CBSE Class 12 Business Studies Question Paper 2007 with Solution PDF-Set 66/1/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Please check that this question paper contains 4 printed pages.

(ii) Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.

(iii) Please check that this question paper contains 25 questions.

(iv) **Please write down the serial number of the question before attempting it.**

(v) Answers to questions carrying **2-3** marks should not exceed **30-40** words.

(vi) Answers to questions carrying **4-5** marks should not exceed **60-80** words.

(vii) Answers to questions carrying **6** marks should not exceed **100** words.

(viii) Attempt all parts of a question together

1. What is meant by Supervision ? [2 marks]

Solution:

Concept:

- Supervision is the element of directing concerned with overseeing employees at work and guiding their efforts towards organisational objectives.
- The supervisor maintains direct contact with workers and connects managerial instructions with their actual performance.

Step 1: State the meaning Supervision means overseeing the work of subordinates and instructing, guiding and supporting them so that assigned work is performed properly. It involves observing performance while the work is being done, rather than merely checking the final result.

Step 2: Explain its practical role A supervisor clarifies what employees must do, helps them overcome difficulties and ensures that their work follows the required methods and standards. For example, when a worker is unsure of a procedure, the supervisor explains it and checks that it is followed correctly. Thus, supervision combines oversight with personal guidance.

Step 3: Conclusion Supervision is the process of overseeing and guiding subordinates in performing their assigned tasks so that work is completed effectively and organisational objectives are achieved.

Quick Tip to Solve: In a definition of supervision, include both overseeing the work and guiding the people doing it; oversight alone is incomplete.

2. What is meant by Marketing Management ? [2 marks]

Solution:

Concept:

- Marketing management applies the managerial functions of planning, organising, directing and controlling to marketing activities.
- Its focus is to identify and satisfy target customers while achieving the objectives of the organisation.

Step 1: Define marketing management Marketing management means managing the activities involved in identifying customer needs and satisfying them through an appropriate market offering. It is the art and science of choosing target markets and getting, keeping and growing customers by creating, delivering and communicating superior customer value.

Step 2: Identify its central purpose The manager selects the customers to be served and coordinates decisions about the product, its price, promotion and distribution. These decisions must work together to satisfy customer requirements and achieve the business objectives. Merely disposing of goods already produced is narrower than marketing management, which starts with understanding customer needs.

Step 3: Conclusion Marketing management is the planning, organising, directing and controlling of marketing activities to serve selected customers with superior value and achieve organisational objectives.

Quick Tip to Solve: Build the definition around target customers and customer value; marketing management covers more than selling and advertising.

3. Explain in brief the concept of Personal Selling. [2 marks]

Solution:

Concept:

- Personal selling is a promotional activity based on direct personal interaction between a salesperson and a prospective buyer.
- Its two-way communication allows the sales presentation to be adapted to the needs and response of the individual customer.

Step 1: Explain the concept Personal selling is the oral presentation of a product or service in a conversation with one or more prospective buyers for the purpose of making a sale. A salesperson explains the offering, demonstrates its usefulness and persuades the customer to buy it.

Step 2: Show how personal interaction helps Because the buyer and seller communicate directly, the buyer can ask questions and express doubts. The salesperson receives immediate feedback and can modify the explanation or address objections on the spot. For example, a salesperson explaining the features of a washing machine can recommend a model suited to the buyer's requirements. This individual attention distinguishes personal selling from an impersonal advertisement.

Step 3: Conclusion Personal selling is direct oral communication with prospective buyers to explain an offering, answer their questions and persuade them to purchase it.

Quick Tip to Solve: Remember the three defining features together: personal interaction, immediate feedback and a presentation intended to make a sale.

4. What role does social environment play in the business ? [2 marks]

Solution:

Concept:

- The social environment consists of the customs, traditions, values, beliefs, lifestyles and social expectations prevailing in society.
- Business operates within society, so social changes influence both demand for its products and the conduct society expects from it.

Step 1: Explain the effect on market demand **Shapes needs and preferences:** Social values, habits and lifestyles influence what people buy and how they use products. A growing concern for health, for example, increases the demand for nutritious food and fitness services. Business must study such preferences and adapt its products and marketing accordingly.

Step 2: Explain the effect on business conduct **Sets expectations and creates opportunities:** Society expects business to respect accepted values and act responsibly towards employees and consumers. Changes in lifestyles can also create opportunities for new goods and services, while making older offerings less attractive. A firm that responds to these changes is better able to obtain social acceptance and remain competitive.

Step 3: Conclusion The social environment shapes consumer demand and society's expectations of business. It therefore influences product decisions, business practices and the opportunities available

to a firm.

Quick Tip to Solve: Link a social factor, such as health awareness or lifestyle change, to its specific effect on demand or business conduct.

5. Mohan, a manager expects his subordinates to adapt to the new environs and working conditions without giving them time to settle down. Which principle of management is being overlooked and why ? [2 marks]

Solution:

Concept:

- Fayol's principle of stability of personnel states that employees should receive reasonable tenure and sufficient time to adjust to their jobs.
- An employee needs time to learn the work, understand the environment and develop the confidence required for effective performance.

Step 1: Identify the principle in the case The principle being overlooked is **stability of personnel**. The decisive words are that Mohan expects subordinates to adapt to the new environment and working conditions **without giving them time to settle down**. Fayol recognised that employees cannot become fully efficient immediately on entering a new job or setting.

Step 2: Explain why the expectation violates it Management should provide employees with a reasonable period to become familiar with their duties and surroundings, and should avoid unnecessary changes of jobs or personnel. By expecting immediate adjustment, Mohan denies his subordinates this settling-in period. Giving them time, guidance and continuity would help them learn the requirements and perform with confidence.

Step 3: Conclusion Mohan is overlooking the principle of stability of personnel because his subordinates need reasonable time to settle into the new environment and become efficient at their work.

Quick Tip to Solve: When a case stresses time to settle into a job or environment, connect it with stability of personnel rather than unity of command.

6. Write short note on 'management as an activity'. [3 marks]

Solution:

Concept:

- Management as an activity means what managers actually do to get work performed through and with other people for achieving organisational objectives.
- The activities of a manager are commonly grouped into informational, decisional and interpersonal activities; these are related aspects of managing, rather than separate organisational departments.

Step 1: Explain the informational and decisional activities **Informational activities:** A manager collects relevant information, analyses it and communicates it to those who need it. Information

about sales, costs or employees helps the manager understand performance and coordinate work. For example, a production manager receives information about a shortage of materials and passes the requirement to the purchase department. **Decisional activities:** The manager uses such information to choose between available courses of action. Decisions may concern objectives, allocation of resources or the correction of a problem. Selecting a supplier after comparing price, quality and delivery is an example.

Step 2: Explain the interpersonal activities **Interpersonal activities:** Management involves continuous interaction with people. Managers establish and maintain working relationships with subordinates, superiors, colleagues and outside parties. They guide and motivate employees, communicate expectations and obtain cooperation. For example, discussing a work difficulty with an employee and helping the employee overcome it is an interpersonal activity. These interactions make it possible to turn information and decisions into coordinated action.

Step 3: Conclusion Thus, management as an activity consists of the informational, decisional and interpersonal work performed by managers to achieve the goals of the organisation.

