CBSE Class 12 Business Studies Question Paper 2004 with Solution PDF-Set 66/3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 100**

General Instructions

(i) Answers to questions carrying **2–3 marks** should not exceed **30–40** words.
(ii) Answers to questions carrying **4–5 marks** should not exceed **60–80** words.
(iii) Answers to questions carrying **6 marks** should not exceed **100** words.
(iv) Attempt all parts of a question together.

1. Differentiate between 'marketing' and 'selling' on the basis of (a) meaning and (b) emphasis. [2 marks]

Solution:

Concept:

- Marketing Management: marketing is the broad process of identifying customer needs and satisfying them through appropriate goods and services.
- Selling is a part of marketing concerned with persuading customers to purchase the goods offered by the seller.

Step 1: Identify the two bases The question asks for meaning and emphasis. Keep these bases separate so that each difference compares the same aspect of the two activities.

Step 2: Present the comparison

Basis	Marketing	Selling
Meaning	A process of identifying customer needs and satisfying them by creating and exchanging suitable products and services.	A process of persuading customers to buy goods and transferring their ownership for money.
Emphasis	Customer needs and customer satisfaction guide the offering.	The existing product and increasing its sales volume receive emphasis.

Step 3: Conclusion Marketing begins with customer needs and stresses their satisfaction, whereas selling concentrates on persuading buyers to purchase the goods already offered.

Quick Tip to Solve: For this comparison, remember the starting point: customer needs for marketing and the existing product for selling.

2. Explain, in brief, the term 'directing' as a function of management. [2 marks]

Solution:

Concept:

- Directing is the management function concerned with instructing, guiding, supervising, motivating and leading employees to achieve organisational objectives.
- It activates the human resources of the organisation and turns plans into purposeful action.

Step 1: State the meaning Directing means guiding and influencing employees so that they perform their assigned work willingly and effectively towards the goals of the organisation. It brings people into action after responsibilities have been assigned.

Step 2: Explain what the manager does A manager gives instructions and guidance, supervises work, communicates with employees, motivates them and provides leadership. For example, explaining a task and encouraging an employee to complete it correctly are directing activities. These activities continue while work is being performed.

Step 3: Conclusion Directing is the continuing process of guiding, supervising, motivating and leading employees so that their efforts contribute to organisational goals.

Quick Tip to Solve: Use action words such as guide, supervise, motivate and lead to explain directing; link them to employees and organisational objectives.

3. What is meant by the product concept of 'marketing' ? [2 marks]

Solution:

Concept:

- Marketing Management: the product concept assumes that customers prefer products offering superior quality, performance and innovative features.
- A business following this concept directs its efforts towards improving the product and its features.

Step 1: State the assumption The product concept of marketing holds that consumers will favour products that offer the best quality, performance and features. It assumes that an improved product will attract customers because of its technical or functional superiority.

Step 2: Explain its business implication Accordingly, the firm concentrates on making superior products and improving them continuously. Its main attention is on product quality and features. However, improvement should still relate to customer needs: a technically excellent product may fail if it does not satisfy the need for which customers buy it.

Step 3: Conclusion The product concept means concentrating on superior product quality, performance and features on the assumption that consumers prefer such products.

Quick Tip to Solve: Connect the product concept to quality and performance; low price and wide availability describe the production concept instead.

4. Explain, in brief, 'management' as an activity. [2 marks]

Solution:

Concept:

- Nature and Significance of Management: management as an activity means the work performed by managers to achieve organisational objectives.
- These interrelated activities include planning, organising, staffing, directing and controlling the use of resources.

Step 1: Describe the managerial activity Management is the activity of getting work done with and through other people to achieve the goals of an organisation. Managers coordinate human, physical and financial resources so that individual efforts contribute to a common purpose.

Step 2: Explain its goal-directed nature A manager plans what is to be done, organises resources and responsibilities, staffs jobs, directs people and controls performance. These activities are performed continuously and together. They aim at effectiveness, meaning achievement of objectives, and efficiency, meaning achievement with economical use of resources.

Step 3: Conclusion As an activity, management is the continuous performance of interrelated managerial functions to coordinate resources and achieve organisational goals efficiently and effectively.

Quick Tip to Solve: Explain management as what managers do: connect the managerial functions with coordinated effort and achievement of a common objective.

5. Give two examples of the impact on business organisations of changes in social environment.

[2 marks]

Solution:

Concept:

- Business Environment: the social environment consists of social values, attitudes, customs, lifestyles and expectations that influence business.
- Changes in these factors can alter demand and require businesses to adjust their products, services and marketing decisions.

Step 1: Explain the effect of health awareness **Growing health consciousness:** When people become more concerned about health and fitness, demand for nutritious foods, low-fat products and fitness services increases. Businesses respond by introducing such products and services and by giving clearer nutritional information.

Step 2: Explain the effect of changing lifestyles **More working women and busier family routines:** With more women taking up employment and families having less time for household tasks, demand for ready-to-cook food, household appliances and childcare services can increase. Firms adapt their product range and services to these convenience needs.

Step 3: Conclusion Greater health consciousness encourages health-related products, while changes in work and family lifestyles increase demand for convenient foods, appliances and related services.

Quick Tip to Solve: In each example, name a social change first, then show its effect on demand and the business response.

6. Explain briefly any three important features of advertising. [3 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
- Its defining features concern payment, the indirect nature of communication, and disclosure of the advertiser; these distinguish it from publicity and personal selling.

Step 1: Explain the paid form **Paid form:** The advertiser pays for the space or time used to communicate the message. A newspaper charges for an advertisement and a television channel charges for an advertising slot. The firm therefore bears a definite promotional cost in order to reach its audience. Unpaid news coverage of a product is publicity rather than this paid advertising activity.

Step 2: Explain non-personal communication **Impersonal presentation:** Advertising communicates through a medium such as newspapers, radio or television rather than through direct, face-to-face contact between a salesperson and an individual buyer. The same message can reach many potential customers at once. However, the advertiser cannot immediately adapt it to each listener's personal doubts as a salesperson can.

Step 3: Explain the identified sponsor **Identified sponsor:** The person or organisation paying for and

issuing the advertisement is known. For example, an advertisement for a branded product identifies the business responsible for the message. This enables the audience to associate the claims with a particular seller and separates advertising from an anonymous recommendation.

Step 4: Conclusion The three important features are a paid form, impersonal communication and an identified sponsor. Together they describe how an advertising message is financed, delivered and attributed.

Quick Tip to Solve: Remember the definition through three checks: who pays, whether contact is personal, and whether the sponsor is identified.

7. Explain any three sales promotion activities commonly used by marketers. [3 marks]

Solution:

Concept:

- Sales promotion uses short-term incentives to encourage buyers to purchase a product or to purchase more of it.
- These incentives supplement advertising and personal selling by giving customers an immediate additional benefit.

