificate of Origin**: A certificate of origin, as the name indicates, is a certificate which specifies the country of the production of goods. The customs law of a country may require this certificate before clearance of goods and assessment of duty.

(d) **Mate’s Receipt**: When the cargo is loaded on the ship, the Commanding Officer of the ship issues a receipt known as mate’s receipt. The mate’s receipt indicates name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of its receipt etc. The port of loading and discharge is also given in this receipt.

(e) **Bill of Lading**: A bill of lading is a document issued by the shipping company acknowledging the receipt of goods mentioned therein and undertaking to deliver them in the like order and condition, as received, to the consignee or his order.

(f) **Shipping Bill**: It is a document on the basis of which customs permission for exports is given. The shipping bill contains contents...
such as name and address of the exporter and consignee, invoice number and date, import, export code number, RBI code number, particulars of goods exported, name of the vessel, port at which goods are to be discharged, number and kind of packets, quantity and value of goods.

(g) **Cart Ticket:** Cart ticket is prepared by the exporter giving details of the cargo to be exported. It has the name of the ship, number of packages, shipping bill number, port of destination and the number of vehicle carrying the cargo.

(h) **Airway Bill:** It is a receipt issued by an airline for the carriage of goods. Every airline issues its own bill for receiving the goods. Airway bill is non-transferrable so it does not carry the same validity as a bill of lading in sea transport.

(i) **Letter of Credit:** A letter of credit popularly known as L/C is an undertaking by its issuer (usually importer’s bank) that the bills of exchange drawn by the foreign dealer on the importer will be honoured on presentation for specified amount. L/ C is simply a guarantee by the bank to the foreign dealer (exporter) that their bills upto a specified amount would be honoured.

(j) **Certificate of Inspection:** To ensure proper quality of goods, exportable goods are inspected before being despatched for export. Export Inspection Council of India (EIC) issues such certificate in India. Some countries have made this certificate compulsory for goods being imported.

4. Explain the various functions of Export Trading Houses.

**Trading House**

Trading house are service companies. They do not manufacture anything and must, therefore, justify their intervention by the value added that their service can bring to an international transaction.

For manufacturer, the type of market he is prospecting will determine if a trading house is useful to him.

**Functions of Export Trading Houses**

1) To identify a potential market for a given product
2) To find buyers or agents and to elicit their interest
3) To establish the product specifications in the light of market needs, standards and regulations and in accordance with the supplier’s capabilities
4) To determine the appropriate mode of transportation and the routing , with regard to cost, quality of service and security
5) To price the goods for delivery at destination
6) To determine the buyer’s credit worthiness
7) To negotiate the transaction
8) To execute all the logistics steps which are necessary to receive and deliver the merchandise
9) To obtain, if necessary, proper coverage for maritime risks and currency fluctuations
10) To prepare the documentation as prescribed in matters of international trade
11) To finance the transaction and pay for the goods and services received
12) To collect payment for goods delivered
13) To respond to and settle claims

CHAPTER 27 FACILITATORS OF INTERNATIONAL BUSINESS

Very Short Answer Questions.

1. What is WTO?
   ➢ The World Trade Organization (WTO) is an intergovernmental organization that regulates international trade.
   ➢ The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948.
   ➢ It is the largest international economic organization in the world.

2. What do you mean by World Bank?
   ➢ The World Bank is an international financial institution that provides loans to countries of the world for capital projects.
   ➢ It comprises two institutions: the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).
   ➢ The World Bank is a component of the World Bank Group.

3. What is Special Drawing Rights?
   Special drawing rights (SDR) refer to an international type of monetary reserve currency created by the International Monetary Fund (IMF) in 1969 that operates as a supplement to the existing money reserves of member countries. Created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts, SDRs augment international liquidity by supplementing the standard reserve currencies.

4. What is SAARC?
   ➢ The South Asian Association for Regional Cooperation (SAARC) is the regional intergovernmental organization and geopolitical union of nations in South Asia.
   ➢ Its member states include Afghanistan, Bangladesh, Bhutan, India, Nepal, the Maldives, Pakistan and Sri Lanka.
5. What is GATT?
- General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.
- GATT was signed by 23 nations in Geneva on 30 October 1947, and took effect on 1 January 1948. It remained in effect until the signature by 123 nations in Marrakesh on 14 April 1994, of the Uruguay Round Agreements, which established the World Trade Organization (WTO) on 1 January 1995.

Short Answer Questions

1. What is the primary motive of establishment of WTO?
- The purpose of the WTO is to ensure global trade commences smoothly, freely and predictably.
- WTO creates and embodies the ground rules for global trade among member nations, offering a system for international commerce.
- The WTO aims to create economic peace and stability in the world through a multilateral system based on consenting member states.

2. Name the affiliate of World Bank
   (i) International Bank for Reconstruction and Development (IBRD)
   (ii) International Finance Corporation (IFC)
   (iii) International Development Association (IDA)
   (iv) Multilateral Investment Guarantee Agency (MIGA)
   (v) International Centre for Settlement of Investment Disputes (ICSID)

3. What are the criticisms of World Bank?
   1. Transparency: It doesn’t reveal on a deal to deal basis at what interest rate is it lending. To which countries is it lending cheap. Why some countries are favoured over the other
   2. Control: It’s fair to say the developed world control the world Bank. In a way it should be like that because most of the money do comes from developed world, but, its this money that is used by developed world to get bargains with the money borrowers
   3. Enforcer/Manipulator: After making the borrower addicted and dependent on its money, world bank interfere with government projects
4. How is the value of SDR determined currently?

- The currency value of the SDR is determined by summing the values in U.S. dollars, based on market exchange rates, of a basket of major currencies (the U.S. dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi).
- The SDR currency value is calculated daily (except on IMF holidays or whenever the IMF is closed for business) and
- the valuation basket is reviewed and adjusted every five years.

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>Currency amount under Rule O-1</th>
<th>Exchange rate ¹</th>
<th>U.S. dollar equivalent</th>
<th>Percent change in exchange rate against U.S. dollar from previous calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese yuan</td>
<td>1.0174</td>
<td>6.85475</td>
<td>0.148423</td>
<td>-0.290</td>
</tr>
<tr>
<td>Euro</td>
<td>0.38671</td>
<td>1.16685</td>
<td>0.451233</td>
<td>-0.252</td>
</tr>
<tr>
<td>Japanese yen</td>
<td>11.900</td>
<td>110.76500</td>
<td>0.107435</td>
<td>0.722</td>
</tr>
<tr>
<td>U.K. pound</td>
<td>0.085946</td>
<td>1.30055</td>
<td>0.111777</td>
<td>-0.085</td>
</tr>
<tr>
<td>U.S. dollar</td>
<td>0.58252</td>
<td>1.00000</td>
<td>0.582520</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Mention the functions of SAARC.

1. Monitoring and co-ordinating the development programme
2. Determining inter-sectoral priorities
3. Mobilizing cooperation within and outside the region.
4. Dealing with modalities of financing

Long Answer Questions.