Quick Tip to Solve: For management as an activity, organise the note around information, decisions and relationships, and attach a managerial example to each.

7. State any three factors that influence the effectiveness of a leader. [3 marks]

Solution:

Concept:

- Leadership is the process of influencing people so that they willingly work towards the achievement of organisational objectives.
- The effectiveness of leadership depends on the leader, the followers and the situation in which influence is exercised; the same approach need not succeed in every setting.

Step 1: State the leader-related and follower-related factors **1. Personal qualities and behaviour of the leader:** Knowledge of the work, self-confidence, integrity, initiative and the ability to communicate affect whether people trust the leader and accept guidance. A leader who understands the task and treats employees fairly is more likely to secure willing cooperation. **2. Characteristics of the followers:** The abilities, experience, needs, attitudes and willingness of subordinates influence the effectiveness of leadership. Skilled and responsible employees may respond well to participation and freedom, whereas inexperienced employees may need closer guidance and clear directions. Leadership must therefore take account of the people being led.

Step 2: State the situational factor **3. Nature of the situation:** The task, the time available, the organisational environment and the authority available to the leader also influence effectiveness. An urgent situation requiring immediate action may call for quick, clear directions, while a complex problem with sufficient time may benefit from consultation. The leader must adapt the manner of guiding and motivating employees to these circumstances. A style that works well for routine work may be unsuitable when conditions or the demands of the task change.

Step 3: Conclusion Three factors influencing a leader's effectiveness are the leader's own qualities

and behaviour, the characteristics of the followers, and the nature of the situation.

Quick Tip to Solve: Remember the three linked factors as leader, followers and situation; describe how each changes the ability to secure cooperation.

8. Distinguish between 'formal' and 'informal' communication. [3 marks]

Solution:

Concept:

- Communication is the transfer of information and understanding between people. In an organisation it can follow officially prescribed channels or arise from social relationships.
- Formal communication follows the organisational structure and authority relationships. Informal communication, often called the grapevine, develops outside the prescribed official channels.

Step 1: Identify the basis for comparison The distinction concerns the route and origin of the message, rather than merely whether it is spoken or written. A spoken instruction given through the official reporting relationship can be formal, while an unofficial conversation about work can be informal. Compare the two forms on origin, route and accountability.

Step 2: Present the distinctions The following table compares the same aspects of both forms.

Basis	Formal communication	Informal communication
Origin	Arises from official duties and the relationships established by the organisational structure.	Arises from personal and social relationships among members of the organisation.
Channel	Follows prescribed channels of authority, such as an employee reporting to the departmental manager.	Follows no prescribed official route; information can pass across levels and departments through the grapevine.
Accountability	The official sender and route can ordinarily be identified, so responsibility for the message can be fixed.	The source and route may be difficult to trace, so responsibility for the message is difficult to fix.

For example, a manager's official instruction to the team is formal communication, while an unofficial exchange between colleagues during lunch is informal communication.

Step 3: Conclusion Formal communication operates through the official organisational system, whereas informal communication develops through social contacts and has no prescribed official channel.

Quick Tip to Solve: Use the same basis for both columns. Do not equate formal communication with writing or informal communication with speech alone.

9. Briefly explain any three Objectives of marketing management. [3 marks]

Solution:

Concept:

- Marketing management involves planning and directing marketing activities to satisfy customer needs and achieve the objectives of the business.
- Its objectives connect customer satisfaction with the creation of demand and the profitable operation of the enterprise; selling a product once is insufficient for sustained success.

Step 1: Explain demand creation and customer satisfaction **1. Creation of demand:** Marketing management seeks to create and increase demand for the firm's products. It studies the needs and preferences of customers and develops a suitable product, price, promotion and distribution arrangement. By communicating the benefits of a product to the appropriate buyers, the business encourages demand for a product that can meet their needs. **2. Customer satisfaction:** Marketing management aims to satisfy customers by providing the right goods and services, of suitable quality, at a reasonable price and at the required place and time. It also considers complaints and after-sales needs. Satisfied customers are more likely to buy again and recommend the business to others.

Step 2: Explain profitable sales **3. Generation of profits through sales:** Marketing management seeks an adequate level of profitable sales so that the business can survive and grow. It must generate sales revenue while controlling the costs of marketing and providing value to customers. Simply increasing sales volume without considering costs may fail to improve profits. A suitable product and marketing programme should therefore satisfy customers and provide a reasonable return to the enterprise over time.

Step 3: Conclusion Three objectives of marketing management are creation of demand, customer satisfaction and generation of profits through adequate profitable sales.

Quick Tip to Solve: Explain each objective as a desired outcome: demand is created, customers are satisfied and the business earns profits to continue operating.

10. State with reasons your choice of a media of advertising for selling of toys. [3 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal communication used to inform and persuade prospective buyers about a product.
- The advertising medium should suit the product and its target audience. Toys appeal particularly to children, while parents usually make or approve the purchase.

Step 1: Choose a medium suited to toys **Television advertising** is a suitable choice for selling toys. A toy is easier to appreciate when the audience can see how it looks and works. Advertisements placed during children's programmes can reach children and the parents watching with them.

Step 2: Explain the reasons for choosing television

- **Audio-visual appeal:** Television combines colour, sound and movement. Attractive colours, music

and action draw children's attention and make the toy memorable.

- **Effective demonstration:** The advertisement can show the toy being operated or played with. For example, a moving toy can be shown in action, helping the audience understand its features more clearly than a description alone.
- **Wide and suitable reach:** Television reaches a large audience, and choosing children's programmes helps the advertiser contact the likely users. Parents also become aware of the product and can consider purchasing it for their children.

Step 3: Conclusion Television is an appropriate advertising medium for toys because it offers audio-visual attraction, demonstrates their use and reaches children as well as their parents. The final selection should also take account of the advertiser's budget, since television advertising can be expensive.

Quick Tip to Solve: Link the medium to the product: for toys, explain how seeing movement and hearing sound helps attract children and demonstrate play value.

11. Differentiate between'management'and'administration'. [4 marks]

Solution:

Concept:

- In the traditional distinction, administration determines an organisation's objectives and basic policies, while management puts those policies into operation through the efforts of people.
- This is a distinction between functions rather than an absolute separation of people. A manager can perform both functions, although their relative importance changes with the level of responsibility.

Step 1: Identify the focus of each function Administration decides what the organisation seeks to achieve and establishes the broad framework within which it will operate. Management organises resources and directs activities so that the approved objectives and policies are carried out. For example, deciding a broad expansion policy is administrative work; organising staff and production to implement it is managerial work.

Step 2: Compare management and administration on four bases

Basis	Management	Administration
Nature of work	Primarily an executive function: it implements the policies and plans that have been approved.	Primarily a determinative function: it formulates basic policies and establishes overall objectives.
Main decisions	Decides how the work is to be done and who will do it within the policy framework.	Decides what should be done and the broad direction in which the organisation should move.
Level of emphasis	More prominent at middle and lower levels, where executives coordinate and supervise day-to-day operations.	More prominent at the top level, where major objectives and policy decisions are considered.
Scope of authority	Takes operational decisions within the limits laid down by overall policies.	Establishes the broad framework and limits within which operational decisions are taken.