Step 1: Explain discounts **Discounts:** A marketer offers the product below its normal or listed price, for example a stated percentage off during a limited sale. The reduction lowers the buyer's immediate purchase cost and attracts price-conscious customers. A time limit can encourage customers who were postponing a purchase to buy during the promotional period.

Step 2: Explain quantity gifts **Quantity gifts:** The customer receives an extra quantity of the product for the usual price, such as additional shampoo in a pack or a buy-one-get-one offer. The buyer obtains more value without paying the full normal price for the extra quantity. This encourages larger purchases and can persuade a customer to try the promoted brand.

Step 3: Explain free samples **Free samples:** Small quantities of a product are distributed without charge so that potential customers can experience its quality or usefulness before buying. For example, a small sachet of a new detergent may be supplied for a trial wash. Sampling reduces the perceived risk of trying an unfamiliar product and can convert a satisfactory trial into a purchase.

Step 4: Conclusion Discounts, quantity gifts and free samples are three commonly used sales promotion activities. Each offers a specific immediate incentive rather than merely communicating product information.

Quick Tip to Solve: For each sales promotion tool, name the incentive and explain exactly what extra benefit the buyer receives.

8. Explain any three reasons as to why proper understanding of management principles is necessary.

[3 marks]

Solution:

Concept:

- Management principles are broad guidelines for decisions and behaviour, developed from observation and experience.
- Proper understanding allows managers to apply these guidelines with judgement to the circumstances of an organisation rather than treating them as rigid rules.

Step 1: Provide useful insights into reality **Useful insights into reality:** Principles give managers the benefit of accumulated knowledge about how people and organisations work. Instead of learning every lesson through costly personal mistakes, managers can understand the likely effects of their actions. For example, unity of command draws attention to the confusion that conflicting instructions from different superiors can cause.

Step 2: Improve the use of resources and administration **Optimum utilisation of resources and effective administration:** Understanding principles helps managers organise human and material resources systematically, reduce waste and avoid duplication of effort. Suitable division of work and a clear allocation of authority help employees know their duties and responsibilities. Resources can therefore be directed towards common objectives with greater efficiency.

Step 3: Support scientific decisions **Scientific decisions:** Principles provide a reasoned basis for examining alternatives rather than relying only on intuition, prejudice or trial and error. Managers can consider the relevant facts, assess likely consequences and select a suitable course of action. Because principles are flexible, their application is adjusted to the actual situation instead of being followed mechanically.

Step 4: Conclusion A proper understanding of management principles is necessary because it provides practical insights, promotes efficient resource use and administration, and supports sound, reasoned decisions.

Quick Tip to Solve: Explain the practical managerial benefit of each principle-related reason; merely listing the headings does not show its significance.

9. "Leadership is required only for less efficient subordinates." Do you agree ? Give any three reasons in support of your answer.

[3 marks]

Solution:

Concept:

- Leadership is the process of influencing people so that they willingly work towards group and organisational objectives.
- Employee efficiency does not remove the need for direction, motivation, cooperation and support; capable employees also benefit from effective leadership.

Step 1: State the position and explain common direction **Influence towards common goals:** I do

not agree with the statement. Efficient subordinates may perform their individual jobs well, but their efforts still need to be directed towards the organisation's objectives. A leader clarifies priorities and encourages employees to relate their personal work to the group's purpose. Without this influence, even capable individuals may pursue incompatible priorities.

Step 2: Explain motivation and development **Motivation and confidence:** Leadership inspires employees to use their abilities willingly and to sustain high performance. Recognition, encouragement and suitable opportunities build confidence and commitment among efficient as well as less efficient employees. Good leadership also supports learning and improvement, so an employee's present efficiency is not a reason to withhold guidance.

Step 3: Explain cooperation during change **Cooperation and support for change:** A leader builds working relationships, resolves differences and explains why new methods or policies are needed. Even highly skilled employees can disagree with colleagues or feel uncertain when circumstances change. By listening and providing support, the leader gains willing cooperation and helps the whole team adapt without losing its sense of shared purpose.

Step 4: Conclusion The statement is incorrect: leadership is needed for all subordinates. It aligns their efforts with common goals, sustains motivation and builds cooperation, including when efficient employees face change.

Quick Tip to Solve: Reject the word "only" first, then give three distinct benefits that apply even to skilled, efficient employees.

10. Enumerate any three advantages and any three disadvantages of 'formal communication'.

[3 marks]

Solution:

Concept:

- Formal communication follows the officially prescribed channels and reporting relationships of an organisation, such as orders from a superior to a subordinate or reports sent upwards.
- Its merits arise from an authorised, orderly flow of information; its limitations arise mainly from the number of levels and the rigidity of the prescribed route.

Step 1: Enumerate three advantages **1. Maintenance of authority and responsibility:** Messages follow the established chain of command. Employees know who has issued an instruction and to whom they must report, so managerial control and accountability are maintained.

2. Orderly and reliable communication: Information passes through authorised channels rather than through unverified rumours. The official origin of a message can be identified and the required action communicated systematically.

3. Availability of records: Written formal messages, such as notices, reports and official letters, provide a permanent record. They can be referred to later to check instructions, settle misunderstandings and fix responsibility.

Step 2: Enumerate three disadvantages **1. Delay:** A message may have to pass through several levels before reaching the intended person. Following every prescribed stage can make communication slow,

particularly when urgent action is required.

2. Distortion or filtering: Each intermediary may shorten, reinterpret or withhold part of a message. Consequently, the meaning received at the final level may differ from the original communication.

3. Rigidity and lack of personal contact: Strict official routes restrict free interaction across levels and departments. Employees may hesitate to express suggestions or grievances openly, and the channel may not meet their social communication needs.

Step 3: Conclusion Three advantages are preservation of authority, orderly and reliable transmission, and availability of records. Three disadvantages are delay, possible distortion, and rigid, impersonal channels.

Quick Tip to Solve: Link each advantage to official channels and each disadvantage to the levels or restrictions imposed by those channels; list three of each separately.

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11. The directors of a newly established company having paid up equity share capital of Rs. 2.5 crores, desire to get its shares traded at an All India level Stock Exchange. As finance manager of the company, suggest the name of the Stock Exchange for the purpose. Give any three reasons in support of your answer. [4 marks]

Solution:

Concept:

- The Over the Counter Exchange of India (OTCEI) was established to provide smaller companies with access to a nationwide securities market through a screen-based trading network.
- Selection of an exchange must consider the company's size and eligibility as well as the geographical reach and facilities available for trading its shares.

Step 1: Recommend the appropriate exchange The company should seek listing and trading on the **Over the Counter Exchange of India (OTCEI)**. It has paid-up equity share capital of Rs. 2.5 crores and is newly established. OTCEI was designed to serve small and medium-sized companies that need an organised market for their securities without the scale normally associated with the larger exchanges.