1. Point out the objectives of WTO

1. Improving the standard of living of people in member countries
2. Making optimum utilization of world’s resources for sustainable development of member countries.
3. Promoting an integrated more viable and durable trading system in the sphere of international business
4. Expansion of trade in goods and services
5. Ensuring full employment and large steady growth volume of real income and effective demand
6. Protecting the environment
2. Write down the functions of WTO.
   1. It is a forum for negotiation and formalization of trade agreement among the member countries.
   2. It settles disputes and grievances relating to trade among the member countries.
   3. It frames commonly acceptable code of conduct in order to reduce trade barriers.
   4. It holds consultations with IMF and World Bank(IBRD) and its affiliates to bring about a greater understanding and co-operation in global economic policy making.
   5. It supervises the operations of agreement relating to General Agreement on Tariffs and Trade(GATT) and Trade-Related Intellectual Properties Rights (TRIPS)
   6. It regulates trade between participating countries.

3. Describe the benefits of WTO
   1. WTO is promoting international peace and creating a conducive environment for conducting international trade
   2. It settles the trade disputes amicably among the member countries.
   3. It promotes the standard of living of people by increasing their income level from free trades
   4. WTO has removed quantitative restrictions and non-tariff barriers. It has facilitated free flow of foreign trade among the member countries. The countries can impose import restrictions only to correct balance of payments difficulties and not otherwise.
   5. It stimulates economic growth of developing countries by providing them with much needed capital and giving them preferential treatment in trade related matters
   6. WTO organizes periodical regional and international conference. Thus developing countries get opportunity to learn the technicalities, rules and regulations governing world trade, technical assistance available globally, trade potentials in member countries and so on.
   7. WTO gives people across the world a wider choice of goods and broader range of qualities of goods to choose from by promoting free trade among the member countries.
   8. WTO has lowered trade barriers and thereby allowed trade to flourish across the world. The increase in trade contributes to increase in national income and personal income of people
   9. WTO provides a platform for member countries to establish trade links with one another. In the absence of WTO member countries may have to enter many multilateral agreement with so many countries across the world. It provides a greater access to all nations under one roof.
   10. WTO is committed to protecting free trade. It has framed rules on subsidies and dumping.

4. Highlights the functions of IBRD
   1. Assisting reconstruction of war-affected countries
   2. Promoting economic growth and balanced growth of international business
   3. Promoting infrastructural facilities like energy and transportation, road development, etc. in member countries.
   4. Encouraging agricultural and industrial development in developing countries by providing adequate resources
   5. Providing resources for promoting sanitation, education, health care and small scale enterprises in member countries

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PG ASSITIN COMMERCE, GHSS, PANAGATUR, SALEM DT. PH, 8220015115
6. Improving standard of living of people of member countries by providing assistance by removing poverty, raising productivity, providing technical support and conducting research and development

5. Write down the functions of IMF

1. It acts as short term credit institution at the international level.
2. It provides machinery for ordinary adjustments of exchange rates.
3. It has a reservoir of currencies of the member countries from which a borrower can borrow currencies of other nations.
4. It promotes economic stability and global growth by encouraging countries adopt sound economic and financial policies.
5. It offers technical assistance and training to help member countries strengthen and implement effective policies. Technical assistance is offered in formulating banking, fiscal, monetary and exchange policies.
6. It helps member countries correct their imbalance in balance of payment.

6. Explain how far India has benefited from IMF

Free Convertibility of Indian Rupee
Indian rupee has become independent after the establishment of IMF. Earlier it was linked with pound sterling. Its value is now determined in terms of Gold. Hence it is freely convertible.

Loan For Development Activities
India got several loan facilities from IMF for its several development projects.

Ability To Purchase Foreign Currency
Government of India is able to purchase foreign currencies from time to time to meet the ever growing requirement of development activities.

Expert Advice
India used to get expert advice from IMF for solving the economic problems. It has given valuable advice to India with regard to financing its 5 year plan.

Timely Help
India has received timely help from IMF many a time to eliminate the deficit in its balance of payments. India got help from IMF during 1966 in the aftermath of war with Pakistan. It received assistance from IMF for combating oil shock. Between 1980 and 1983 India got assistance from IMF to manage global economic recession.

Financial Assistance during Natural Calamity
India has got a lot of financial assistance from IMF to solve the economic crises arising from natural calamities like, floods, famine, earthquake, aggressions of Chinese and Pakistan etc. It gets technical assistance from IMF.

Membership in World Bank
By virtue of its membership in IMF India could become member in the World Bank.

7. Help During 1991 Economic Crisis
During 1990, India faced serious economic crisis. Indian Government was almost nearing bankruptcy. It got assistance from IMF by pledging its gold reserve with it to solve its balance of payments crisis.
CHAPTER 28 BALANCE OF TRADE AND BALANCE OF PAYMENTS

Very Short Answer Questions

1. What do you mean by Balance of payments?
   It is a systematic record of all economic transactions happened between the resident of one country and resident of foreign countries during a particular period.

2. What do you mean by Balance of trade?
   ➢ Balance of trade is statement showing the net effect of export and import of a country.
   ➢ It records only transactions relating to merchandise, i.e. goods transactions.

3. Define Balance of payments
   According to International Monetary Fund, “The balance of payments for given period is a systematic records of all economic transactions taken place during the period between residents of the reporting countries.”

4. What is the composition of private capital?
   Private capital consists of foreign investments, long term loan and foreign currency deposits.

5. Mention the components of banking capital.
   Banking capital includes movement into external financial asset and liabilities commercial and co-operative banks authorized to dealing in foreign exchange.

6. Mention the components of official capital.
   It includes RBI’s holdings of foreign currency and special drawing rights (SDR) held by the Government.

Short Answer Questions

1. Why is Balance of payment prepared?
   ➢ Balance of payment is the principal tool for analyzing the monetary position of international trade of a country.
   ➢ Balance of payments help in framing monetary, fiscal and trade policies of country.

2. What does Balance of payment disclose?
   BOP shows a favourable or surplus position when the total receipts from foreign countries exceed the total payments to foreign countries. When the receipts from foreign countries are less than the payments to foreign countries, BOP is said to be unfavorable or in deficit.