Step 3: Conclusion Thus, management chiefly executes policies and achieves the objectives laid down, whereas administration chiefly determines those objectives and policies. In practice the functions overlap: top executives also manage implementation, and managers may contribute to policy formulation.

Quick Tip to Solve: Use the same basis for both columns: contrast determining objectives and policies with implementing them, then compare decisions, levels and authority.

12. What is meant by 'money market' ? Briefly explain the concept of 'call money'. [4 marks]

Solution:

Concept:

- **Money market:** The money market deals in short-term funds and monetary assets whose maturity is up to one year. Its instruments are close substitutes for money because they are highly liquid.
- **Call money:** Call money is very short-term finance repayable on demand, used mainly by banks to meet temporary shortages of funds and their cash-reserve requirements.

Step 1: Explain the meaning of the money market The money market is the market for short-term funds, dealing in monetary assets with a maturity period of up to one year. It enables institutions with temporary surplus funds to lend to those with temporary cash shortages. Its instruments generally carry low default risk and can be converted into cash quickly. Major participants include the Reserve Bank of India, commercial banks, financial institutions and large business organisations. Treasury bills, commercial paper, certificates of deposit and call money are examples of its instruments. It therefore serves short-term liquidity needs rather than the long-term capital needs served by the capital market.

Step 2: Describe the operation of call money **Nature and repayment:** Call money is short-term finance repayable on demand. In the money-market description used in the textbook, it has a maturity period ranging from one day to fifteen days. A bank with a temporary shortage borrows from another bank with surplus funds, enabling it to meet day-to-day liquidity needs and the cash reserve ratio prescribed by the Reserve Bank of India.

Call rate: The interest charged on these loans is called the call rate. It fluctuates with the demand for and supply of such funds. A shortage of liquidity tends to raise the rate, while surplus liquidity tends to lower it. Call money thus helps redistribute temporary funds among banks without arranging long-term finance.

Step 3: Conclusion The money market deals in liquid short-term monetary assets with maturities up to one year. Call money is its very short-term, demand-repayable interbank borrowing facility, used to meet temporary liquidity and reserve requirements; its interest rate is the call rate.

Quick Tip to Solve: Remember the contrast: the money market covers funds up to one year, while call money serves immediate interbank liquidity needs and is repayable on demand.

13. Define 'delegation' and differentiate it with 'decentralisation'. Any three points. [4 marks]

Solution:

Concept:

- **Delegation:** Delegation means entrusting responsibility and authority to a subordinate to carry out specified activities. It involves assigning duties, granting the necessary authority and creating accountability for performance.
- **Decentralisation:** Decentralisation means the systematic dispersal of decision-making authority throughout the organisation, down to lower management levels. It extends the principle of delegation across the organisation.

Step 1: Define delegation and explain its effect Delegation is the transfer of authority from a superior to a subordinate to enable the subordinate to discharge assigned responsibilities. For example, a manager may assign an employee the duty of purchasing materials and authorise the employee to place orders within a specified limit. The subordinate becomes answerable for carrying out the duty, but the superior remains accountable for the final result. Thus, delegation enables the superior to obtain assistance and concentrate on work requiring personal attention; it does not remove the superior's ultimate accountability.

Step 2: Distinguish delegation from decentralisation on three bases

Basis	Delegation	Decentralisation
Nature	It is a necessary act of sharing authority between a superior and a subordinate so that assigned work can be performed.	It is a deliberate policy of top management to distribute decision-making authority to lower levels.
Scope	It has a comparatively narrow scope: it concerns the authority entrusted by a particular superior to a subordinate.	It has a wider scope: authority is systematically dispersed throughout the organisation and among its departments or divisions.
Freedom of action	The subordinate acts within the specific authority and limits granted by the superior.	Lower-level managers receive comparatively greater freedom to make decisions within the organisation's overall policies.

Decentralisation rests on delegation, but goes further: instead of isolated transfers of authority, decision-making powers are distributed as an organisation-wide arrangement.

Step 3: Conclusion Delegation entrusts a subordinate with responsibility and the authority needed for a task while the superior retains ultimate accountability. Decentralisation is the systematic extension of such authority to lower levels; it differs from delegation in its nature, wider scope and greater freedom of action.

Quick Tip to Solve: Use the same basis on both sides of a distinction: contrast an individual superior–subordinate transfer with an organisation-wide policy of distributing decisions.

14. With the help of suitable examples bring out any four differences between training and development.

[4 marks]

Solution:

Concept:

- Training and development are parts of staffing that improve employees' abilities. Training increases knowledge and skills needed for a particular job, whereas development promotes the employee's overall growth.
- The distinction concerns their focus, purpose, scope and time perspective. Training and development complement each other: competence in today's work provides a foundation for handling greater responsibilities later.

Step 1: Identify the purpose of each activity Training prepares an employee to perform a specific task more efficiently and accurately. For example, teaching a machine operator to operate a newly installed machine is training. Development builds broader managerial and personal capabilities; exposing a manager to different departments helps the manager understand the organisation as a whole.

Step 2: Compare four bases with suitable examples

Basis	Training	Development
Focus	Focuses on technical or job-related knowledge and skills. For example, an accounts clerk learns to use accounting software.	Focuses on the employee's overall growth, including judgement and interpersonal abilities. For example, a manager attends a leadership programme.
Purpose	Corrects present deficiencies and improves performance in the existing job. For example, a salesperson learns better product-demonstration techniques.	Prepares employees for future challenges and higher responsibilities. For example, a promising executive is prepared to head a division.
Scope	Has a narrower scope, related to a specific job or skill. For example, a worker learns the safety procedure for a particular machine.	Has a wider scope, covering the individual and the organisation beyond one task. For example, job rotation develops an understanding of production, finance and marketing.
Time perspective	Generally has an immediate or short-term orientation. For example, staff learn a new billing procedure before it is introduced.	Has a long-term orientation and continues throughout a career. For example, mentoring gradually develops an executive's decision-making ability.

Step 3: Conclusion Training improves effectiveness in a particular present job, while development broadens a person's capabilities for continuing growth and future responsibilities. The four differences above are supported by examples of both activities.

Quick Tip to Solve: For each distinction, use the same basis for both columns and pair a specific present-job skill with an example of broader future growth.

15. What is meant by a 'Primary Market' ? Briefly explain the concept of 'Initial Public Offer.' [4 marks]

Solution:

Concept:

- The primary market is the market for the issue of new securities. It transfers savings from investors to the issuer and is therefore also called the new issues market.
- An Initial Public Offer, or IPO, is the first offer of a company's securities to the general public. It is a method through which a company enters the public securities market.

Step 1: Explain the primary market **Meaning:** The primary market is the segment of the capital market in which new securities, such as shares and debentures, are issued to investors for the first time. Companies use it to obtain funds for establishing a new undertaking, expanding existing operations, modernising facilities or meeting other stated financing requirements.

Flow of funds: In a fresh issue, investors subscribe to the securities and the money raised goes to the issuing company. Thus, the transaction directly provides long-term finance to the enterprise. The securities need not be issued by a newly established company: an existing company can also issue new securities in the primary market. Subsequent trading of already issued securities between investors belongs to the secondary market.

