CBSE Class 12 Business Studies Question Paper 2012 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) Answer to questions carrying **1** mark may be from **one word to one sentence**.

(ii) Answer to questions carrying **3** marks may be from **50 - 75** words.

(iii) Answer to questions carrying **4 - 5** marks may be about **150** words.

(iv) Answer to questions carrying **6** marks may be about **200** words.

(v) Attempt all parts of question together.

1. Name the type of plan which is time bound and linked with measurable outcome. [1 mark]

Solution:

Concept:

- Objectives are the desired future results towards which organisational activities are directed.
- An objective is expressed as a measurable target to be achieved within a specified period.

Step 1: Identify the clues The words time bound indicate a deadline, while measurable outcome indicates a definite result against which achievement can be checked.

Step 2: Name the plan These features describe an objective. For example, increasing sales by ten per cent during the next financial year states both the result and the time for achieving it.

Step 3: Conclusion The type of plan is an objective.

Quick Tip to Solve: Look for a definite result and a deadline together: these identify an objective.

2. 'Planning is done for achieving the organizational goals.' Do you agree? Give one reason in support of your answer. [1 mark]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it to achieve organisational objectives.
- Plans provide direction by linking proposed activities with the desired results.

Step 1: State agreement Yes, planning is done for achieving organisational goals. The goals specify what the organisation wants to accomplish.

Step 2: Give the supporting reason Plans are prepared with these objectives in view and specify the course of action required to attain them. This directs the efforts of departments and employees towards the same desired results rather than unrelated activities.

Step 3: Conclusion Yes. Planning directs activities and efforts towards the achievement of organisational objectives.

Quick Tip to Solve: Support agreement by linking the planned course of action directly to the organisation's goals.

3. Identify the nature of management when it is said to be a systematised body of knowledge that explains certain general truths. [1 mark]

Solution:

Concept:

- Science is a systematised body of knowledge that explains general truths or the operation of general laws.

- Management has principles developed through observation and experimentation, though their application depends on the situation.

Step 1: Identify the defining feature The description emphasises organised knowledge and general truths. These are characteristics of science.

Step 2: Apply it to management Management contains a systematic body of principles concerning managerial behaviour. It is therefore regarded as a science, although its principles are less exact than those of the physical sciences because human behaviour varies.

Step 3: Conclusion The nature identified is management as a science.

Quick Tip to Solve: Systematised body of knowledge points to science; personal skill in applying knowledge points to art.

4. At which level of management the managers are responsible for the welfare and survival of the organisation? [1 mark]

Solution:

Concept:

- Top management comprises the senior executives responsible for the organisation as a whole.
- It determines overall objectives and policies and bears responsibility for the organisation's survival and welfare.

Step 1: Locate the scope of responsibility The question concerns the entire organisation rather than the work of a single department or the supervision of workers.

Step 2: Identify the appropriate level Top-level managers analyse the environment, frame overall strategy and coordinate departments. Their decisions concern the long-term welfare and survival of the organisation, so the responsibility described belongs to them.

Step 3: Conclusion Managers at the top level of management are responsible for the welfare and survival of the organisation.

Quick Tip to Solve: Responsibility for the whole organisation and its survival identifies top management.

5. Give the meaning of 'orientation' as a step in the process of 'Staffing.' [1 mark]

Solution:

Concept:

- Orientation is the introduction of a newly appointed employee to the organisation and its working environment.
- It familiarises the employee with colleagues, rules, policies and the workplace so that adjustment becomes easier.

Step 1: Identify the stage After selection and placement, a new employee needs to become familiar

with the organisation in which he or she will work.

Step 2: Explain its meaning Orientation means introducing that employee to other employees and familiarising him or her with the rules and policies of the organisation. It helps the newcomer settle into the workplace and understand the immediate working environment.

Step 3: Conclusion Orientation is introducing a new employee to colleagues and familiarising the employee with the organisation's rules and policies.

Quick Tip to Solve: Remember orientation as the newcomer's introduction to the people and policies of the organisation.

6. Define 'Formal Communication.' [1 mark]

Solution:

Concept:

- Communication is the exchange of information and understanding between people.
- Formal communication follows the officially established channels and authority relationships of an organisation.

Step 1: Identify the channel In an organisation, messages can pass through the channels specified by its formal structure, such as an employee reporting to the immediate superior.