Step 2: Give three reasons supporting the recommendation **1. Suitability of its capital size:** Under the eligibility framework relevant to this paper, OTCEI catered to companies with paid-up equity capital from Rs. 30 lakhs to Rs. 25 crores. The company's Rs. 2.5 crores lies within this range. In comparison, the then minimum paid-up equity capital requirement of Rs. 10 crores for the NSE capital-market segment was beyond its size.

2. Nationwide trading access: OTCEI operated through an electronically linked network of counters and dealers across the country. Thus the company's shares could be traded at an all-India level, meeting the directors' stated requirement without confining investors to a single local trading floor.

3. Liquidity through market making: The OTCEI system provided market-making arrangements, with dealers quoting buying and selling prices. This helped investors find a market for the shares of smaller companies and made investment in such securities more attractive by improving their tradability.

Step 3: Conclusion OTCEI is the appropriate recommendation: the company's capital size fits its small-company focus, its electronic network offers nationwide access, and its market-making arrangements support liquidity in the shares.

Quick Tip to Solve: For an older exchange-selection case, use the capital requirement applicable to the paper's period and connect the chosen exchange's facilities to the company's stated needs.

12. Which method of wage payment — Time-rate or Piece-rate — would you adopt in each of the following situations ? Give reasons in support of your answer.

(i) Where rate of output is determined solely by machine and not by operation,

(ii) Where production process requires high degree of skill,

(iii) Where work flow is regular, and

(iv) Where quantity of output is more important than its quality. [4 marks]

Solution:

Concept:

- Under the time-rate system, wages depend on the time spent at work. It is suitable when workers cannot control the rate of output or when skilled and careful workmanship is essential.
- Under the piece-rate system, wages depend on the number of units produced. It provides a direct incentive to increase output and is suitable when a steady flow of measurable work is available.

Step 1: Select the method where output is machine-controlled **(i) Time-rate:** The machine determines the rate of output, so the worker cannot substantially increase production merely by working faster. Paying by pieces would make earnings depend on the machine's capacity rather than the worker's effort. Payment for time spent operating the machine is therefore appropriate.

Step 2: Select the method for highly skilled production **(ii) Time-rate:** Skilled production calls for care, accuracy and concentration. A worker should be allowed sufficient time to apply the required skill. A piece incentive can encourage haste and impair workmanship; time wages avoid this pressure and support quality.

Step 3: Select the method for a regular flow of work **(iii) Piece-rate:** A regular flow of work gives workers a continuous opportunity to produce units and earn according to their output. Their earnings need not suffer because of frequent interruptions or lack of work. The direct link between units completed and wages encourages greater effort and productivity.

Step 4: Select the method when quantity has priority **(iv) Piece-rate:** Each additional unit increases earnings, giving workers a strong incentive to produce more. It therefore suits a situation in which the quantity produced is more important than exceptional quality. The firm should still maintain the minimum acceptable standard for units counted for payment.

Step 5: Conclusion Adopt time-rate payment in situations (i) and (ii), and piece-rate payment in situations (iii) and (iv), because the first two favour dependable time-based remuneration while the latter two permit effective output-based incentives.

Quick Tip to Solve: Ask whether the worker can control output and whether speed or careful workmanship matters more: machine control and skill favour time-rate; regular measurable output and quantity favour piece-rate.

13. State any two developmental functions and any two regulatory functions of the Securities and Exchange Board of India (SEBI). [4 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) promotes the development of the securities market and regulates its activities. Its functions help the market grow while maintaining orderly dealings.
- Developmental functions improve market participants' knowledge and capabilities. Regulatory functions establish and enforce the rules under which exchanges and market intermediaries operate.

Step 1: State two developmental functions **1. Training market intermediaries:** SEBI promotes the training of intermediaries associated with the securities market, such as brokers. Training helps them understand procedures and carry out their responsibilities competently, thereby improving the efficiency of market services.

2. Conducting research and publishing information: SEBI conducts research and publishes information useful to market participants. Better information and understanding of market developments support informed decisions and the healthy development of the securities market.

Step 2: State two regulatory functions **1. Registering and regulating intermediaries:** SEBI registers and regulates stockbrokers, sub-brokers and other intermediaries connected with the securities market. Registration identifies those authorised to operate, while regulation requires them to comply with prescribed standards of conduct.

2. Regulating stock exchanges and their business: SEBI regulates the business conducted on stock exchanges and in other securities markets. It lays down rules and guidelines and monitors compliance so that trading and other dealings take place in an orderly manner within the regulatory framework.

Step 3: Conclusion Training intermediaries and conducting research with publication of useful information are two developmental functions. Registration and regulation of intermediaries, and regulation of stock-exchange business, are two regulatory functions of SEBI.

Quick Tip to Solve: Classify a SEBI function by its purpose: improving skills or information is developmental; registration, rules and supervision are regulatory.

14. Which principle of management envisages that each group of activities having the same objectives must have one head and one plan ? Explain the principle with a suitable example. [4 marks]

Solution:

Concept:

- Fayol's principle of unity of direction requires one head and one plan for each group of activities having the same objective.
- It coordinates related activities so that different people's efforts contribute to a common organisational result.

Step 1: Identify and explain the principle **Unity of direction:** Activities aimed at the same objective should be grouped together and placed under one manager, who directs them according to a single coordinated plan. The expression "one head and one plan" concerns the direction of a group of related activities. It gives employees a clear common purpose and prevents separate teams from pursuing conflicting approaches to the same goal.

Step 2: Explain the benefits of common direction **Coordination of effort:** A common plan specifies what the group must achieve and how its work fits together. The head coordinates people and resources, avoiding unnecessary duplication and waste. **Focus on the objective:** Related activities move towards the same result instead of competing with one another. Unity of direction therefore promotes efficient use of resources and helps the organisation achieve its objectives.

Step 3: Illustrate the principle with a suitable example Suppose a company manufactures both cosmetics and medicines. It should have a separate division for each product group, with one head and one plan for the cosmetics activities and another head and plan for the medicines activities. Within the cosmetics division, related production and marketing activities should follow that division's common plan. Different managers should not issue competing plans for the same cosmetics objective. This illustrates common direction for activities sharing an objective, while allowing distinct objectives to have distinct plans.

Step 4: Conclusion The principle is **unity of direction**. One head and one plan for each group of activities with the same objective ensure coordinated effort and prevent duplication and conflicting action.

Quick Tip to Solve: Associate "one head and one plan" with unity of direction; "one employee and one superior" identifies unity of command.

15. "Authority can be delegated but responsibility cannot." Explain this statement, in brief. [4 marks]

Solution:

Concept:

- Delegation involves assigning duties to a subordinate and granting the authority needed to perform them. Authority is the right to decide, direct and use organisational resources within specified limits.
- Although a subordinate becomes responsible for the assigned work, the superior retains ultimate responsibility and accountability to his or her own superior for its satisfactory completion.

Step 1: Explain how authority can be delegated **Transfer of decision-making power:** A manager may authorise a subordinate to take decisions and act on the manager's behalf within defined limits. For instance, a sales manager may allow an assistant to negotiate orders and approve discounts up to a specified limit. This enables the subordinate to perform the assigned duty instead of referring every routine decision upwards.