3. What are the credit items shown in currents accounts?
   1. Goods Export(visible)
   2. Invisible Exports
      a. Transport service sold abroad
      b. Banking service sold abroad
      c. Insurance service sold abroad
      d. Income received on loan and investment made in foreign countries
      e. Expenses incurred by foreign tourists in India

4. State the components of capital account.
   1. Private Capital
   2. Banking Capital
   3. Official Capital
Long Answer Questions

1. Write down the structure of capital account

**Capital account consists of three components**

1. **Private Capital**
   - Private capital consists of foreign investments, long term loan and foreign currency deposits

2. **Banking Capital**
   - Banking capital includes movement into external financial asset and liabilities commercial and co-operative banks authorized to dealing in foreign exchange

3. **Official Capital**
   - It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government

2. Distinguish balance of payment and balance of trade

<table>
<thead>
<tr>
<th>Nature</th>
<th>Balance of payment</th>
<th>Balance of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>It is a systematic record of all economic transactions happened between the resident of one country and resident of foreign countries during a particular period</td>
<td>Balance of trade is statement showing the net effect of export and import of a country</td>
</tr>
<tr>
<td>2. Nature of Transactions recorded</td>
<td>It records both the transactions relating to goods and services</td>
<td>It records only transactions relating to merchandise, i.e. goods transactions</td>
</tr>
<tr>
<td>3. Capital Transactions</td>
<td>It records capital transactions</td>
<td>It does not record capital Transactions</td>
</tr>
<tr>
<td>4. Structure</td>
<td>It includes balance of trade, balance of services, balance of unilateral transfer and balance of capital transactions</td>
<td>It is part of current account of BOP</td>
</tr>
<tr>
<td>5. Net Position</td>
<td>It always remains balanced in the sense that receipt side is made equal to payment side</td>
<td>It may be at favorable or unfavourable or in equilibrium state.</td>
</tr>
<tr>
<td>6. Indicator Economic Status</td>
<td>It is a true indicator of economic performance of an economy</td>
<td>It is not a true indicator of economic prosperity or economic relations of country.</td>
</tr>
<tr>
<td>7. Correcting Unfavourability</td>
<td>Unfavourable balance of payment leads to deficit in balance of payment situation.</td>
<td>Unfavourable balance of trade can be converted into favorable balance of payment</td>
</tr>
</tbody>
</table>
3. Highlight the features of balance of trade.

**Features of Balance of Trade:**

1. **Exports and Imports:** The elements of the balance of trade are exports and imports. Export of goods means movement of goods from domestic country to foreign country. The vis-a-vis is known as Imports.

2. **Visible Goods:** Balance of trade constitutes imports and exports of goods. The important features of the goods are that it must be visible, have physical structure, size, shape and form. The goods must be seen and touched, counted, measured and weighed.

3. **Material Goods:** Goods constitute our imports and exports must be material. It means that non-material goods and services will not constitute imports and exports.
Chapter 29  Elements of Contract

Very Short Answer Questions

1. What is law?

Law means a ‘set of rules’ which governs our behaviour and relating in a civilized society.

2. Why should one know law?

One should know the law to which he is subjected to because ignorance of law is no excuse.

3. Can a minor enter into a Contract?

- Section 11 of the Indian Contract Act expressly forbids a minor from entering a contract. Any contract entered by a minor is considered worthless by the law.
- However, in Raghavachariar vs. Srinivas, the Madras HC held that a minor can enforce a contract which is of some benefit and creates no obligations on him.
- The Indian Apprentice Act provides for contracts for service which are binding on minors. Section 9 of the Act requires such contracts to be made by a guardian on behalf of a minor.

4. Who can enter into a Contract?

The parties to a contract must have capacity (legal ability) to make valid contract. The Indian contract Act specifies that every person is competent to contract provided he
(i) is of the age of majority according to the Law which he is subject to, and
(ii) who is of sound mind and
(iii) is not disqualified from contracting by any law to which he is subject to, an alien enemy, foreign sovereigns and accredited representative of a foreign state, insolvents and convicts are not competent to contract.

5. Define Contract

As per the Indian Contract Act, 1872, a “contract” is an agreement enforceable by law. The agreements not enforceable by law are not contracts.
Short Answer Questions

1. Define Offer

**Offer (i.e. Proposal) [section 2(a)]**
When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other person either to such act or abstinence, he is said to make a proposal.

2. What do you mean by Agreement?

**Agreement 2(e)**
Every promise and set of promises forming consideration for each other is an agreement. In short, Agreement = Offer + Acceptance.

3. Define a Voidable Contract

**Voidable Contract 2(i)**
An agreement which is enforceable by law at the option of one or more parties but not at the option of the other or others is a voidable contract. This is the result of coercion, undue influence, fraud and misrepresentation.

4. What do you mean by Revocation?

Revocation of offer is the withdrawal of an offer by the offeror so that it can no longer be accepted. Revocation takes effect as soon as it is known to the offeree. An offeror may revoke an offer before it has been accepted, but the revocation must be communicated to the offeree.

5. Who is a promisor, promisee?

Promisor Definition: The person who has become obliged through a promise (usually expressed in a contract) towards another.

Promisee, Obligor, Debtor. The opposite of a promisee; the promisor is the one making the promise: the person who makes a promise or a contractual commitment.
1. **Offer and acceptance:**
In a contract there must be at least two parties one of them making the offer and the other accepting it. There must thus be an offer by one party and its acceptance by the other. The offer when accepted becomes agreement.

2. **Legal relationship:**
Parties to a contract must intend to constitute legal relationship. It arises when the parties know that if any one of them fails to fulfil his part of the promise, he would be liable for the failure of the contract.

3. **Consensus-ad-idem:**
The parties to an agreement must have the mutual consent i.e. they must agree upon the same thing and in the same sense. This means that there must be consensus ad idem (i.e. meeting of minds).

4. **Competency of parties:**
The parties to an agreement must be competent to contract. In other words, they must be capable of entering into a contract.

5. **Free consent:**
Another essential of a valid contract is the consent of parties, which should be free. Under Sec. 13, "Two or more parties are said to consent, when they agree upon the same thing in the same sense." Under Sec. 14, the consent is said to be free, when it is not induced by any of the following:- (i) coercion, (ii) misrepresentation, (iii) fraud, (iv) undue influence, or (v) mistake.

6. **Lawful consideration:**
Consideration is known as ‘something in return’. It is also essential for the validity of a contract. A promise to do something or to give something without anything in return would not be enforceable at law and, therefore, would not be valid.

7. **Lawful objects:**
According to Sec. 10, an agreement may become a valid-contract only, if it is for a lawful consideration and lawful object.

Any agreement, if it is illegal, immoral, or against the public policy, cannot become a valid contract.
8. Agreement not expressly declared void:
An agreement to become a contract should not be an agreement which has been expressly declared void by any law in the country, as it would not be enforceable at law.

9. Certainty and possibility of performance:
Agreements to form valid contracts must be certain, possible and they should not be uncertain, vague or impossible. An agreement to do something impossible is void under Sec. 56.

10. Legal formalities:
The agreement may be oral or in writing. When the agreement is in writing it must comply with all legal formalities as to attestation, registration. If the agreement does not comply with the necessary legal formalities, it cannot be enforced by law.