Step 2: State the definition Formal communication is communication that flows through official channels designed in the organisation chart. Its defining feature is the authorised route, whether the message moves upward, downward or horizontally.

Step 3: Conclusion Formal communication is communication that flows through the official channels prescribed in the organisation structure.

Quick Tip to Solve: Identify formal communication by its official channel, not by whether the message is written or spoken.

7. State anyone 'Regulatory Function' of Securities and Exchange Board of India (SEBI). [1 mark]

Solution:

Concept:

- SEBI regulates the securities market to promote orderly functioning and protect investors.
- Its regulatory functions include registration and regulation of brokers and other market intermediaries.

Step 1: Choose a regulatory activity A regulatory function lays down and administers requirements governing participants in the securities market.

Step 2: State one function SEBI registers and regulates stockbrokers and other intermediaries operating in the securities market. Requiring these participants to meet registration conditions brings their activities within the prescribed regulatory framework.

Step 3: Conclusion One regulatory function of SEBI is the registration and regulation of stockbrokers and other securities-market intermediaries.

Quick Tip to Solve: For a regulatory function, choose registration or regulation of market participants rather than investor education.

8. State anyone objective of setting up of National Stock Exchange of India (NSEI). [1 mark]

Solution:

Concept:

- The National Stock Exchange of India was established to improve the securities-trading system.
- One objective was to establish a nationwide trading facility for all types of securities.

Step 1: Identify the institution's purpose NSEI sought to provide a wider and more accessible securities market rather than restrict trading opportunities to a few locations.

Step 2: State one objective One objective of setting up NSEI was to establish a nationwide trading facility for all types of securities. This allows investors in different parts of the country to participate through a common trading system.

Step 3: Conclusion One objective was to establish a nationwide trading facility for all types of securities.

Quick Tip to Solve: When asked for one NSE objective, state a precise textbook objective such as nationwide trading facilities.

9. How 'Business Associations' act as a means of consumer protection? State. [1 mark]

Solution:

Concept:

- Business associations are voluntary associations of producers and traders which can promote responsible conduct towards consumers.
- Self-regulation means that members follow a code of conduct instead of waiting for a consumer complaint or legal action.

Step 1: Identify their protective role Business associations protect consumers by laying down a code of conduct for their members in their dealings with consumers.

Step 2: Explain how the code helps Members are encouraged to follow fair trade practices and avoid misleading advertisements, adulteration and other practices that harm buyers. Thus the association promotes fair treatment of consumers through self-regulation.

Step 3: Conclusion Business associations act as a means of consumer protection by prescribing and encouraging their members to follow a code of conduct for fair dealings with consumers.

Quick Tip to Solve: Link business associations with self-regulation through a code of conduct; consumer organisations instead represent and assist consumers.

10. Give anyone relief available to a consumer who suffers due to consumption of an expired date medicine. [1 mark]

Solution:

Concept:

- A consumer who suffers loss or injury because of a defective product can seek redressal under consumer protection law.
- Compensation is a relief intended to make good the loss or injury caused to the consumer.

Step 1: Identify the injury caused by the product An expired medicine is an unsafe product. If its consumption causes injury or loss, the consumer may seek redressal against the responsible seller or manufacturer.

Step 2: State one available relief The consumer can seek compensation for the loss or injury suffered due to consumption of the expired medicine. This relief addresses the harm suffered, rather than merely returning the purchase price.

Step 3: Conclusion One relief is an award of compensation for the loss or injury suffered by the consumer due to consumption of the expired medicine.

Quick Tip to Solve: When the question mentions that the consumer has suffered injury, compensation directly addresses that harm; name one relief clearly.

11. Explain how Principles of Management :
(i) provide useful insight into reality and
(ii) help in thoughtful decision making. [3 marks]

Solution:

Concept:

- Management principles are broad guidelines for managerial decisions and behaviour, developed through observation, experience and experimentation.
- They are flexible guides: a manager applies them after considering the nature of the actual situation, rather than treating them as rigid rules.

Step 1: Explain useful insight into reality **Useful insight into reality:** Principles provide managers with knowledge of how people and resources tend to behave in organisations. They bring together the experience of earlier managers and research, so a manager can understand the likely meaning and consequences of a situation without starting every analysis from the beginning. For example, unity of command warns that instructions from several superiors can create confusion and conflicting responsibilities.