Step 2: Explain the responsibility that remains with the superior **Retention of ultimate responsibility:** Delegation does not relieve the manager of the obligation to ensure that the assigned work is completed properly. The manager remains answerable to his or her own superior for the results. The

manager cannot escape this obligation merely by saying that the task was entrusted to a subordinate. Appropriate guidance, supervision and review are therefore still necessary.

Step 3: Distinguish the subordinate's duty from the superior's accountability **Responsibility at both levels:** The subordinate is responsible to the delegating manager for carrying out the assigned duty and for exercising authority properly. This creates the subordinate's responsibility; it does not extinguish the manager's ultimate responsibility. In the sales example, the assistant must follow the discount limit and achieve the assigned work, while the sales manager remains answerable to senior management for the sales function's performance. Thus, authority may be passed down, but the superior's accountability for the outcome cannot be passed away.

Step 4: Conclusion "Authority can be delegated but responsibility cannot" means that a superior may grant a subordinate powers to perform assigned work, but cannot divest himself or herself of ultimate responsibility and accountability for its satisfactory performance.

Quick Tip to Solve: Explain both sides: the subordinate acquires responsibility for the duty, while the superior retains ultimate accountability for the result.

16. Explain, in brief, any five economic changes that have been initiated by the Government of India since 1991. [5 marks]

Solution:

Concept:

- The New Economic Policy introduced in 1991 changed the role of government and enlarged the scope for private enterprise, competition and international business.
- Liberalisation removes unnecessary controls, privatisation increases private-sector participation, and globalisation integrates the domestic economy with the world economy. These broad policies were implemented through specific economic changes.

Step 1: Explain changes in industrial regulation and ownership **1. Reduction in industrial licensing:** Industrial licensing was abolished for most industries, while a limited number remained subject to licensing for reasons such as safety and strategic importance. Enterprises gained greater freedom to establish businesses, expand capacity and decide production, instead of seeking approval for routine industrial decisions.

2. Reduction in the public sector's exclusive role: The number of industries reserved exclusively for the public sector was reduced. Private enterprises were permitted to enter more fields, and disinvestment of government shareholdings in selected public-sector enterprises was initiated. This increased the role of private investment and competition in the economy.

Step 2: Explain changes affecting investment, trade and technology **3. Liberalisation of foreign investment:** Restrictions on foreign direct investment were relaxed, and foreign equity participation was permitted more freely in specified industries. This encouraged inflows of capital, modern technology and managerial expertise, and increased the opportunities for collaboration between Indian and foreign enterprises.

4. Reform of import and export policy: Import licensing and quantitative restrictions were

progressively reduced, and import duties were lowered. These measures made it easier to obtain inputs and capital goods from abroad and exposed domestic producers to international competition. The economy moved away from extensive protection towards greater participation in world trade.

5. Liberalisation of foreign technology agreements: Procedures for obtaining foreign technology were simplified, and automatic approval was allowed for specified technology agreements subject to prescribed conditions. Indian businesses could acquire improved production methods and technical knowledge more easily, helping them improve quality, productivity and competitiveness.

Step 3: Conclusion Thus, reduced industrial licensing, a smaller area reserved for the public sector, easier foreign investment, trade liberalisation and simpler foreign technology agreements were five major economic changes initiated under the reforms beginning in 1991. Together they increased business freedom and competition.

Quick Tip to Solve: Give five distinct policy changes and explain the practical effect of each; merely listing liberalisation, privatisation and globalisation does not supply five changes.

17. "Administration is a part of management." Explain the view. [5 marks]

Solution:

Concept:

- In the view stated in the question, management is the comprehensive process of planning, organising, staffing, directing and controlling the efforts of people to achieve organisational objectives.
- Administration refers to determining objectives, formulating major policies and coordinating the broad affairs of the enterprise. These activities are included within management rather than treated as an independent process outside it.

Step 1: Explain why management includes administration **1. Management has a wider scope:** Management covers the entire task of getting work done through people, from deciding the goals to ensuring that results are achieved. Administration deals with the policy-making and overall guiding aspect of this task. Since management embraces both deciding and doing, administration forms one part of it.

2. Policy-making is a managerial activity: Setting objectives and determining policies are elements of planning, which is a basic function of management. For example, deciding that an enterprise should expand into a new market establishes a direction for its future activities. Calling this decision administrative does not remove it from the managerial planning process.

3. Implementation is also included in management: After objectives and policies are settled, managers organise resources, assign responsibilities, appoint employees, direct their efforts and check performance. Thus management includes the administrative decisions as well as the operational work needed to give effect to them; administration alone does not describe the whole process.

Step 2: Relate the view to managerial levels and unity of purpose **4. The difference is mainly one of emphasis:** Top managers spend a larger proportion of their time determining objectives and broad policies, whereas managers at lower levels devote more time to implementing them. Nevertheless,

managers at different levels perform both kinds of work to varying degrees. The administrative aspect is especially prominent at the top, but it remains within the management of the organisation.

5. Both aspects form an integrated process: Policies cannot achieve results without execution, and execution needs the direction supplied by policies. Managers coordinate these interdependent activities towards common objectives. Consequently, drawing a rigid boundary between administration and management would divide a continuous process artificially.

Step 3: Conclusion The statement expresses the inclusive view of management: management is the whole process, while administration is its policy-formulating and overall coordinating aspect. Management therefore includes both administration and the execution of the policies so formulated.

Quick Tip to Solve: Explain the statement from its stated viewpoint: management is the wider process, containing policy formulation as well as implementation. Link administration to planning to make the relationship clear.

18. Explain, in brief, any five factors that should be taken into consideration while determining capital structure of a business enterprise. [5 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and owners' funds used to finance a business. Owners' funds include equity and retained earnings, while debt includes loans and debentures.
- A suitable financing mix balances return with financial risk: interest is a compulsory payment, whereas equity dividends are not a fixed contractual charge.

Step 1: Examine the enterprise's ability to service debt

- **Cash-flow position:** Before borrowing, the enterprise should estimate the cash available for interest and repayment of principal. Strong and reasonably regular cash flows permit greater use of debt. Weak or uncertain cash flows call for greater reliance on equity, because accounting profit alone does not ensure cash for debt payments.
- **Interest coverage ratio:** This indicates how many times earnings before interest and tax cover interest obligations. Higher coverage provides a larger safety margin and supports borrowing. Low coverage makes additional debt risky, since even a small fall in earnings may leave interest unpaid.

Step 2: Compare financing costs, risk and ownership control

- **Cost of debt:** The interest rate at which funds can be borrowed affects the financing mix. Debt is relatively attractive when its effective cost is low; interest is normally deductible in computing taxable business income. However, cheaper debt should be used only within the enterprise's repayment capacity.
- **Risk consideration:** Debt adds fixed interest commitments and therefore financial risk. A business already exposed to high operating risk should generally use less debt. A business with stable operations and lower operating risk can more safely accept some additional financial risk.
- **Control:** Issuing new equity shares may dilute the existing shareholders' voting power. If the promoters wish to retain control, they may prefer debt, which ordinarily does not confer voting

rights. This preference must still be balanced against the burden of compulsory interest and repayment.