2. Difference between Contract and Agreement.

<table>
<thead>
<tr>
<th>S.NO</th>
<th>BASIS</th>
<th>CONTRACT</th>
<th>AGREEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Definition</td>
<td>A contract is an agreement enforceable by law.</td>
<td>An Agreement is every promise or every set of promises forming consideration</td>
</tr>
<tr>
<td>2</td>
<td>Enforceability</td>
<td>Every contract is enforceable</td>
<td>Every promise is not enforceable</td>
</tr>
<tr>
<td>3</td>
<td>Inter relationship</td>
<td>A contract includes an agreement.</td>
<td>An agreement does not include a Contract</td>
</tr>
<tr>
<td>4</td>
<td>Validity</td>
<td>Only legal agreements are called contracts.</td>
<td>An agreement may be both legal and illegal.</td>
</tr>
<tr>
<td>5</td>
<td>Legal Obligation</td>
<td>Every contract contains a legal obligation.</td>
<td>It is not necessary for every agreement to have legal obligation</td>
</tr>
</tbody>
</table>

3. Explain the classification of Contract on the basis of the Validity.

1. Void contracts:
A **void contract** is a contract which is not enforceable by law. As a matter of fact, a void contract is not at all a contract, as it is without any legal effect.

The term void contract is defined in Sec2 (j) of the Indian Contract Act, which reads as under: “A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable “.

Thus, when a valid and enforceable contract subsequently becomes legally unenforceable due to some reasons which may be:-
(i) Due to some emergent impossibility or the operation of law, contract may become void (Sec 56);

(ii) Voidable contract becomes void when the concerned party uses his right to repudiate it; and

(iii) A contingent contracts becomes void when the possibility of happening of the concerned event is over.

2. Voidable contracts:
Under Sec 2 (i), "All agreements which are enforceable at the option of any one of the parties, and other party has no such option, are known as voidable contracts."

It may also be said that a voidable contract is an agreement that is binding and enforceable, but because of the lack of one or more of the essentials of a valid contract, it may be repudiated.

3. Illegal agreement:
An agreement which goes beyond the rule of basic public policy and is criminal in nature or immoral

It is not only void as between the immediate parties but it is also paints the collateral transactions with illegality.

4. Explain the classification of Contract on the basis of the Formation.

1. Express contract:
A contract in which the terms are stated by parties in words, written or spoken.

Sec 9 of the Indian Contract Act contains this provision which reads as under: “So far as the proposal or acceptance of any promise is made in words, the promise is said to be express”.

Thus, a promise made in words is called an express promise. And the express promises result in express contracts.

2. Implied contract:
A contract in which the terms are inferred from the circumstances of the case or conduct of the parties.

Thus, an implied contract is that which is not made in words. Such contracts came into existence on account of act or conduct of the parties. In a continuing course of dealing, the acts or conduct of the parties may give rise to implied contracts.
3. Quasi contract or constructive contract:
It is an obligation created by law regardless of agreement between the parties. As a matter of fact, quasi-contracts are not contracts as there is no intention of the parties to enter into a contract.

In fact, it is an obligation which the law creates in the absence of any agreement. A quasi-contract is based upon the equitable principle that a person shall not be allowed to enrich himself at the expense of another.

5. Explain the classification of Contract on the basis of the Performance.

1. Unilateral contract:
A contract in which one party has performed his obligation while the other party has yet to perform his obligation

Thus, a unilateral contract is a one-sided contract in which only one party has to perform his obligation. In such contracts, promise on one side is exchanged for an act on the other side.

2. Bilateral contract:
A contract in which both the parties have yet to perform their obligations. A bilateral contract is a two-sided contract in which both the parties have to perform their respective obligations, i.e. at the time of formation of a contract the obligations of both the parties are outstanding.

In such contracts, promise on one side is exchanged for a promise on the other. The bilateral contracts are also known as contracts with executor consideration.

3. Executory contract:
A contract in which the promises of both the parties have yet to be performed. Thus, executory contract is that where under the terms of a contract something remains to be done by the parties.

In other words, where one or both the parties to the contract have still to perform their obligations in future, the contract is termed as executory contract.

4. Executed Contract:
A contract in which both the parties performed their respective promises. When a contract has been completely performed, it is termed as executed contract, i.e. it is a contract where, under the terms of a contract, nothing remains to be done by either party. A contract may be executed at once i.e. at the time when it is made.

For example, in case of cash sales, the contract is executed at once. It may become executed in some future date when the terms of the contract are carried out
6. Explain the classification of Contract on the basis of the enforceability

1. **Valid contract:**
A valid contract is one which complies with all the elements of a valid contract as provided under Section 10. A valid contract is an agreement which is binding and enforceable at law.

2. **Unenforceable contracts:**
The unenforceable contracts are those which cannot be enforced in a Court of Law because of some technical defects. In certain cases, there are special provisions of law which require some formalities to be fulfilled, e.g. there are special provisions which provide that a contract must be in writing, or it must be registered, or it must be properly stamped or it must be attested etc.

If such formalities are not properly observed, the contract cannot be enforced in a Court of Law. Otherwise, such a contract is perfectly valid and has all the requirements of a valid contract.

Some of such contracts can be enforced if the technical defect is removed e.g. where a document requires to be stamped and it is understamped (i.e. the stamp affixed is of less value), the contract as such is unenforceable. But if the required stamp is now affixed, the document becomes enforceable.
Chapter 30 Performance of Contract

II Very Short Answer Questions

1. State the ways of Performing a Contract.
   i. Actual Performance
   ii. Attempted Performance

2. Who is a Legal Representative?

   Legal Representative – legal representative can demand Exception performance. Contrary intention appears from the contract. Contract is of a personal nature.

3. Who is an agent?

   According to Para 2 of Section 40, the promisor may employ a competent person such as agent to perform the promise, if the contract is not formed on personal condition.

4. Define Reciprocal Promise.

   Promises which form consideration or part of consideration for each other are called ‘reciprocal promise’.

5. By whom must contracts be perfomed?

   i) Promisor himself
   ii) Agent
   iii) Legal representative
   iv) Third Person
   v) Joint Promisors

III Short Answer Questions

1. What is a Valid tender?

   A tender, to be valid, must satisfy the following essential requirements
   i) It must be unconditional
   ii) It must be for the whole obligation and must not be in instalments, if the contract requires in full.
   iii) It must be by a person who is in a position and willing to perform the promise.
   iv) It must be at the proper time and place.
v) It must be in proper form.
vi) It must be made to a proper person i.e. to the promisee or his authorized agent.
vii) In case of the tender of goods the promisee must be given a reasonable opportunity to inspect the goods.
viii) It may be made to one of the several joint promisees.

2. Who can execute and Perform a Contract?

i) Promisor himself
ii) Agent
iii) Representations
iv) Third Person
v) Joint Promisors

3. Who can demand performance?

1. **Promisee** – only a promisee can demand performance and not a stranger demand performance of the contract.
2. **Legal Representative** – legal representative can demand Exception performance. Contrary intention appears from the contract. Contract is of a personal nature.
3. **Third party** – Exception to “stranger to a contract”

3. Write a note on the benefits of Reciprocal Promise.

Promises which form consideration or part of consideration for each other are called ‘reciprocal promise’.