Step 2: Explain thoughtful decision making **Thoughtful decision making:** Principles help managers base decisions on logic, evidence and an assessment of cause and effect instead of personal bias, guesswork or blind trial and error. A manager examines the circumstances, considers the relevant principle and then selects a suitable course of action. For example, the principle of division of work helps a manager consider employees' specialisation before allocating duties. The principle guides

judgement; the manager still adapts it to the particular organisation.

Step 3: Conclusion Management principles improve understanding of real organisational situations and provide a logical basis for carefully considered, situation-appropriate decisions.

Quick Tip to Solve: For each benefit, explain what the principle gives a manager: insight supplies understanding, while thoughtful decision making supplies a reasoned basis for action.

12. Why is training important for an organization? State any three reasons. [3 marks]

Solution:

Concept:

- Training is the systematic process of increasing employees' knowledge and skills for performing their existing jobs.
- The organisation benefits when improved employee competence leads to better performance, safer work and lower avoidable costs.

Step 1: Explain improved performance and efficiency **Better performance and productivity:** Training gives employees the knowledge and practical skills needed to perform their tasks correctly. They can produce more and better-quality work with the available resources. A systematic training programme is more effective than making employees learn everything through repeated trial and error at work.

Step 2: Explain reduced wastage and accidents **Reduced wastage and accidents:** Trained employees understand the correct methods of handling materials, tools and machinery. This reduces errors, damage to equipment, wastage of materials and the risk of workplace accidents. Consequently, the organisation avoids unnecessary operating costs and interruptions.

Step 3: Explain reduced need for supervision **Less need for close supervision:** Employees who know the prescribed methods and standards can carry out routine duties with greater confidence and independence. Supervisors need to spend less time correcting mistakes or repeatedly explaining the same task, and can devote more attention to other managerial responsibilities.

Step 4: Conclusion Three organisational benefits of training are better performance and productivity, reduced wastage and accidents, and a reduced need for close supervision.

Quick Tip to Solve: State benefits from the organisation's viewpoint: connect trained employees' skills with output, costs, safety or supervisory effort.

13. What is meant by 'Financial Management' ? State the primary objective of Financial Management. [3 marks]

Solution:

Concept:

- Financial management is concerned with the efficient acquisition and utilisation of finance in a business.

- Its decisions cover investment of funds, the sources used to raise them and the distribution or retention of earnings.

Step 1: Define financial management Financial management means planning and controlling the financial resources of a business so that funds are obtained at a reasonable cost and used efficiently. It determines how much finance is needed, where it should come from and how it should be invested. Its purpose includes avoiding unnecessary idle funds as well as shortages that prevent the business from meeting its needs.

Step 2: State the primary objective **Maximisation of shareholders' wealth:** The primary objective is to maximise the wealth of the owners of the company. In a company, this is reflected in maximising the market value of its equity shares. Financial decisions should therefore increase the value of the shareholders' investment.

Step 3: Explain the implication for financial decisions Wealth maximisation considers the expected returns from a decision together with their timing and risk. A decision that raises current accounting profit but involves excessive risk or harms future earning capacity may reduce share value. Thus financial management seeks sound investment, financing and dividend decisions that contribute to owners' wealth, rather than simply the largest immediate profit.

Step 4: Conclusion Financial management is the efficient acquisition and use of business finance. Its primary objective is maximisation of shareholders' wealth, reflected in the market value of equity shares.

Quick Tip to Solve: Use the exact objective "maximisation of shareholders' wealth"; immediate profit alone does not capture timing, risk and the value of the owners' investment.

14. Nisha a school bag manufacturer decided to improve the product for profit maximization and thus added a waterbottle holder to the existing design.

(i) Identify the marketing management philosophy adopted by Nisha and

(ii) Explain this philosophy on the basis of:

(a) Main focus and (b) Means and ends [3 marks]

Solution:

Concept:

- Marketing management philosophies describe the approach a firm follows to achieve its objectives in the market. The product concept gives primary importance to the quality, performance and features of the product offered.
- Under the product concept, management assumes that customers favour superior products. Product improvement is the means used to obtain sales and profits.