Step 3: Conclusion Thus, five relevant factors are cash-flow position, interest coverage, cost of debt, risk consideration and control. The enterprise should choose a debt-equity mix that provides funds economically without exceeding its capacity to meet fixed obligations.

Quick Tip to Solve: For each capital-structure factor, state both the condition and its effect: stronger repayment capacity supports debt, while greater risk favours equity.

19. Explain briefly the various steps involved in the process of controlling. [5 marks]

Solution:

Concept:

- Controlling means comparing actual performance with planned standards, identifying deviations and taking corrective action so that organisational objectives are achieved.
- Control is a continuous process linked with planning: plans supply the standards, while feedback from control helps improve subsequent performance and plans.

Step 1: Set standards and measure actual performance

- **Setting performance standards:** Establish the results against which performance will be judged. Standards should be clear, realistic and, wherever possible, measurable, such as units of output, sales revenue, cost or completion time. Qualitative standards may also be used for matters such as employee morale or customer satisfaction.
- **Measurement of actual performance:** Collect reliable information about what has actually been achieved through reports, personal observation, sample checks or other appropriate methods. Performance should be measured in terms comparable with the standards and at intervals that allow timely action.

Step 2: Compare results and analyse the deviations

- **Comparing actual performance with standards:** Compare the measured results with the predetermined standards to find the extent and direction of any deviation. For example, actual output below the target shows a shortfall that may require attention.
- **Analysing deviations:** Investigate significant differences to discover their causes, such as unrealistic standards, defective machinery, inadequate training or a shortage of materials. Critical-point control directs attention to key result areas, while management by exception concentrates attention on deviations beyond acceptable limits. This prevents managers from wasting time on every minor variation.

Step 3: Take corrective action and use the feedback

- **Taking corrective action:** Choose and implement action suited to the cause of the significant deviation. For example, repair faulty equipment, provide training or ensure timely material supplies. If the original standard itself is unrealistic, revise it after proper examination. Follow up the action to check that performance improves; the resulting information also assists future planning.

Step 4: Conclusion The controlling process therefore consists of setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action. It is complete only when the information obtained leads to suitable action and follow-up.

Quick Tip to Solve: Remember the sequence: set, measure, compare, analyse and correct. Keep comparison separate from analysis: one finds the gap, while the other explains its cause.

20. "Though one of the effects of under-capitalisation is that the market value of shares goes up, yet under-capitalisation is not considered good for the company." Do you agree with the statement ? Give reasons. [5 marks]

Solution:

Concept:

- Under-capitalisation exists when a company's actual capital is low in relation to its earning capacity, so it earns an abnormally high rate of return on that capital. It does not simply mean a temporary shortage of cash.
- High earnings and dividends can raise the market value of shares. Nevertheless, this favourable effect for shareholders can create competitive, industrial and public difficulties for the company.

Step 1: State the position and explain the rise in share value Yes, I agree with the statement. An under-capitalised company earns an unusually high return on the capital employed. The prospect of high dividends makes its shares attractive, increasing demand for them and therefore their market price. However, the company must also consider the following adverse consequences rather than judge the situation only by its share price.

Step 2: Explain the adverse consequences for the company **Attraction of competition:** Exceptionally high profits attract new firms into the industry. The resulting competition can reduce the company's sales, market share and future profitability.

Pressure from employees: Workers may regard the high profits as evidence that the company can afford substantially higher wages and bonuses. If their demands are not met, dissatisfaction and industrial disputes can disturb production and increase costs.

Consumer resentment: Consumers may believe that the company earns excessive profits by charging unduly high prices. Demands for price reductions and loss of consumer goodwill can weaken its position in the market.

Government attention: Abnormally high profits can invite investigation, regulation or heavier taxation. Such intervention can restrict managerial freedom and reduce the benefit of the high earnings.

Speculation in shares: Rapidly rising share prices may encourage speculative dealings. A price driven beyond sustainable earning prospects can fluctuate sharply, harming investor confidence and the company's financial reputation.

Step 3: Conclusion The rise in market value is an advantage, but it does not remove the dangers of new competition, labour unrest, consumer resentment, government intervention and speculation. Thus, under-capitalisation is not generally considered a desirable financial condition for the company.

Quick Tip to Solve: Separate the favourable share-price effect from its consequences for competitors, workers, consumers, government and investors; this gives a clear set of reasons for agreeing.

21(a). Explain the following rights of consumers :

(i) The Right to safety,

(ii) The Right to consumer education, and

(iii) The Right to be heard. [6 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices and exploitation. Consumer rights enable them to choose responsibly, use goods safely and seek a response when their interests are affected.
- The right to safety concerns protection against danger, consumer education equips people with knowledge, and the right to be heard ensures representation and consideration of their complaints.

Step 1: Explain the right to safety **Protection against hazards:** A consumer has the right to be protected against the marketing of goods and services that are hazardous to life and property. Defective electrical appliances can cause shocks or fires, while adulterated food can injure health.

Practical exercise of the right: Consumers should be able to obtain safe products that meet prescribed quality and safety standards, together with suitable instructions and warnings for their use. They should prefer recognised quality certification, such as the ISI mark where applicable, and follow the manufacturer's safety instructions.

Step 2: Explain the right to consumer education **Knowledge for informed action:** Consumers have the right to acquire the knowledge and skills needed to become informed consumers throughout their lives. They should know their rights, responsibilities, the remedies available against exploitation and the procedure for making a complaint.

Ability to resist exploitation: Education helps buyers compare price and quality, understand labels and misleading advertisements, check quantity and expiry dates, and retain a cash memo as evidence of purchase. Schools, consumer organisations and awareness programmes help consumers recognise unfair practices and take action.

Step 3: Explain the right to be heard **Consideration of consumer interests:** A consumer has the right to be heard and to be assured that consumer interests receive due consideration at appropriate forums. Consumers can express their views directly or through consumer organisations.

A fair hearing of grievances: A buyer dissatisfied with goods or services must have a proper opportunity to present a complaint to the business and, where necessary, the appropriate consumer forum. For example, a complaint about a defective appliance should be considered. Being heard is distinct from the right to redressal: it guarantees consideration of the grievance, while redressal concerns the remedy for a justified complaint.

Step 4: Conclusion The right to safety protects life and property; the right to consumer education develops informed and capable buyers; and the right to be heard ensures that their views and grievances receive due consideration.

Quick Tip to Solve: Remember the three functions: safety prevents harm, education builds awareness, and being heard gives consumers a voice. Add a practical example to explain each clearly.