**Example:**
All cash sales are examples of simultaneous or concurrent promises, as delivery of goods and payment of price take place simultaneously.

4. Who is a Joint Promisors?

Section.42 of Indian Contract Act lays down that “When two or more persons have made a joint promise, then unless a contrary intention appears in the contract, all such persons, during their joint lives and after the death of the last survivor, representatives of all, jointly must fulfil the promise”
IV Long Answer Questions

1. Explain rules relating to place of performance of promise

When a promise is to be performed on a certain day, the promisor may undertake to perform it without application by the promisee. Under Sec 47, it has been provided that “In such a case the promisor may perform the promise at any time during the usual hours of business on such day and at the place at which the promise ought to be performed.”

Example:

X promises to deliver 10 scooters at Y’s go down on April 1. On that day X brings the scooters but after 8.00 p.m. The delivery is not taken as the go down was closed. Here it was held that X has not performed his promise.

2. Elucidate the provision regarding time as factor in performance.

Sec. 46 states that “Whereby the contract, a promisor is to perform his promise without application by the promisee and no time for performance is specified, the engagement must be performed within a reasonable time.”

What is a “reasonable time?” is a question of fact. It depends upon the circumstances of the case, the usage of trade or the intention of the parties at the time of entering into the contract.

Example:

Supply of order for books by a bookseller to the publisher given in July should be performed within 4-5 days, it being the time for the demand of books.

If such order is given in May, it may take 20-30 days or so, as the season for books will start in July.

3. How do you think appropriation of payments takes place?

The Rules relating to the appropriation of payments made by a debtor, who owes a number of distinct debts to his creditor are contained in Sections 59 to 61 of the Indian Contract Act, 1872.

1. Where the debtor intimates (Sec. 59):

(i) Appropriation of payment is a right primarily of the debtor and for his benefit. If the debtor expressly intimates at the time of actual payment that the payment must be applied towards the discharge of a particular debt, the creditor must do so.

(ii) If there is no express intimation by the debtor, the Law will look to the circumstances attending on the payment for appropriation. There is an established maxim that when
money is paid, it is to be applied according to the express will of the payer, not to the receiver. [Craft Vs. Lumlay]

2. **When the debtor does not intimate and the circumstances are not indicative (Sec. 60):**
   (i) When the debtor does not expressly intimate or where the circumstances attending on the payment do not indicate any intention, the creditor may apply his own discretion to any lawful debt actually due and payable to him from the debtor.

   (ii) The creditor may also, until he has declared appropriation to the debtor, alter the appropriation.[Simson Vs. Ingham]

   (iii) He cannot, however, apply the payment to a disputed and unlawful debt, but he may apply it to a debt, which a barred by the law of limitation.

3. **Part-payment is applied for the interest first and for the principal afterwards:**
   Regarding part-payment, the general principle, subject to any contract to the contrary, is that the payment should first be applied to the interest and after the interest is fully paid off, to the principal.[Rubia Devi Vs. Raghunath Prasad]

4. **Appropriation in order of receipts and payments:**
   The Rule of Clayton’s Law is applicable where the parties have a current account. In such case appropriation impliedly takes place in the order in which receipts and payments take place and are carried into the account.

5. **When the debtor does not intimate and creditor fails to appropriate (Sec. 61):**
   Where the debtor does not expressly intimate and where the creditor fails to make any appropriation, the payment shall be applied in discharge of the debt in chronological order, i.e., in order of time

   If the debts are of equal standing, the payment shall be applied in discharge of each proportionately.
Chapter 31 Discharge and Breach of a Contract

Very Short Answer Questions

1. What are the kinds of consent?
   a. express
   b. implied

2. What are the types of Impossibility of Performance?
   i) Impossibility existing at the time of agreement.
   ii) Impossibility arising subsequent to the formation of contract.

3. What is Quantum merit?
   A reasonable sum of money to be paid for services rendered or work done when the amount due is not stipulated in a legally enforceable contract.

Short Answer Questions

1. What are the different modes of discharged by implied consent?
   (a) Novation, (b) Alteration, (c) Recession, (d) Remission, (e) Accord and Satisfaction, (f) Waiver and (g) Merger

2. Define discharge by Performance.
   Performance implies carrying out the obligation of the contract. Performance must be completed according to the real intentions of the agreement. Performance must be done according to time and manner prescribed. Performance of contract may be of two types namely
   (i) Actual performance
   (ii) Attempted performance

3. What are reasons for impossibility arising after the formation of contract?
   a) By some event beyond the control of the parties or
   b) By some act either of the promisor or of the promisee.

4. What are the various rules regarding damages?
   Sec. 73 to 75 of the Act deal with the rules regarding the loss or damage arisen from a breach of contract. The rules state that:-
   1. Damages are paid as compensation and restitution and not as punishment. Infact through damages efforts are made to put the party back into the same position as if the contract had been performed. [Hadley Vs. Baxendale]
2. Compensation is paid for proximate losses as may naturally, fairly and reasonably arise in the usual course of events.

3. No compensation can be paid for any remote or indirect losses as provided under Sec. 73.

4. Compensation can be paid for any loss or damage, which the party knew when he entered into the contract.

5. Subsequent circumstances causing increase or decrease in the quantum of damages are not taken into consideration.

6. Claim for damages must be fair and reasonable.

IV Long Answer Questions

1. Explain the ways of discharge of Contract?

When the rights and obligations arising out of a contract are extinguished, the contract is said to be discharged or terminated. A contract may be discharged in any of the following ways:

1. By performance-actual or attempted.

2. By mutual consent or agreement.

3. By subsequent or supervening impossibility or illegality.

4. By lapse of time.

5. By operation of law.


1. Discharge by Performance

Performance of a contract is the principal and most usual mode of discharge of a contract. Performance may be: (1) Actual performance; or (2) Attempted performance or Tender.

2. Discharge by Mutual Consent or Agreement:

Since a contract is created by means of an agreement, it may also be discharged by another agreement between the same parties. Sections 62 and 63 deal with this subject and provide for the following methods of discharging a contract by mutual agreement:
(a) Novation, (b) Alteration, (c) Recession, (d) Remission, (e) Accord and Satisfaction, (f) Waiver and (g) Merger

3. Discharge by Subsequent or Supervening Impossibility or Illegality:

Impossibility at the time of contract:
There is no question of discharge of a contract which is entered into to perform something that is obviously impossible, e.g., an agreement to discover treasure by magic, because, in such a case there is no contract to terminate, it being an agreement void ab-initio by virtue of Section 56, Para 1, which provides: “an agreement to do an act impossible in itself is void.”

Subsequent impossibility:
In fact it is this case, where the impossibility supervenes after the contract has been made, which is material to our study of discharge of contracts. In this connection, Section 56, Para 2, declares: “A contract to do an act which, after the contract is made, becomes impossible, or, by reason of some event which the promisor could not prevent, unlawful, becomes void when the act becomes impossible or unlawful”.