Step 1: Identify the philosophy from Nisha's decision **(i) Product concept:** Nisha adopts the product concept. The clue is that she "decided to improve the product for profit maximization" by adding a waterbottle holder. Her action concentrates on making the existing school bag better by adding a useful feature.

Step 2: Explain the main focus **(ii)(a) Main focus:** This philosophy focuses on improving the quality, features and performance of the product. It assumes that buyers prefer products that offer better quality and useful innovations. Here, Nisha improves the bag's design rather than relying primarily on aggressive selling.

Step 3: Explain the means and the end **(ii)(b) Means and ends:** The means is continuous improvement of the product so that it is superior in quality or performance. The end is profit maximisation through better product quality. Adding the waterbottle holder is Nisha's means of improving the bag, with increased profitability as her objective.

Step 4: Conclusion Nisha follows the **product concept**: its focus is product quality and features, its means is product improvement, and its end is profit through superior product quality.

Quick Tip to Solve: A case centred on improving an existing product's features points to the product concept; identify the focus, the means and the profit objective separately.

15. Explain any three qualities of a good leader. [3 marks]

Solution:

Concept:

- Leadership is the process of influencing the behaviour of people so that they willingly work towards organisational objectives. A leader needs personal qualities that earn confidence and help guide employees.
- Qualities such as integrity, communication skills and self-confidence make leadership effective. Merely holding a formal position does not ensure that followers will accept a person's guidance.

Step 1: Explain honesty and integrity **Honesty and integrity:** A good leader is sincere, truthful and consistent in words and actions. The leader keeps promises, deals fairly with employees and sets an example of ethical conduct. This earns the trust and respect of followers, making them more willing to cooperate and accept guidance.

Step 2: Explain communication skills **Communication skills:** A leader must clearly explain ideas, goals and instructions so that followers understand what is expected. The leader must also listen patiently to their problems and suggestions. Such two-way communication removes misunderstandings and enables the leader to secure willing cooperation.

Step 3: Explain self-confidence **Self-confidence:** A good leader has confidence in personal judgement and abilities. This helps the leader take decisions and face difficult situations without losing composure. Confidence also reassures followers and encourages them to work towards the goal; it should be accompanied by openness to useful advice.

Step 4: Conclusion Three qualities of a good leader are **honesty and integrity, communication skills, and self-confidence**. They help the leader earn trust, give clear direction and maintain the confidence of followers.

Quick Tip to Solve: For each leadership quality, state the quality and explain how it helps a leader influence and guide followers; a list of names alone is incomplete.

16. Explain the technique of scientific management that is the extension of 'Principle of Division of Work and Specialisation'. [4 marks]

Solution:

Concept:

- Scientific management applies systematic methods to improve efficiency at the shop-floor level. Taylor's functional foremanship extends the principle of division of work and specialisation to supervision.
- One foreman cannot possess all the specialised abilities needed to supervise every aspect of production effectively. Functional foremanship therefore divides supervisory duties among specialists and separates planning from execution.

Step 1: Identify the technique and explain its basis The technique is **functional foremanship**. Instead of placing all supervisory functions with one foreman, Taylor suggested eight specialist foremen. Each worker receives instructions from these specialists in their respective areas. Four operate in the planning department and four in the production department, under the overall factory management.

Step 2: Explain the specialists responsible for planning **Instruction card clerk:** Prepares and issues instructions explaining how the work is to be performed.

Route clerk: Specifies the sequence of operations and the route through which production must proceed.

Time and cost clerk: Determines the time required for the work and prepares cost information for the operations.

Disciplinarian: Ensures orderly working and the observance of factory rules and discipline.

Step 3: Explain the specialists responsible for production **Gang boss:** Keeps machines, tools and other facilities ready so that workers can begin their tasks.

Speed boss: Ensures that work is completed accurately and at the prescribed speed.

Repair boss: Maintains machines and equipment in proper working condition and arranges repairs when necessary.

Inspector: Checks the quality of the work and ensures that output meets the required specifications.

Step 4: Relate the technique to specialisation Each foreman concentrates on a limited supervisory function and develops expertise in it. Workers consequently receive expert guidance on planning, methods, speed, maintenance and quality. This is how division of work is extended beyond operating jobs to supervision itself, helping improve efficiency and the quality of production.