OR

21(b). Explain any four ways and means of consumer protection followed in India. [6 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair trade practices, unsafe goods, misleading claims and inadequate services.
- Protection requires preventive action through responsible business conduct and informed consumers, as well as collective support and legal remedies when exploitation occurs.

Step 1: Explain preventive action by business and consumers

- **Self-regulation by business:** Business firms should voluntarily adopt fair trade practices, provide safe and satisfactory products, charge reasonable prices and give accurate information. A responsive grievance cell should attend to complaints and arrange genuine repairs, replacement or other appropriate relief. Ethical conduct prevents exploitation at its source and builds consumer confidence, while helping the firm retain its customers and reputation.
- **Consumer awareness and education:** Consumers should learn about their rights and responsibilities and exercise care when buying. They should read labels, compare price and quality, check expiry dates and relevant standardisation marks, and obtain and preserve bills. An informed buyer can recognise misleading advertisements, refuse defective or unsuitable goods and use documentary evidence to support a complaint. Education therefore makes consumers less vulnerable to exploitation.

Step 2: Explain collective assistance and legal protection

- **Consumer organisations and non-governmental organisations:** Voluntary consumer bodies educate buyers through publications, meetings and campaigns. They may test products, expose unfair practices, guide complainants and assist them in seeking redressal. By representing common concerns, these organisations strengthen the bargaining voice of individual consumers and bring problems to the attention of business and public authorities.
- **Government and legal protection:** The government protects consumers through legislation and its enforcement. The Consumer Protection Act, 1986 provides a mechanism for hearing consumer complaints through consumer dispute redressal agencies at district, state and national levels. Depending on the case, relief may include removal of a defect, replacement, refund or compensation. Such remedies make businesses answerable for deficient services and unfair practices and help deter repeated exploitation.

Step 3: Conclusion Four important ways of protecting consumers in India are business self-regulation, consumer awareness and education, assistance from consumer organisations, and government action through consumer-protection laws and redressal agencies. Together they help prevent exploitation and provide a remedy when a consumer suffers a genuine grievance.

Quick Tip to Solve: Organise the four methods by who acts: the business, the informed consumer, consumer organisations and the government. Explain how each protects the buyer rather than merely listing names.

22(a). Explain briefly any six points which highlight the importance of planning. [6 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done, how it is to be done, when it is to be done and who is to do it. It links the present position of an organisation with its desired future position.
- By setting objectives and choosing suitable courses of action, planning directs effort, prepares the organisation for change and supplies a basis for evaluating actual performance.

Step 1: Explain how planning gives direction and prepares for change

- **Provides direction:** Planning makes organisational objectives and the actions needed to achieve them clear. Managers and employees know what they must accomplish, so their work follows a common purpose. Clear plans guide decisions at different levels and help departments coordinate their contributions towards the same goals rather than work at cross-purposes.
- **Reduces the risks of uncertainty:** Planning involves looking ahead, anticipating changes and assessing their possible consequences. Managers can prepare suitable responses to changes in demand, competition or technology. Planning cannot eliminate uncertainty or predict every event, but advance preparation reduces avoidable surprises and enables the organisation to respond more effectively.
- **Promotes innovative ideas:** While considering future opportunities and alternative courses of action, managers are encouraged to question existing methods and develop better ones. New ideas about products, processes or the use of resources can be examined at the planning stage and converted into practical programmes. Planning thus gives creative thinking a purposeful direction.

Step 2: Explain how planning improves efficiency, decisions and control

- **Reduces overlapping and wasteful activities:** Plans clarify the work to be performed and the responsibilities of different units. This helps avoid unnecessary repetition, conflicting efforts and waste of materials, time and money. Coordinated use of resources improves efficiency because activities are directed towards what is actually needed to achieve the objectives.
- **Facilitates decision-making:** Planning requires managers to identify possible courses of action, compare their advantages and limitations and select the most suitable alternative in the light of objectives and available resources. Decisions become more deliberate and reasoned. Once an overall plan is established, it also guides subsequent operating decisions.
- **Establishes standards for controlling:** Plans specify the results expected, such as output, cost or completion time. These targets become standards against which actual performance is compared. Deviations can then be identified and corrective action taken. Without planned standards, managers would lack a clear basis for judging whether performance is satisfactory.

Step 3: Conclusion Planning is important because it provides direction, reduces the risks of uncertainty, promotes innovative ideas, reduces overlapping and wasteful activities, facilitates decision-making and establishes standards for controlling. These benefits help the organisation work purposefully and use its resources efficiently while preparing for future conditions.

Quick Tip to Solve: Remember six distinct benefits: direction, uncertainty, innovation, waste reduction, decisions and control. Explain the practical effect of each, and avoid claiming that planning removes all risk.

OR

22(b). Explain, in brief, the meaning of 'policy' and 'rule' as types of plans and give any four points of distinction between them. [6 marks]

Solution:

Concept:

- Policies and rules are standing plans: they guide action in situations that recur, rather than being prepared afresh for each decision.
- A policy provides a broad guide for decision-making, whereas a rule states precisely what action must or must not be taken in a specified situation.

Step 1: Explain the meaning of policy and rule **Policy:** A policy is a general statement that guides thinking and channels decisions towards organisational objectives. It establishes the boundaries within which managers may exercise judgement. For example, a policy of giving preference to internal candidates for promotion guides selection, while leaving managers to assess suitability and qualifications.

Rule: A rule specifies a particular action to be taken or avoided in stated circumstances. It allows no discretion about compliance. For example, a rule that smoking is prohibited in the factory must be followed by every person to whom it applies. A rule need not prescribe a sequence of actions; that is the role of a procedure.

Step 2: Distinguish policy from rule on four bases

Basis	Policy	Rule
Nature	A broad guideline for thinking and decision-making.	A specific direction prescribing or prohibiting an action.
Discretion	Permits judgement within stated limits when choosing a course of action.	Leaves no discretion about whether the prescribed direction is to be obeyed.
Flexibility	Relatively flexible: the guideline can be applied to the circumstances of a case.	Relatively rigid: the specified action is mandatory whenever the stated conditions apply.
Purpose	Ensures consistency in decisions while helping managers pursue objectives.	Ensures uniform conduct and discipline by clearly defining required or prohibited behaviour.

Thus, an internal-promotion policy guides the choice of a candidate, but a no-smoking rule directly regulates behaviour. Both reduce repeated deliberation, but they differ in the freedom available during implementation.

Step 3: Conclusion A policy is a broad guide for decisions; a rule is a specific direction for action. Their nature, scope for discretion, flexibility and purpose distinguish these two types of standing plans.

Quick Tip to Solve: Ask whether a manager can choose how to act within a guideline. If yes, it is a policy; a mandatory instruction with no choice about compliance is a rule.

23(a). What is an 'informal organisation' ? Distinguish between 'formal organisation' and 'informal organisation' on the basis of : (i) purpose, (ii) behaviour of members, (iii) adherence to rules, and (iv) stability. [6 marks]

Solution:

Concept:

- Formal organisation is the deliberately designed structure of official jobs, authority and reporting relationships created by management to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that arises spontaneously among people as they interact at work and satisfy their social needs.