Step 2: Explain the concept of an Initial Public Offer **First public invitation:** An IPO is the first occasion on which a company offers its securities to the general investing public. Before this, its shares may be held privately by promoters or a limited group of investors. By making the first public offer, the company opens ownership to a much wider body of investors.

Subscription and allotment: The company invites the public to subscribe through an offer document or prospectus stating the business, the securities offered, the purpose of the issue and other relevant information. Investors apply, and securities are allotted according to the issue terms. In an IPO involving a fresh issue, the subscription money finances the company's stated purposes.

Example: If an unlisted manufacturing company offers new equity shares to the general public for the first time to finance an additional factory, the issue is an IPO and forms part of the primary market. Once those shares are listed, their later purchase and sale on a stock exchange are secondary-market transactions. A later public issue by a company that has already made its IPO is a further public offer, rather than another initial offer.

Step 3: Conclusion A primary market deals in new issues of securities and channels investors' savings to issuers. An IPO is a company's first offer to the general public; it is one way of making a public issue in the primary market.

Quick Tip to Solve: Remember "new issue" for the primary market and "first public offer" for an IPO. Later stock-exchange trading of those shares is a separate, secondary-market transaction.

16. What is meant by 'Work Study' ? Briefly explain the role of 'Time' and 'Motion' studies while setting the Standard Task. [5 marks]

Solution:

Concept:

- Scientific management uses systematic observation and analysis to replace guesswork with an efficient method of doing a job.
- Work study examines the method of performing work and the time it should take. It helps fix a fair standard task for a worker under specified conditions.

Step 1: Explain work study and the standard task **Meaning of work study:** Work study is the systematic study of the way a job is performed and the effort and time required to perform it efficiently. It seeks the best use of workers, machines and materials by removing wasteful effort and establishing appropriate working standards. The standard task is the quantity of work that a suitably trained worker can reasonably complete in a specified period under normal working conditions. Taylor's time and motion studies help make this standard scientific rather than arbitrary.

Step 2: Establish the required time through time study **Time study:** It determines the standard time needed to perform a well-defined job. The work is divided into elements and repeated observations are made with a timing device, such as a stopwatch, using workers and methods suited to the job. The observations are analysed and suitable allowances for rest and unavoidable delays are considered. The resulting standard time indicates how long the task should take and therefore how much output can reasonably be expected in a working day. It also helps determine the number of workers required and provides a basis for fair incentive schemes.

Step 3: Remove wasted movements through motion study **Motion study:** It examines the movements made by a worker while performing a job, such as lifting, placing, turning and changing position. Necessary movements are distinguished from unnecessary ones; avoidable movements are eliminated and the remaining movements are arranged in an efficient sequence. Better placement of tools and materials can reduce reaching, searching and repeated handling. Thus the job requires less effort, fatigue and time. The standard task should be based on this improved method, so it represents efficient work without demanding wasteful exertion.

Step 4: Conclusion Work study provides a scientific basis for setting the standard task. Motion study establishes an economical sequence of movements, while time study measures the time reasonably needed to carry out the job by that method.

Quick Tip to Solve: Link motion study with eliminating unnecessary movements and time study with fixing standard time; explain how both together determine a fair standard task.

17. Explain in brief the term 'Liberalisation'. In what ways have the Indian business houses/managements responded to this change ?

[5 marks]

Solution:

Concept:

- Liberalisation means removing unnecessary government controls and restrictions on business and industry so that enterprises have greater freedom to operate and compete.
- Changes in economic policy alter competition, customer expectations and the opportunities available to firms. Management must adjust its strategy and operations to these changes.

Step 1: State the meaning of liberalisation **Liberalisation:** It is the process of freeing business and industry from unnecessary government regulation and controls. In India, the economic reforms initiated in 1991 reduced industrial licensing requirements for most industries, relaxed restrictions on expansion and diversification, and reduced several controls on trade and investment. Enterprises consequently obtained greater freedom to make business decisions, but also faced stronger domestic and international competition.

Step 2: Explain the response through customers and performance **Greater customer orientation:** With more alternatives available to buyers, Indian business houses have increasingly treated customer satisfaction as central to survival. They have improved product quality, offered wider choice and strengthened after-sales service instead of relying on a protected market.

Improved efficiency and productivity: Managements have sought to reduce costs, remove waste and use resources more effectively. They have reviewed production methods and organisational arrangements so that their products can compete in price as well as quality.

Step 3: Explain the response through capability and strategy **Technological improvement and innovation:** Many firms have modernised machinery, adopted improved technologies and developed new products. This helps them match changing customer preferences and compete with technically advanced enterprises.

Development of human resources: Businesses have placed greater emphasis on employee training, skill development and professional management. Competent and adaptable employees help organisations handle new technology and the demands of a competitive environment.

Strategic restructuring and wider markets: Business houses have reviewed their activities, concentrated on areas of strength, and used collaborations, joint ventures or restructuring where appropriate. Many have explored export markets and international opportunities rather than depending only on a protected domestic market. These responses vary across firms, but all involve adapting to greater market freedom and competition.

Step 4: Conclusion Liberalisation reduces unnecessary controls on business. Indian business houses have responded by becoming more customer focused, improving efficiency and technology, developing employees and revising their strategies to compete in a more open economy.

Quick Tip to Solve: Distinguish the policy from the response: first explain reduced controls, then describe what firms changed in quality, costs, technology, skills and strategy.

18. What is meant by 'controlling' ? Briefly explain any three points of importance of controlling.

[5 marks]

Solution:

Concept:

- Controlling is the management function that checks actual performance against planned standards and initiates corrective action when performance deviates from the plan.
- Its importance lies in converting plans into results, keeping standards realistic and ensuring that organisational resources are used productively.

Step 1: State the meaning of controlling Controlling means measuring actual performance, comparing it with the standards laid down in the plan, analysing significant deviations and taking corrective action. A standard expresses the result expected, such as an output target or an acceptable cost. Merely discovering a shortfall does not complete control: management must also address its cause so that future performance moves towards the desired result.

Step 2: Explain how controlling helps accomplish organisational goals **Accomplishing organisational goals:** Controlling measures progress towards planned objectives and brings deviations to management's notice. Corrective action helps keep activities on the intended course. For example, if actual production is below its target, identifying and removing a machine bottleneck helps the organisation achieve its planned output. Thus, control connects day-to-day performance with the goals set through planning.

Step 3: Explain how controlling helps judge the accuracy of standards **Judging the accuracy of standards:** A sound control system enables management to verify whether its standards are realistic and accurate. Persistent deviations may reveal that the assumptions on which a target was based have changed or were incorrect. Management can review these assumptions and revise an unsuitable standard rather than continue to measure performance against an unrealistic expectation.

Step 4: Explain how controlling promotes efficient resource use **Making efficient use of resources:** By comparing actual resource use with prescribed standards, controlling detects wastage, spoilage and inefficient methods. Correcting these deviations helps employees use materials, machinery, money and time economically. Clear performance standards also tell employees what is expected, reducing avoidable waste and improving productivity without sacrificing the required quality.