In order that the Section would apply the following conditions must be fulfilled: (1) that the act should have become impossible; (2) that impossibility should be by reason of some event which the promisor could not prevent; and (3) that the impossibility should not be self-induced by the promisor or due to his negligence.

4. Discharge by Lapse of Time:
The Limitation Act lays down that in case of breach of a contract legal action should be taken within a specified period, called the period of limitation, otherwise the promisee is debarred from instituting a suit in a court of law and the contract stands discharged.

5. Discharge by Operation of Law:
A contract terminates by operation of law in the following cases:

(a) Death:
Where the contract is of a personal nature, the death of the promisor discharges the contract. In other contracts the rights and liabilities of the deceased person pass on to the legal representatives of the dead man.

(b) Insolvency:
A contract is discharged by the insolvency of one of the parties to it when an Insolvency Court passes an “order of discharge” exonerating the insolvent from liabilities on debts incurred prior to his adjudication.
(c) Merger:
Where an inferior right contract merges into a superior right contract, the former stands discharged automatically.

(d) Unauthorised material alteration:
A material alteration made in a written document or contract by one party without the consent of the other, will make the whole contract void.

6. Discharge by Breach of Contract:
Breach of contract by a party thereto is also a method of discharge of a contract, because “breach” also brings to an end the obligations created by a contract on the part of each of the parties.

Of course the aggrieved party, i.e., the party not at fault can sue for damages for breach of contract as per law; but the contract as such stands terminated.

Breach of contract may be of two kinds:

(1) Anticipatory breach; and (2) Actual breach

2. Write about the various remedies for breach of contract

Parties to a contract are obliged to perform their respective promises. But situation arises where one of the parties to a contract may break the contract by refusing to perform his promise. This is what is called breach of contract. When one party commits breach of contract, soon the other party is entitled to the following remedies.

When one of the party commits a breach of the contract, the other party becomes entitled to any of the following reliefs:

1. Rescission of the contract.
2. Damages for the loss suffered.
3. Suit for the specific performance.
4. Suit upon quantum meruit.
5. Suit for injunction.

1. Rescission of the Contract

When one of the parties commits breach of contract, other party shall further treat the contract as void or rescinded. When the contract is rescinded, the affected party is automatically discharged from all the commitments under the contract.
Sec. 64 of the Act provides that the party who rescinds the voidable contract, shall if he has received any benefit there under from the other party, restore such benefit to the person from whom it was received. Further, the person who rightfully rescinds the contract is entitled to compensation for any damage he faced from non-fulfillment of contract.

2. Damages for the loss suffered

The term “Damages” means monetary compensation payable by the defaulting party to the affected party for the loss suffered by him when contract was breached. Therefore, the aggrieved party may bring an action for damages against the party who is guilty of the breach of contract.

The party who is guilty of breach is liable to pay damages to the aggrieved party. The main purpose of awarding breach is to put the injured person in as good a position as he would have been if performance had been rendered as promised. Therefore, the aggrieved party can recover the actual damages and nothing more. Exemplary damages can be awarded only when the feelings of the injured party are considered.

3. Suit for the specific performance.

Sometimes, the damages are not an adequate remedy for breach of the contract. In such cases, the Court may, at the suit of the party not in breach, direct the party in breach to carry out his promise as per the terms of the contract. This is known as specific performance of the contract.

Some of the cases where Court may direct specific performance are as follows:

1. When the act agreed to be done is such that compensation in money, for its non-performance could not afford adequate relief.

2. When there exists no standard for determining the actual damages caused due to the non-performance of the contract.

However, specific performance shall not be granted in the following cases:

1. Where the damages are an adequate relief,

2. Where the contract is determinable in its nature.

3. Where the contract involves personal nature.

4. Where the Courts cannot supervise the carrying out of the contract.

5. Where the contract is not fair and just.
4. **Suit upon Quantum Meruit**

In literal sense, the expression “Quantum Meruit” means, “as much as earned”. In legal sense, it means payment in proportion to the work done. This principle provides for the payment of compensation under certain circumstances, to a person who has offered the goods or services to the other party under a contract, which under certain circumstance, could not be fully performed.

5. **Suit for Injunction**

The term”Injunction” may be defined as an order of the Court instructing a person to refrain from doing some act that has been the subject-matter of contract. Where a party has promised not to do something and he does it, and thereby commits a breach of contract, the aggrieved party may, seek the protection of the Court under certain circumstances and obtain an injunction.

3. **Discuss the different types of damages awarded to the injured party.**

**(i) Ordinary Damages:**

Compensation can be paid for actual loss. No one can be allowed to make profits from loss. Usually, the difference between the contract price and the market price on the date of breach is determined as compensation. Such compensation is known as ‘ordinary damages’.

Section 73 does not give any course of action unless and until damage is actually suffered. [Union of India vs. T.D.L. Patel, A.I.R. (1917), Delhi 120]

**(ii) Special Damages:**

Damages other than those arising from the breach of contract may be recovered, if such damages may reasonably be supposed to have been in the contemplation of both the parties as the probable result of the breach of contract. Such damages are known as special damages.

Such damages cannot be claimed as a matter of right. They can be claimed only if special circumstances which would result in a special loss in case of breach of contract, are brought to the notice of the other party. [Simpson Vs. London N. W. Rail Co.]

Further, the fact that damages are difficult to be assessed, does not prevent the injured party from recovering them. [Chaplin vs. Hicks (1911), 2 K.B. 786]

**(iii) Vindictive or Exemplary Damages:**

Damages are awarded by way of compensation for loss suffered and not by way of punishment. Hence, such damages have no place in the Law of Contract because they are punitive by nature.
However, there are two cases in which the court may award exemplary damages. These cases are:

(a) Breach of a promise to marry; and

(b) Wrong dishonor of a cheque by a banker.

(iv) Nominal Damages:
Where the injured party has not, in fact, suffered any loss by reason of the breach of contract, the damages recovered by him are nominal, i.e., very small. Such damages only acknowledge that the plaintiff has proved his case and won. [Brace Vs. Calder]
Chapter 32 Direct Taxes

II. Very Short Answer Questions

1. What is Income tax?

Income tax is a direct tax under which tax is calculated on the income, gains or profits earned by a person such as individuals and other artificial entities (a partnership firm, company, etc.)

2. What is meant by previous year?

Income earned during a particular financial year is assessed to tax in the immediately following financial year. The year of earning income is called ‘Previous Year’ and the year in which assessment of income is done is called ‘Assessment Year’. The income tax return of previous year’s income is filed in the relevant assessment year.

3. Define the term person?

The term ‘person’ includes the following
(i) an individual,
(ii) a Hindu Undivided Family (HUF),
(iii) a company,
(iv) a firm,
(v) an Association Of Persons or a Body Of Individual, whether incorporated or not,
(vi) a local authority, and
(vii) every artificial juridical person e.g., an idol or deity.