Step 1: Define informal organisation An **informal organisation** is a network of social relationships among employees that develops naturally through interaction, friendship, common interests and shared feelings. Management does not formally create these relationships or prescribe their pattern in an organisation chart. For example, employees from different departments who regularly meet during lunch may become a friendship group and exchange information or support each other. Membership and leadership depend on personal acceptance and influence rather than official appointment. Informal organisation therefore exists alongside the formal structure and may cross departmental and hierarchical boundaries.

Step 2: Compare the organisations on the four specified bases

Basis	**Formal organisation**	**Informal organisation**
Purpose	Deliberately established to achieve the organisation's officially defined goals through coordinated work.	Arises to satisfy members' social needs, such as friendship, belonging, recognition and mutual support.
Behaviour of members	Expected behaviour is guided by official roles, duties, authority and responsibility attached to positions.	Behaviour is guided mainly by personal relations, feelings, shared interests and the group's expectations.
Adherence to rules	Members are required to follow the prescribed rules, procedures and official chain of command.	Relations do not follow management's prescribed rules or chain of command; group norms and mutual acceptance regulate conduct.
Stability	Relatively stable: the structure and positions continue even when individual employees leave or are replaced.	Relatively less stable: relationships and groups may change as membership, interests and personal associations change.

Informal groups may have strong unwritten norms; absence of formally prescribed rules does not mean absence of all standards of behaviour. Similarly, the formal structure is relatively stable, rather than permanently unchangeable: management can redesign it when organisational needs change.

Step 3: Conclusion Informal organisation develops spontaneously from social interaction. Formal organisation is designed for official goals and regulated by prescribed roles and rules, while informal organisation serves social needs through personal relationships and group norms and is relatively less stable.

Quick Tip to Solve: Use the exact four bases in the question as table rows. Link formal organisation to official positions and informal organisation to personal relationships, without claiming informal groups have no norms.

OR

23(b). Explain, in brief, any six points which highlight the importance of decentralisation in an organisation. [6 marks]

Solution:

Concept:

- Decentralisation is the systematic dispersal of decision-making authority to lower levels of management, while top management retains authority over major policies and overall control.
- Its importance lies in developing capable managers, improving the speed of decisions and enabling an expanding enterprise to operate effectively through its different units.

Step 1: Explain how decentralisation develops employees

- **Develops initiative among subordinates:** Employees at lower levels receive authority to take decisions within specified limits. Instead of always waiting for instructions, they learn to identify problems, exercise judgement and accept responsibility. This builds confidence and encourages initiative.
- **Develops managerial talent for the future:** Subordinates gain practical experience in planning, deciding and implementing decisions. Dealing with real problems develops their ability to manage and prepares a pool of competent managers for higher positions and future succession.

Step 2: Explain how decentralisation improves decisions and managerial work

- **Facilitates quick decision-making:** Authority is placed near the point where action is required. Managers familiar with local circumstances can decide without referring every routine matter up the hierarchy. This reduces delays and allows a prompt response to changing conditions.
- **Provides relief to top management:** Routine operating decisions are taken at lower levels. Top managers can therefore devote more time and attention to important policy issues, long-term planning, coordination and other strategic matters, while retaining overall supervision.

Step 3: Explain how decentralisation supports growth and control

- **Facilitates growth:** Competent divisional and departmental managers can handle the decisions of their own units. An enterprise can expand its activities and establish additional units without making every operating decision dependent on the limited time of top management.
- **Ensures better control:** Clearly assigned authority and responsibility make each unit's manager accountable for results. Performance can be measured against standards, compared and reviewed, enabling management to identify deviations and take corrective action. Decentralisation thus requires effective reporting and control rather than an absence of control.

Step 4: Conclusion Decentralisation promotes initiative, develops future managers, speeds up decisions, relieves top management, facilitates growth and enables better control through clearly defined responsibility and performance review.

Quick Tip to Solve: Group the six benefits into three pairs: employee development, faster managerial work, and organisational growth with control. Explain how distributing authority produces each benefit.

24(a). Explain, in brief, any six steps involved in the process of selection of employees. [6 marks]

Solution:

Concept:

- Selection is the process of choosing, from the available applicants, the person best suited to a particular job. It compares the requirements of the job with the qualifications and abilities of candidates.
- Selection is a sequence of screening and assessment stages. Unsuitable candidates may be eliminated at different stages so that the final choice is based on relevant information rather than guesswork.

Step 1: Screen applications and assess abilities

- **Preliminary screening:** Applications are examined and, where necessary, preliminary interviews are conducted to eliminate candidates who do not possess the basic qualifications or other essential requirements of the job. This narrows the field before detailed assessment and avoids wasting the time of both the organisation and unsuitable applicants.
- **Selection tests:** Suitable applicants are given appropriate tests to measure relevant characteristics. For example, aptitude tests indicate the capacity to learn a particular skill, trade tests measure existing job skills and intelligence tests assess reasoning ability. The tests chosen should relate to the requirements of the post.

Step 2: Obtain detailed information about shortlisted applicants

- **Employment interview:** A formal conversation is held with shortlisted candidates to assess their suitability, knowledge, communication and attitude. The interviewer can clarify information in the application, while the candidate can obtain information about the job and the organisation. The interview supplements rather than merely repeats the application.
- **Reference and background checks:** The organisation contacts referees, previous employers or other appropriate sources to verify information supplied by the candidate. These checks provide additional information about previous performance, experience, character and reliability and help ensure that the appointment rests on authentic facts.

Step 3: Decide on suitability and check medical fitness

- **Selection decision:** All information obtained from applications, tests, interviews and reference checks is evaluated together. The managers concerned select the candidate who best meets the job requirements; the manager responsible for supervising the employee normally participates in or approves this decision.
- **Medical examination:** Before final appointment, the selected candidate undergoes the prescribed medical examination to establish physical fitness for the duties of the job. The examination checks suitability in relation to actual job requirements. Successful completion is followed by the remaining appointment formalities, including the job offer and contract of employment.

Step 4: Conclusion Six steps in selection are preliminary screening, selection tests, employment interview, reference and background checks, selection decision and medical examination. Together they help the organisation choose a suitable and qualified employee.

Quick Tip to Solve: Keep selection stages in order: screen, test, interview, verify, decide and examine. Recruitment attracts applicants; selection evaluates them and chooses the suitable person.

OR

24(b). Explain briefly any six external sources of recruitment of workers. [6 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation. External recruitment brings applicants from outside the existing workforce.
- External sources widen the choice of candidates and can bring fresh talent and skills. The suitable source depends on the nature of the job, the qualifications required and the number of workers needed.

Step 1: Explain sources that bring workers directly to the enterprise **1. Direct recruitment:** The enterprise displays a notice at its gate specifying vacancies and the kind of workers required. Interested persons assemble at the appointed time and suitable candidates are selected. This source is commonly used for casual or unskilled workers and is inexpensive, though it offers little advance screening.