Step 5: Conclusion Controlling is the process of comparing actual performance with standards and correcting deviations. It helps accomplish organisational goals, judge the accuracy of standards and make efficient use of resources.

Quick Tip to Solve: For each importance point, connect a control activity to its benefit: compare progress to achieve goals, review standards for accuracy, and detect waste to improve resource use.

19. Explain the term 'Financial Management'. Briefly explain any three of its objectives. [5 marks]

Solution:

Concept:

- Financial management concerns the planning, procurement and effective utilisation of the funds needed by a business. It covers investment, financing and distribution of earnings.
- Its objectives link the availability and productive use of funds with the interests of the owners. Financial decisions must also preserve the firm's ability to meet its obligations.

Step 1: Explain the meaning of financial management Financial management is the managerial activity concerned with obtaining funds on suitable terms and using them efficiently to achieve the financial objectives of the enterprise. It determines how much finance is required, the sources from which it should be raised and the assets or activities in which it should be invested. It also considers how much of the earnings should be distributed to owners and how much should be retained for the business.

Step 2: Explain the objective of ensuring adequate finance **Ensuring adequate and timely availability of funds:** Financial management seeks to make funds available whenever the business requires them, both for long-term investment and for routine operations. For example, finance must be available to buy machinery as well as to pay suppliers and employees. Proper estimation and planning prevent a shortage from interrupting operations, while avoiding unnecessary borrowing and its associated cost. Funds should be obtained from suitable sources on reasonable terms.

Step 3: Explain the objective of efficient utilisation of funds **Ensuring optimum utilisation of funds:** Funds raised should be invested and used productively rather than remain idle or be wasted. Financial management evaluates investment requirements, expected returns and risks, and maintains a suitable amount of working capital. Excess funds unnecessarily tied up in inventories or receivables reduce efficiency, whereas insufficient working capital can disrupt business. The objective is to obtain the best possible use of the available financial resources.

Step 4: Explain the objective of maximising shareholders' wealth **Maximising shareholders' wealth:** The principal financial objective of a company is to increase the value of the owners' investment. Sound investment and financing decisions improve expected returns while taking account of risk and the timing of returns. For a company whose shares are traded, this is reflected in the market value of its shares. Consequently, the firm should pursue decisions that create lasting value rather than increase current profit by taking unreasonable risks or harming future prospects.

Step 5: Conclusion Financial management means planning, raising and effectively using business funds. Three objectives are ensuring adequate finance when needed, achieving optimum utilisation of funds and maximising shareholders' wealth.

Quick Tip to Solve: Organise the objectives around three questions: Are funds available when needed, are they being used efficiently, and do the decisions increase the owners' wealth?

20. What is meant by the term 'Capital Structure' ? Briefly explain any three factors that affect the capital structure of a company. [5 marks]

Solution:

Concept:

- Capital structure means the proportion of debt and owners' funds used to finance the long-term capital requirements of a company. Owners' funds include equity share capital, preference share capital and retained earnings; borrowed funds include debentures and long-term loans.
- Debt involves a contractual obligation to pay interest and repay principal. Equity has no compulsory dividend obligation, but issuing additional equity can dilute the existing shareholders' control. The financing mix must balance these effects.

Step 1: State the meaning of capital structure Capital structure is the composition or mix of the company's long-term sources of finance, particularly the relative use of debt and equity. For example, a company financed partly by equity shares and partly by debentures has both ownership capital and borrowed capital in its structure. The term concerns the sources of long-term finance, rather than the division of assets into fixed and current assets. Any three factors affecting this financing mix are explained below.

Step 2: Examine the company's cash-flow position **Cash-flow position:** A company with strong, stable and predictable cash inflows can use a greater proportion of debt because it is more likely to meet interest payments and repayment instalments when they fall due. Management must consider the timing of these payments as well as the amount of cash expected. If cash inflows fluctuate or are already needed for operating expenses, excessive debt creates a risk of default. Such a company should rely relatively more on owners' funds, for which dividend payment is not a compulsory fixed cash commitment.

Step 3: Compare the cost of debt with the return on investment **Return on investment:** When the return earned on the company's investment exceeds the interest cost of borrowed funds, the use of debt can increase the earnings available to equity shareholders. This is trading on equity and can favour a higher debt proportion. If the return is lower than the cost of debt, interest still has to be paid and equity shareholders' earnings are adversely affected. Thus, a favourable expected return supports borrowing, while a low or uncertain return calls for caution; borrowing cannot be justified merely because it increases the funds available.

Step 4: Consider the effect on ownership control **Control:** Issuing additional equity shares can reduce the proportion of voting power held by existing shareholders because new equity shareholders also acquire voting rights. If the present owners wish to retain control, they may prefer debt to another equity issue, provided the company can service that debt safely. Debenture holders and lenders ordinarily do not receive the voting rights of equity shareholders. Nevertheless, the desire to retain control must be balanced against the financial risk of excessive borrowing.

Step 5: Conclusion Capital structure is the long-term debt–owners' funds mix. Cash-flow position, return on investment relative to borrowing cost, and the effect of financing on control are three factors that influence a company's choice of this mix.

Quick Tip to Solve: For each capital-structure factor, state its effect on the choice: reliable cash flows support debt, favourable returns can make debt beneficial, and new equity can dilute control.

21(a). Explain the steps involved in the process of organisation. [6 marks]

Solution:

Concept:

- Organising is the management function of identifying and grouping the work needed to achieve planned objectives, assigning duties, and establishing authority and responsibility relationships. It converts a plan into an arrangement through which people can work together.
- The process follows a logical sequence: identify and divide the work, group related activities, assign duties, and establish reporting relationships. Authority must accompany responsibility so that employees can carry out the duties assigned to them.

Step 1: Identify and divide the work **Identification and division of work:** First identify all the activities necessary to achieve the objectives laid down in the plans. Break the total work into manageable jobs so that no essential activity is omitted and the same work is not needlessly duplicated. For example, a manufacturing business requires purchasing, production, sales and accounting activities. Within production, the work can be divided into distinct tasks. This division clarifies what must be done and permits specialisation, since a person or group can concentrate on a particular task rather than attempting every activity.

Step 2: Group related activities into departments **Departmentalisation:** Combine jobs of a similar or related nature into departments or other suitable work units. Activities may be grouped by function, such as production, finance and marketing, or by another suitable basis, such as products or geographical territories. Related activities are brought under a common managerial unit so that their work can be coordinated and supervised. For instance, advertising and selling activities may be placed in the marketing department. The grouping should reflect the needs of the enterprise and facilitate the achievement of its objectives.

Step 3: Assign duties to suitable employees **Assignment of duties:** Allocate the jobs within each department to employees according to their knowledge, skills, experience and abilities. Define clearly the tasks each individual is expected to perform, thereby fixing responsibility and avoiding uncertainty about who is to do a particular job. There should be a proper match between the work and the person undertaking it. For example, accounting duties should be assigned to a person competent in maintaining accounts, while production duties should go to those with the required technical abilities. Clear assignment helps employees focus on their own contribution and prevents gaps or overlap in performance.