4. Define the term assessee?

Assessee means a person by whom any tax or any other sum of money is payable under this Act. It includes every person in respect of whom any proceeding has been taken for the assessment of his income or assessment of fringe benefits.

5. What is an assessment year?

The term has been defined under section 2(9). The year in which tax is paid is called the assessment year. It normally consisting of a period of 12 months commencing on 1st April every year and ending on 31st March of the following year.

Short Answer Questions

1. What is Gross Total Income?

Gross Total Income is a cumulative income which is computed under the five heads of income, i.e. salary, house property, business or profession, capital gain and other sources. Gross total income is calculated after the clubbing provisions and making adjustments of set-off and carry forward of losses.

2. List out the five heads of income.
3. Write a note on Agricultural Income.

Any rent or revenue derived from land which is situated in India and is used for agriculture purposes. Agricultural income is fully exempted from tax u/s 10(1) and as such does not form part of total income.

4. What do you mean by Total Income.

Total Income is the income on which tax liability is determined. It is necessary to compute total income to ascertain tax liability. Section 80C to 80U provides certain deductions which can be claimed from Gross Total Income (GTI). After claiming these deductions from GTI, the income remaining is called as Total Income.

5. Write short notes on:

1. Direct Tax.

2. Indirect Tax

Direct Taxes, as the name suggests, are taxes that are directly paid to the government by the taxpayer. It is a tax applied on individuals and organizations directly by the government e.g. income tax, corporation tax, wealth tax etc.

Indirect Taxes are applied on the manufacture or sale of goods and services. These are initially paid to the government by an intermediary, who then adds the amount of the tax paid to the value of the goods / services and passes on the total amount to the end user.

Examples of these are sales tax, service tax, excise duty etc.

IV. Long Answer Questions

1. Elucidate any five features of Income Tax.

i. Levied as Per the Constitution
Income tax is levied in India by virtue of entry No. 82 of list I (Union List) of Seventh Schedule to the Article 246 of the Constitution of India.

ii. Levied by Central Government
Income tax is charged by the Central Government on all incomes other than agricultural income. However, the power to charge income tax on agricultural income has been vested with the State Government as per entry 46 of list II, i.e., State List.

iii. Direct Tax
Income tax is direct tax. It is because the liability to deposit and ultimate burden are on same person. The person earning income is liable to pay income tax out of his own pocket and cannot pass on the burden of tax to another person.

iv. Annual Tax
Income tax is an annual tax because it is the income of a particular year which is chargeable to tax.

v. Tax on Person
It is a tax on income earned by a person. The term ‘person’ has been defined under the Income tax Act. It includes individual, Hindu Undivided Family, Firm, Company, local authority, Association of person or body of Individual or any other artificial juridical persons. The persons who are covered under Income tax Act are called ‘assessees’.

2. Define Tax. Explain the term direct tax and indirect tax with an example.

Tax

Compulsory monetary contribution to the state's revenue, assessed and imposed by a government on the activities, enjoyment, expenditure, income, occupation, privilege, property, etc., of individuals and organizations.

Direct Taxes, as the name suggests, are taxes that are directly paid to the government by the taxpayer. It is a tax applied on individuals and organizations directly by the government e.g. income tax, corporation tax, wealth tax etc.

Indirect Taxes are applied on the manufacture or sale of goods and services. These are initially paid to the government by an intermediary, who then adds the amount of the tax paid to the value of the goods / services and passes on the total amount to the end user.

Examples of these are sales tax, service tax, excise duty etc.

3. List out any ten kinds of incomes chargeable under the head income tax.

a) Wages
b) Annuity
c) Pension
d) Gratuity
e) Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages
f) Advance of Salary
g) Leave Encashment
h) Annual accretion to the balance of Recognized Provident Fund
i) Transferred balance in Recognized Provident Fund
j) Contribution by Central Government or any other employer to Employees Pension Account as referred in Sec. 80CCD

4. Discuss the various kinds of assesses.

a. Normal Assessee
i) any person against whom proceedings under Income Tax Act are going on, irrespective of the fact whether any tax or other amount is payable by him or not;

ii) any person who has sustained loss and filed return of loss u/s 139(3);

iii) any person by whom some amount of interest, tax or penalty is payable under this Act;

iv) any person who is entitled to refund of tax under this Act.

b. Representative Assessee
A person may not be liable only for his own income or loss but he may also be liable for the income or loss of other persons e.g. agent of a non-resident, guardian of minor or lunatic etc. In such cases, the person responsible for the assessment of income of such person is called representative assesses. Such person is deemed to be an assessee.

c. Deemed Assessee
i) In case of a deceased person who dies after writing his will the executors of the property of deceased are deemed as assessee.

ii) In case a person dies intestate (without writing his will) his eldest son or other legal heirs are deemed as assessee.

iii) In case of a minor, lunatic or idiot having income taxable under Income-tax Act, their guardian is deemed as assessee.

iv) In case of a non-resident having income in India, any person acting on his behalf is deemed as assessee.

d. Assessee-in-default
A person is deemed to be an assessee-in-default if he fails to fulfill his statutory obligations. For example, an assessee who fails to pay the demand u/s 156 within 30 days, in full, shall be deemed to be an 'Assessee in Default', except in circumstances where he has obtained Order staying the demand in due course. An assessee in default will continue to be so, unless he has cleared the demand/obligations in full.

Further, in case of an employer paying salary or a person who is paying interest, it is their duty to deduct tax at source and deposit the amount of tax so collected in Government treasury. If he fails to deduct tax at source or deducts tax but does not deposit it in the treasury, he is known as assessee-in-default.
II. Very Short Answer Questions

1. Define Indirect tax.
   If tax is levied on the goods or services of a person is collected from the buyers by another person (seller) and paid by him to the Government it is called indirect tax.

2. List out any four types of indirect taxes levied in India.
   Goods and Services Tax, Excise duty, Customs duty, VAT

3. What do you mean by Goods and Services Taxes?
   Goods and Services Tax (GST) is the tax imposed on the supply (consumption) of goods and services. It is a destination based consumption tax and collected on those value added items at each stage of the supply chain.

4. Write a note on SGST.
   **SGST - State Goods and Services Tax**
   - imposed and collected by the State Governments under State GST Act.

5. What is CGST?
   **CGST - Central Goods and Services Tax**
   - imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017

Short Answer Questions

1. write any two differences between direct taxes and indirect taxes

<table>
<thead>
<tr>
<th>Basis</th>
<th>Direct tax</th>
<th>Indirect tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Evasion</td>
<td>Tax evasion is possible</td>
<td>Tax evasion is more difficult</td>
</tr>
<tr>
<td>2 Inflation</td>
<td>Direct tax helps in reducing the inflation.</td>
<td>Indirect tax contributes to Inflation</td>
</tr>
<tr>
<td>3 Shiftability</td>
<td>Cannot be shifted to others</td>
<td>Can be shifted to others</td>
</tr>
</tbody>
</table>

2. What are the objectives of GST?
   **GST objectives:**
   1. Ensuring that the cascading effect of tax on tax will be eliminated.
2. Improving the competitiveness of the original goods and services, thereby improving the GDP rate too.
3. Ensuring the availability of input credit across the value chain.
4. Reducing the complications in tax administration and compliance.
5. Making a unified law involving all the tax bases, laws and administration procedures across the country.
6. Decreasing the unhealthy competition among the states due to taxes and revenues.
7. Reducing the tax slab rates to avoid further clarification issues.