2. Casual callers: Many persons submit applications on their own even when no vacancy has been advertised. The organisation maintains a record or waiting list of such applicants. When a suitable vacancy arises, it can contact eligible persons from this list, saving the time and expense of inviting fresh applications.

3. Recommendations of employees: Existing employees may recommend friends or relatives who possess the required qualifications. Employees know the nature of the work and can help attract suitable applicants. However, recommendations should lead to objective screening rather than automatic appointment, so that personal relationships do not replace merit.

Step 2: Explain sources that reach the wider labour market **4. Advertisement:** Vacancies are advertised in newspapers, trade journals or other suitable media, stating the job requirements, qualifications and method of applying. Advertisements reach a large number of potential candidates and give the employer a wider choice. The medium should match the category of workers sought.

5. Employment exchanges: Government employment exchanges register job seekers and maintain information about their qualifications and experience. An employer informs the exchange of its vacancies, and the exchange supplies names of suitable registered candidates. This is particularly useful for obtaining workers and other non-managerial personnel.

6. Labour contractors: Contractors maintain contact with a pool of labourers and supply workers to enterprises when required. They are useful where a large number of unskilled workers are needed at short notice, such as construction work. The enterprise must consider the contractor's reliability because workers may leave if the contractor withdraws.

Step 3: Conclusion Six external sources are direct recruitment, casual callers, recommendations of employees, advertisement, employment exchanges and labour contractors. Each attracts people from outside the organisation, while differing in reach, cost and suitability for particular kinds of work.

Quick Tip to Solve: Name the source and then explain how it supplies applicants; keep external recruitment separate from transfers and promotions, which are internal sources.

25(a). **"Advertising costs are passed on to the consumers in the form of high prices" and "Some advertisements are in bad taste". Do you agree ? Give reasons in support of your answer.** [6 marks]

Solution:

Concept:

- Advertising is paid, impersonal communication by an identified sponsor to inform and persuade potential buyers. It is a promotion tool whose economic and social effects should be evaluated separately.
- The objections that advertising raises prices and that some advertisements are in bad taste require a balanced answer: an advertising expense does not always raise the final price, but objectionable content can occur.

Step 1: Examine whether advertising necessarily causes high prices **Recognise the additional expense:** Advertising involves expenditure on preparing and communicating a message. If other conditions remain unchanged, this expenditure adds to the firm's costs and may be recovered from consumers through the selling price. Thus, there is some basis for the criticism.

Consider the increase in demand: Effective advertising can attract customers and enlarge the market. A larger volume of sales permits large-scale production and fuller utilisation of capacity. Fixed production expenses are then spread over more units, and economies of scale may reduce production cost per unit.

Judge the net effect: The fall in production and distribution cost per unit may offset, or even exceed, the advertising expense per unit. Therefore, it is not correct to agree with the first statement as a universal rule. Advertising may raise prices in a particular case, but it does not necessarily make every advertised product more expensive. The outcome depends on costs, sales volume and the firm's pricing policy.

Step 2: Examine the criticism about bad taste **Acknowledge objectionable presentations:** I agree that some advertisements can be in bad taste. Indecent language or visuals, vulgar presentation, offensive stereotypes and messages that disregard social values can hurt the feelings of viewers. Such methods are objectionable even when they attract attention.

Distinguish the message from the tool: Taste also involves a degree of personal judgement, so people may differ in their reaction to a particular advertisement. Nevertheless, clear cases of indecency or offensiveness cannot be justified merely as creative expression. This criticism concerns the content and manner of some advertisements rather than every use of advertising.

Require responsible communication: Advertisers should provide truthful information and present it in a decent, socially acceptable manner. Responsible advertising can inform consumers about a product's availability, uses and features without insulting their values. Hence, the appropriate response is to improve objectionable advertisements rather than condemn advertising as a whole.

Step 3: Conclusion I do not fully agree that advertising costs inevitably result in high prices: increased sales and economies of scale can offset the expense. I agree that some advertisements are in bad taste, but this is a defect of particular messages and their presentation, not an unavoidable feature of all advertising.

Quick Tip to Solve: Answer each quotation separately: balance advertising expenditure against economies of scale for the price criticism, and distinguish objectionable content from advertising as a whole for the taste criticism.

OR

25(b). Explain, in brief, the factors that are taken into consideration while taking decision on pricing the product. [6 marks]

Solution:

Concept:

- Pricing is the marketing decision that fixes the amount a buyer must pay for a product. It directly affects sales revenue, demand and the firm's profitability.
- A sound price balances the firm's costs and objectives with the customer's willingness to pay, competing offers and any legal restrictions.

Step 1: Examine the firm's costs and pricing objective

- **Product cost:** Production, distribution and selling costs must be considered. Fixed costs do not change with the volume of output, whereas variable costs change with it. In the long run, the price should recover total costs and provide a reasonable return. Cost therefore provides an important lower limit for a sustainable price, although a firm may temporarily price below total cost in special circumstances.
- **Pricing objectives:** The desired price depends on what the firm seeks to achieve. A firm aiming at a larger market share may keep prices relatively low to attract more buyers. One seeking product-quality leadership may charge a higher price to support superior quality. Survival during intense competition may call for a price that at least covers variable costs and contributes towards fixed costs. Profit maximisation must be considered over the intended period.

Step 2: Assess customers and competing offers

- **Utility and demand:** Customers compare the usefulness and perceived value of the product with the price they must pay. Strong demand and high perceived utility may permit a higher price. Where demand is elastic, a price increase can cause a relatively large fall in quantity demanded; the firm must therefore study buyers' willingness to pay and their sensitivity to price.
- **Extent of competition:** The prices, quality and features of competing products influence the price a firm can charge. Close substitutes restrict its freedom to raise prices because buyers can switch to rivals. A distinctly differentiated product may allow greater freedom, but the firm must still compare its offer with alternatives available to the customer.

Step 3: Consider regulation and the rest of the marketing programme

- **Government and legal regulations:** Pricing must comply with applicable government controls and legal requirements. For products whose prices are regulated in the public interest, a firm cannot freely fix any price it chooses. Such restrictions protect consumers against unfair or excessively high prices.
- **Marketing methods used:** The distribution channels, dealers' margins, advertising, sales promotion, credit facilities and after-sales services affect the price decision. For example, an offer supported by extensive service or a costly distribution system must take those expenses into account. The price should be consistent with the product's positioning and the other elements of its marketing mix.

Step 4: Conclusion The principal pricing factors are product cost, pricing objectives, utility and

demand, competition, government and legal regulations, and the marketing methods used. The final price should fit these considerations together so that customers accept the offer and the firm can sustain its operations.

Quick Tip to Solve: Organise a pricing answer around six checks: cost, objective, customer demand, competitors, controls and marketing methods; explain how each changes the price decision.