Step 4: Establish authority and reporting relationships **Establishment of reporting relationships:** Specify who reports to whom, who may issue instructions and who is answerable for the results of each activity. Give employees the authority needed to discharge their assigned responsibilities, and define the limits of that authority. A production supervisor, for example, must know the workers supervised and the manager to whom the supervisor reports. These relationships form the hierarchy of the organisation and provide channels for communication and coordination. Clear authority and responsibility reduce confusion and help the separate departments work together towards the common objectives.

Step 5: Conclusion The organising process therefore moves from identifying and dividing work to grouping related activities, assigning duties to suitable people, and establishing authority and

reporting relationships. Together these steps create a coordinated organisation structure through which the plans can be implemented.

Quick Tip to Solve: Remember the sequence as work, groups, people and relationships: decide what is to be done, group it, allocate it, and clarify who reports to whom.

OR

21(b). Briefly explain the considerations that need to be kept in mind while designing the organisational structure of a company.

[6 marks]

Solution:

Concept:

- Organisational structure is the framework of jobs, departments, authority and reporting relationships through which a company's plans are implemented.
- Its design must suit the company's objectives, activities, size and resources. It should clarify responsibility while allowing departments to coordinate their work.

Step 1: Decide how work will be divided and grouped

- **Division of work and job design:** Identify the activities needed to achieve the company's objectives and divide them into manageable jobs. Duties should be clear and related tasks should be assigned together so that specialisation improves efficiency without creating unnecessary duplication.
- **Departmentation:** Group similar or related jobs into departments. A company may group work by functions, such as production and marketing, or by products or territories. The choice should suit the nature and diversity of its business and make responsibility for results clear.

Step 2: Establish workable supervision and authority relationships

- **Span of management:** Decide how many subordinates a manager can supervise effectively. The appropriate span depends on the complexity of tasks, competence of employees and the need for guidance. It determines the number of management levels and whether the structure is relatively tall or flat.
- **Delegation and reporting relationships:** Specify who reports to whom, the duties of each position and the authority needed to perform them. Authority should be commensurate with responsibility, and accountability should be clear, so employees can act without confusion or conflicting instructions.

Step 3: Balance decision making with integration and adaptability

- **Degree of centralisation or decentralisation:** Decide which decisions should remain with top management and which should be entrusted to lower levels. Consider the company's size, geographical spread, importance of decisions and ability of managers, balancing uniform control with quick local action.
- **Coordination and flexibility:** Provide communication channels and arrangements for integrating departmental efforts towards common objectives. The structure should also permit adjustment

when products, technology or business conditions change, rather than becoming so rigid that it obstructs the company's growth.

Step 4: Conclusion A sound structure requires deliberate decisions about division of work, departmentation, span of management, delegation, centralisation or decentralisation, and coordination with flexibility. These decisions must fit the company's objectives and operating conditions.

Quick Tip to Solve: Design the structure in sequence: jobs, departments, supervisors, authority, decision levels and coordination. Explain how each choice helps the company work effectively.

22(a). What are the features of 'Planning' ? Explain any six. [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 will do it. It bridges the gap between the present position and the desired future position.
- Planning is an intellectual management function that provides direction to action. Its features explain how it operates throughout an organisation rather than merely listing its benefits.

Step 1: Explain the purpose and place of planning

- **Planning focuses on achieving objectives:** Every plan is prepared to accomplish a specific organisational objective. Managers first establish the desired result and then identify the activities required to reach it. Planning therefore gives purposeful direction to work instead of allowing activities to proceed without a common aim.
- **Planning is a primary function of management:** It precedes and provides the basis for organising, staffing, directing and controlling. For example, a production plan determines the resources and employees needed; its targets also become the standards against which actual performance is controlled.

Step 2: Explain the extent and continuity of planning

- **Planning is pervasive:** It is required in all types of organisations, at every management level and in all departments. Its scope differs: top management plans for the organisation as a whole, whereas departmental and supervisory managers prepare plans for their own areas and day-to-day operations.
- **Planning is continuous:** A plan is prepared for a particular period. When that period ends, a new plan is needed. Plans must also be reviewed and revised as conditions change, so planning is an ongoing cycle of preparation, implementation, review and further planning.

Step 3: Explain its future orientation and choice of action

- **Planning is futuristic:** It looks ahead and anticipates future conditions. Managers use forecasts and assumptions about matters such as demand, prices and competition to decide present action. This anticipation helps prepare for the future even though forecasts cannot make it completely certain.
- **Planning involves decision making:** Managers identify and evaluate alternative courses of action

and select the one best suited to the objectives and available resources. Where there is only one possible course, there is no real choice; planning becomes meaningful when alternatives are compared before committing resources.

Step 4: Conclusion Six features of planning are its focus on objectives, primacy among management functions, pervasiveness, continuity, future orientation and involvement of decision making. Together they show that planning guides present action towards desired future results at every organisational level.

Quick Tip to Solve: For features, describe what planning is: objective focused, primary, pervasive, continuous, futuristic and choice based. Keep these distinct from advantages such as reducing waste.

OR

22(b). Explain how does planning help reducing uncertainties ? [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 is a forward-looking function of management.
- Planning reduces the risk of uncertainty by anticipating future events and preparing suitable courses of action. It cannot eliminate uncertainty because the business environment can change unexpectedly.

Step 1: Anticipate the future business environment **Study likely changes:** Managers examine past experience and current information to forecast changes in demand, competition, technology and government policy. Looking ahead helps them identify possible opportunities and threats before these affect operations.

Develop planning premises: Plans are based on assumptions about future conditions, such as expected sales, prices and availability of materials. Stating these assumptions makes the conditions on which a decision depends clear, rather than leaving the business to act without preparation.

Step 2: Prepare responses before difficulties arise **Assess possible outcomes:** Managers consider alternative courses of action and their likely consequences under the anticipated conditions. Comparing alternatives helps them choose a course that can achieve the objective with an acceptable level of risk.

Prepare alternative arrangements: Where a foreseeable difficulty may arise, management can prepare a suitable response in advance. For example, a manufacturer expecting an interruption in supplies can identify another supplier. Such preparation reduces the disruption and hurried decisions caused by a future problem.

Step 3: Organise action and revise plans when conditions change **Arrange resources in advance:** Plans specify the activities and resources needed to meet expected conditions. The enterprise can arrange personnel, finance and materials in time, reducing the chance that it will be unprepared when the anticipated situation occurs.

Review assumptions and adapt: Managers compare actual developments with the assumptions

behind the plan. If demand or other conditions differ from expectations, plans should be revised suitably. Planning therefore helps the enterprise face change systematically, although an unforeseen event can still upset even a carefully prepared plan.

Step 4: Conclusion Planning reduces uncertainty by forecasting future conditions, making assumptions explicit and preparing actions and resources beforehand. It enables the business to meet foreseeable changes with greater readiness, but it does not guarantee the future or remove all risk.

Quick Tip to Solve: Link every point to anticipating change or preparing a response; do not claim that planning makes future events certain.

23(a). What is meant by 'Recruitment' ? Explain any five external sources of recruitment of employees.

[6 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation. It creates a pool of applicants from which suitable employees can later be selected.
- External sources of recruitment seek candidates from outside the organisation. They can bring in fresh talent, a wider choice of applicants and skills that are not currently available within the enterprise.