3. Briefly explain the functions of GST council.

Functions of GST Council

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like

- Taxes, cesses, and surcharges to be subsumed under the GST;
- Goods and services which may be subject to, or exempt from GST;
- The threshold limit of turnover for application of GST;
- Rates of GST;
- Model GST laws, principles of levy, apportionment of IGST and principles related to place of supply;
- Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and
- Other related matters.

GST rates will include the floor rates with bands, special rates for raising additional resources during natural disasters / calamities, special provisions for certain States, etc.

4. Explain IGST with an example.

Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export from India.

**Note:** Under IGST,

- Exports would be zero-rated.
- Tax will be shared between the Central and State Government.

An example for IGST:

Consider that a businessman Rajesh from Maharashtra had sold goods to Anand from Gujarat worth Rs. 1,00,000. The GST rate is 18% comprised of 18% IGST. In such case, the dealer has to charge Rs. 18,000 as IGST. This IGST will go to the Centre.

5. Write any three demerits of GST. ***five marks***

i. Several Economists says that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
ii. Another criticism is that CGST, SGST are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.

iii. A number of retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.

iv. The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.

v. Adoption and migration to the new GST system would involve teething troubles and learning for the entire eco system.

**Long Answer Questions**

1. Distinguish between direct taxes and indirect taxes.

<table>
<thead>
<tr>
<th>Basis</th>
<th>Direct tax</th>
<th>Indirect tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Meaning</td>
<td>If a tax levied on the income or wealth of a person is paid by that person (or his office) directly to the Government, it is called direct tax</td>
<td>If tax is levied on the goods or services of a person is collected from the buyers by another person (seller) and paid by him to the Government it is called indirect tax.</td>
</tr>
<tr>
<td>2 Incidence and Impact</td>
<td>Falls on the same person. Imposed on the income of a person and paid by the same person</td>
<td>Falls on different persons. Imposed on the sellers but collected from the consumers and paid by sellers.</td>
</tr>
<tr>
<td>3 Burden</td>
<td>More income attracts more income tax. Tax burden is progressive on people.</td>
<td>Rate of tax is flat on all individuals. Therefore more income individuals pay less and lesser portion of their income as tax. Tax burden is regressive.</td>
</tr>
<tr>
<td>4 Evasion</td>
<td>Tax evasion is possible</td>
<td>Tax evasion is more difficult</td>
</tr>
<tr>
<td>5 Inflation</td>
<td>Direct tax helps in reducing the inflation.</td>
<td>Indirect tax contributes to Inflation</td>
</tr>
<tr>
<td>6 Shiftability</td>
<td>Cannot be shifted to others</td>
<td>Can be shifted to others</td>
</tr>
</tbody>
</table>

2. Discuss the different kinds of GST.

**CGST - Central Goods and Services Tax**
- imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017

**SGST - State Goods and Services Tax**
- imposed and collected by the State Governments under State GST Act.
UGST - Union Territory Goods and Services Tax - imposed and collected by the five Union Territory Administrations in India under UGST Act 2017.
IGST - Inter-State Goods and Services Tax - imposed and collected by the Central Government and the revenue shared with States under IGST Act 2017.
IGST on exports - All exports are treated as Inter-State supply under GST. Since exports are zero rated, GST is not imposed on all goods and services exported from India. Any input credit paid already on exports will be refunded.

2. Elucidate the merits of GST.

Benefits of GST

A. To the Society and country
1. Unified common national market will attract more foreign investment. GST has integrated the economy of all States and Union Territories.
2. It brings parity in taxation among imported goods and Indian manufactured goods. All imported goods will be charged with IGST which will be more or less equivalent to the total of CGST and SGST levied on manufactured goods. Removal of several taxes will make the price of Indian products more competitive at world market.
3. It will boost manufacturing, export, GDP leading to economic growth through increase in economic activity.
4. Creation of more employment opportunities which will result in poverty eradication.
5. It will bring more tax compliance (more tax payers) and increase revenue to the Governments.
6. It is transparent and will improve India’s ranking in the ‘Ease of Doing Business’ in the world.
7. Uniform rates of tax will reduce tax evasion and rate arbitrage between States.

B. To Business Community
1. Simpler Tax System with fewer exemptions. 17 taxes were abolished and one tax exists today.
2. Input tax credit will reduce cascading effect of taxes. Reduction in average tax burden will encourage manufacturers and help “Make in India” campaign and make India as a manufacturing hub.
3. Common procedures, common classification of goods and services and timelines will lend greater certainty to taxation system.
4. GSTN facility will reduce multiple record keeping, lesser investment in manpower and resources and improve efficiency.
5. All interactions will be through common GSTN portal and will ensure corruption free administration.
6. Uniform prices throughout the country. Expansion of business to all states is made easy.

C. To Consumers
1. Input tax credit allowed will lower the prices to the consumers.
2. All small retailers will get exemption and purchases from them will cost less for the consumers.
### 3. Compare CGST, SGST and IGST

<table>
<thead>
<tr>
<th>Basis</th>
<th>CGST</th>
<th>SGST</th>
<th>IGST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Meaning</strong></td>
<td>CGST means Central goods and service tax to replace the existing tax like service tax, excise, etc. and It is levied by central government</td>
<td>SGST means State goods and service tax, replace the existing tax like sales tax, luxury tax, entry tax, etc. and it is levied by the state government</td>
<td>IGST refers to the Integrated Goods and Services Tax and it is a combined form of CGST and IGST and it is levied by central government</td>
</tr>
<tr>
<td><strong>2 Collection of tax</strong></td>
<td>Central government</td>
<td>State government</td>
<td>Central government</td>
</tr>
<tr>
<td><strong>3 Applicability</strong></td>
<td>Intra-state supply</td>
<td>Intra-state supply</td>
<td>Inter-state supply</td>
</tr>
<tr>
<td><strong>4 Registration</strong></td>
<td>No registration till the turnover crosses 20 lakhs ( 10 lakhs for north eastern states)</td>
<td>No registration till the turnover crosses 20 Lakhs ( 10 lakhs for north eastern states)</td>
<td>Registration is mandatory</td>
</tr>
<tr>
<td><strong>5 Composition scheme apply limit</strong></td>
<td>The dealer can use the benefit up to 1 core *** under the composition scheme</td>
<td>The dealer can use the benefit up to 1 core *** under the composition scheme</td>
<td>The composition scheme is not applicable in interstate supply</td>
</tr>
</tbody>
</table>