Step 1: State the meaning of recruitment Recruitment involves identifying possible candidates for vacancies and attracting their applications. It is a positive process because it seeks to encourage an adequate number of eligible people to apply. Choosing the most suitable person from this pool is selection, which follows recruitment. Five external sources of recruitment are explained below.

Step 2: Explain direct recruitment and advertising **1. Direct recruitment:** The enterprise displays a notice at its premises or factory gate specifying the vacancies available. Interested job seekers assemble at the notified place and time. This source is particularly useful for casual vacancies and for unskilled or semi-skilled workers; it is relatively inexpensive and can provide workers quickly.

2. Advertisement: Vacancies are advertised in newspapers, professional journals or other appropriate media. The advertisement states the job requirements, qualifications and method of applying. Its wide reach attracts applicants from different places, and the medium can be chosen according to the type of employee required.

Step 3: Explain employment exchanges and placement agencies **3. Employment exchanges:** Government-run employment exchanges maintain records of registered job seekers and their qualifications. Employers notify their vacancies, and the exchange provides details of candidates who meet the stated requirements. This source is commonly useful for operative and other personnel for whom suitable registrations are available.

4. Placement agencies and management consultants: Private placement agencies maintain information about candidates and recommend people suited to the employer's requirements, generally for a fee. Management consultants can help locate specialised and senior managerial personnel. These

intermediaries save the employer time in searching for suitably qualified applicants.

Step 4: Explain recruitment through educational institutions **5. Campus recruitment:** Enterprises contact universities, colleges, management institutes and technical institutions to attract students who are completing their studies. Institutions provide access to candidates with relevant professional or technical training. This source is particularly useful when the enterprise needs fresh graduates who can be trained for entry-level and professional positions.

Step 5: Conclusion Recruitment attracts prospective employees to apply for available jobs. Direct recruitment, advertisements, employment exchanges, placement agencies and management consultants, and campus recruitment are five external sources through which the organisation can obtain applicants.

Quick Tip to Solve: First define recruitment as attracting applications; then explain how each external source brings candidates to the employer.

OR

23(b). What is meant by 'Selection' ? Explain any five steps involved in the process of selection of employees. [6 marks]

Solution:

Concept:

- Selection means choosing, from among the applicants, the person best suited to the requirements of a job. It involves assessing applicants and eliminating those who do not satisfy the prescribed requirements.
- Recruitment attracts a pool of candidates, whereas selection compares their qualifications, ability and suitability with the job specification. A systematic selection process reduces the risk of appointing an unsuitable employee.

Step 1: Explain the initial assessment steps The following are five steps in the selection process:

- **Preliminary screening:** Application forms and initial enquiries are examined to remove applicants who do not possess the minimum qualifications or experience required for the post. A preliminary interview may also be used to identify obvious mismatches. This saves the time and expense of carrying unsuitable candidates through the remaining stages.
- **Selection tests:** Candidates who pass the screening undergo suitable tests. Intelligence tests assess learning and reasoning ability; aptitude tests indicate the potential to acquire skills; trade or proficiency tests measure existing job skills. Personality and interest tests may also be used where relevant. The test chosen must relate to the requirements of the job.

Step 2: Explain the interview, verification and decision steps

- **Employment interview:** The employer and candidate have a formal conversation to assess the candidate's knowledge, communication, attitude and suitability for the position. It also gives the applicant an opportunity to understand the duties and employment conditions. Interview findings are considered together with the application and test results.

- **Reference and background checks:** The organisation contacts the referees or previous employers named by the candidate, with appropriate consent, to verify information concerning past employment, qualifications, performance and conduct. These checks help establish whether the applicant's claims are reliable.
- **Selection decision:** After considering the evidence from the preceding stages, the organisation makes the final choice among the candidates found suitable. The concerned manager, who will be responsible for the employee's work, normally participates in or approves this decision. Subsequent medical examination and the job offer complete the remaining formalities where applicable.

Step 3: Conclusion Selection matches the right person with the right job. Preliminary screening, selection tests, the employment interview, reference and background checks, and the selection decision are five steps that progressively establish an applicant's suitability.

Quick Tip to Solve: Define selection as choosing the best-suited applicant, then explain five named steps in sequence. Distinguish tests of potential ability from tests of existing job skills.

24(a). Briefly explain the different factors that determine the choice of channels of distribution of any product. [6 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the ultimate consumer. Direct distribution uses no intermediary; indirect distribution uses intermediaries such as wholesalers, distributors and retailers.
- Channel choice must balance market coverage, cost, speed, customer service and the producer's desired control. No single channel is appropriate for every product and every market.

Step 1: Examine the product, market and company

- **Product-related factors:** Perishable goods require quick delivery and therefore generally need a short channel. Bulky products favour shorter channels to reduce handling and transport costs. Complex or technical products often require direct selling or specialised dealers because customers need demonstrations, installation and after-sales service. Standardised, low-unit-value consumer goods can be sold through longer channels to reach many buyers.
- **Market-related factors:** The number, location and buying habits of customers influence the channel. A large number of geographically scattered consumers normally requires intermediaries for extensive coverage. A few buyers concentrated in one area, especially industrial purchasers placing large orders, can often be served directly. Small, frequent purchases favour nearby retail outlets.
- **Company-related factors:** A financially strong company may establish its own sales force, warehouses and outlets. A company with limited resources may depend on intermediaries that already have these facilities. Management's experience and the degree of control desired over selling, prices and customer service also matter; greater desired control generally favours a shorter channel.

Step 2: Assess intermediaries, competition and the environment

- **Intermediary-related factors:** Suitable middlemen must be available and willing to handle the product. Their reputation, market reach, financial strength and ability to provide storage, promotion and service influence the choice. The producer compares the services offered with the margins or commission demanded. An unavailable or unsuitable intermediary may make direct distribution necessary.
- **Competitive factors:** The producer examines channels used by competitors. Following established channels may help reach customers who already buy through those outlets. Alternatively, a different channel may offer better service or avoid intense competition for the same dealers. The decision depends on the company's marketing strategy and the competitive situation.
- **Environmental factors:** Economic conditions and legal restrictions affect the available alternatives. During depressed economic conditions, producers may prefer economical channels that avoid unnecessary distribution expenses. Laws regulating the sale of particular products and restrictive distribution arrangements must also be respected when designing the channel.

Step 3: Conclusion The appropriate distribution channel depends on the product, the target market, the company's resources and control requirements, suitable intermediaries, competition and the economic and legal environment. These factors must be considered together to deliver the product conveniently and economically.

Quick Tip to Solve: Organise channel-choice factors as product, market, company, middlemen, competition and environment. Explain how each factor changes channel length or the type of intermediary required.

OR

24(b). "Advertising misleads customers and increases the cost of products". Do you agree with this statement ? Give reasons in support of your answer. [6 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. Its purpose is to inform and persuade potential customers.
- The objections that advertising misleads consumers and raises prices must be assessed separately. Misuse of advertising does not establish that all advertising is misleading, and expenditure on advertising does not necessarily raise the price per unit.

Step 1: Examine the charge that advertising misleads customers

- **Some advertisements can mislead:** An advertiser may exaggerate a product's performance, conceal an important limitation or make an unsupported claim. A consumer who relies on such a message may buy a product that does not provide the expected satisfaction. This objection is therefore valid for false or deceptive advertisements.
- **Misleading claims are an abuse of advertising:** Deception is not an essential feature of advertising itself. A truthful advertisement communicates the product's uses, features, price and availability, helping buyers compare alternatives and make an informed choice. It would be incorrect to treat every advertising message as false merely because some firms misuse this medium.

- **Repeat sales depend on actual satisfaction:** An exaggerated promise may secure an initial purchase, but a disappointed customer is unlikely to buy again. False claims damage the advertiser's reputation. Honest information and claims that the product can fulfil are therefore in the long-term interest of the firm as well as the buyer.

Step 2: Examine the charge that advertising increases product costs

- **Advertising involves expenditure:** Preparing a message and purchasing space or time in newspapers, television or other media add to marketing expenditure. If sales do not expand sufficiently, this expenditure can increase the cost burden per unit and may be reflected in a higher selling price.
- **Larger sales can lower unit cost:** Effective advertising can create demand and increase the volume sold. Larger-scale production permits economies of scale, while fixed production and advertising expenses are spread over more units. These savings can offset the advertising expenditure, so a rise in the product's unit cost or selling price is not inevitable.
- **Information and competition can benefit buyers:** Advertising brings competing products and offers to the consumer's notice and helps firms reach a wider market. Buyers can compare offers rather than depend on a single seller. Where the resulting competition and economies are passed on, consumers can obtain better value instead of necessarily paying more.

Step 3: Conclusion I do not agree with the statement as an unconditional criticism of all advertising. False or exaggerated advertisements can mislead, and advertising does involve expenditure. However, truthful advertising provides useful information, while increased sales and economies of scale can offset its cost. The effects depend on the honesty and effectiveness of the advertisement.

Quick Tip to Solve: Answer both allegations separately: distinguish deceptive claims from truthful information, and total advertising expenditure from cost per unit after sales expand.

25(a). Explain any three ways and means of consumer protection available in India. [6 marks]

Solution:

Concept:

- Consumer protection means safeguarding consumers against unfair trade practices and ensuring that they receive safe goods, correct information, fair treatment and a means of redressal.
- Protection requires preventive measures as well as action when exploitation occurs. Business self-regulation, consumer organisations and government intervention are three complementary ways of achieving it.

Step 1: Explain self-regulation by business **1. Self-regulation by business:** A socially responsible business protects its customers voluntarily instead of waiting for a complaint or legal action. It supplies goods of the promised quality and quantity, charges fair prices, gives accurate information and avoids false advertisements, adulteration and other unfair practices. For example, proper product labelling and clear instructions help the buyer use a product safely and understand what is being purchased.

The firm can also establish a consumer-service or grievance cell to receive complaints and arrange

prompt repair, replacement or other appropriate relief. Trade associations can develop codes of conduct and encourage members to follow fair dealing. These measures prevent exploitation and build goodwill, customer confidence and repeat business, giving firms an economic reason to protect consumers as well as a social responsibility to do so.

Step 2: Explain the role of consumer organisations **2. Consumer organisations and non-government organisations:** These bodies organise consumers so that an individual buyer does not have to face a powerful seller alone. They educate people about consumer rights and responsibilities through meetings, publications and campaigns. They can test products, publish information about quality and safety, and draw attention to misleading claims or harmful practices, helping buyers make informed choices before purchase.

They also advise aggrieved consumers, help them prepare complaints and, where appropriate, assist in obtaining redressal before the consumer forums. By taking up consumer grievances and pressing business and public authorities to respond, such organisations turn scattered individual complaints into an effective collective voice. Thus, their work combines education, representation and practical assistance.

Step 3: Explain government intervention **3. Government intervention:** The government protects consumers through legislation, enforcement and arrangements for redressal. Laws relating to product quality, weights and measures, adulteration and unfair trade practices establish standards that sellers must observe. Inspection and enforcement help prevent exploitation rather than leave protection entirely to a buyer's bargaining power.

In the context of this paper, the Consumer Protection Act, 1986 provided a specific mechanism for consumer complaints through district forums, state commissions and the national commission. Consumers could seek appropriate relief against defective goods, deficient services and unfair trade practices. The government also promotes consumer awareness so that people know how to use the protection available. Legal rights become useful when consumers are informed and accessible institutions can enforce them.

Step 4: Conclusion Three ways and means of consumer protection are self-regulation by business, the work of consumer organisations and government intervention. Together they encourage fair conduct, educate and represent buyers, and provide enforceable remedies when consumers suffer exploitation.

Quick Tip to Solve: For each way of protection, identify the actor and explain what it actually does: prevent unfair conduct, educate or represent buyers, or enforce rights and provide redressal.

OR

25(b). Explain any three responsibilities of the consumer to safeguard his interest. [6 marks]

Solution:

Concept:

- Consumer Protection: consumer responsibilities are the duties a buyer should perform to make informed purchases, avoid exploitation and obtain an effective remedy when a product or service is deficient.
- Legal rights are more effective when the consumer remains alert, checks relevant information and preserves evidence of the transaction. The following are three responsibilities that safeguard the consumer's own interest.

Step 1: Be aware and examine the product before buying **Be an informed consumer:** A consumer should acquire knowledge about the goods and services available and compare their price, quality and suitability before choosing. Read the label carefully to check the quantity, ingredients, date of manufacture, expiry date, directions for use and maximum retail price, wherever applicable. For example, checking the expiry date helps avoid buying an unusable medicine or food product, while checking the MRP helps detect overcharging. The buyer should not accept an advertisement or a seller's assurance without examining the relevant information. This responsibility reduces the risk of being misled and ensures that the purchase meets the consumer's actual needs.

Step 2: Insist on standardised goods where available **Buy standardised products:** The consumer should prefer goods bearing the appropriate recognised quality certification mark, such as ISI on relevant industrial products and AGMARK on agricultural products. The mark should be appropriate to the particular kind of goods; these marks are not interchangeable. Standardisation provides assurance that the product conforms to the prescribed quality requirements and reduces the risk associated with inferior or unsafe goods. The consumer should also follow the manufacturer's instructions and safety precautions when using the product. Alert selection and proper use together help protect health, safety and the value received for the price paid.

Step 3: Obtain and retain proof of purchase **Ask for a cash memo or bill:** A consumer should always insist on a proper bill showing the seller, date, goods or service purchased and amount paid, and should keep it safely. The bill provides documentary evidence of the transaction. Warranty or guarantee cards and other relevant purchase records should also be preserved. If the goods turn out to be defective, the service is deficient or the seller disputes the purchase, these documents support the consumer's request for repair, replacement, refund or other appropriate relief. Buying without a bill makes it harder to establish the claim; therefore even a small purchase should be supported by proper evidence.

Step 4: Conclusion To safeguard his interest, a consumer should make an informed purchase after reading relevant product information, prefer appropriately standardised goods, and obtain and preserve a proper cash memo or bill. These three responsibilities help prevent exploitation and support redress when a genuine grievance arises.

Quick Tip to Solve: Build each responsibility around an action and its benefit: read the label to choose safely, check the quality mark to assess standards, and keep the bill to prove the purchase.