Step 5: Conclusion **Functional foremanship** is the required technique. It separates planning from execution and divides supervision among eight specialists, thereby applying division of work and specialisation to the foreman's duties.

Quick Tip to Solve: Remember functional foremanship as four planning specialists and four production specialists; explain each specialist's duty to show how supervision is divided.

17. Describe briefly the steps in the process of organising. [4 marks]

Solution:

Concept:

- Organising is the management function of identifying and grouping work, assigning duties and establishing authority relationships so that plans can be implemented.
- Its process follows a logical sequence: divide the work, group similar activities, assign duties and establish reporting relationships.

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 plan. Divide the total work into manageable tasks so that duplication is avoided and the burden can be shared. For example, making and selling a product involves purchasing inputs, production, selling and maintaining accounts. Division of work also permits specialisation because a person can concentrate on a defined task.

Step 2: Group similar activities into departments **Departmentalisation:** Group activities of a similar nature into departments or units. Activities may be grouped by function, such as production, marketing and finance, or by another suitable basis, such as the products manufactured. Bringing related activities together enables coordination within each department and makes its area of work clear.

Step 3: Assign duties to suitable people **Assignment of duties:** Allocate the work of each department to individuals according to their knowledge, qualifications and ability. Define each person's job and responsibilities clearly. Matching duties with a person's capabilities promotes effective performance and prevents confusion about who is responsible for a task.

Step 4: Establish authority and reporting relationships **Establishing reporting relationships:** Give employees the authority needed to discharge their assigned duties and specify who reports to whom. Establish superior-subordinate relationships so that employees know from whom they receive instructions and to whom they are accountable. These relationships link the departments and create the organisational structure.

Step 5: Conclusion The organising process therefore moves from identification and division of work to departmentalisation, assignment of duties and establishment of reporting relationships, converting the plan into a coordinated structure for action.

Quick Tip to Solve: Remember the sequence as work, departments, people and reporting: decide what is to be done before deciding who does it and who supervises it.

18. Explain the following as factors affecting financing decision:

(i) Cost;

(ii) Cash flow position of business ;

(iii) Level of fixed operating cost and

(iv) Control considerations. [4 marks]

Solution:

Concept:

- A financing decision determines the proportion of funds to be raised from owners' funds, such as equity, and borrowed funds, such as loans or debentures.
- The choice must balance the cost of finance with the ability to meet fixed payments, the overall financial risk and the effect on existing shareholders' control.

Step 1: Compare the cost of alternative sources **(i) Cost:** Different sources of finance carry different costs. Debt normally costs less than equity because lenders face relatively lower risk and interest is a tax-deductible expense. The company should compare the cost of each available source and prefer a suitable, less costly source. However, a low interest cost alone does not justify excessive debt: the business must also be able to bear its fixed payment obligations.

Step 2: Assess the business's cash flow position **(ii) Cash flow position of business:** Borrowing requires regular payment of interest and repayment of principal on the agreed dates. A business with strong and dependable cash flows can use more debt because it is better placed to meet these commitments. If its cash flows are weak or uncertain, it should rely more on equity, since equity dividends are not a compulsory fixed cash payment in the way interest is.

Step 3: Consider existing fixed operating costs **(iii) Level of fixed operating cost:** Fixed operating costs, such as rent, have to be paid even when sales decline. When these costs are already high, the firm should avoid adding a large burden of fixed financing costs through debt and should prefer more equity. A firm with lower fixed operating costs has greater capacity to undertake the fixed interest obligations associated with borrowing. Thus, operating risk and financial risk must be considered together.

Step 4: Examine the effect on shareholders' control **(iv) Control considerations:** Issuing additional equity shares to new investors can dilute the voting power and control of the existing shareholders. Borrowing does not normally give lenders ownership voting rights. Therefore, if the existing shareholders wish to retain control, they may prefer debt to a fresh equity issue, provided the company's cash flows and risk position permit it.

Step 5: Conclusion The financing mix should combine a reasonable cost with affordable payment commitments. Strong cash flows and a desire to retain control may support debt, whereas high fixed operating costs or uncertain cash flows favour greater reliance on equity.

Quick Tip to Solve: Link each factor to its consequence: cost to affordability, cash flow to debt servicing, fixed operating cost to risk, and new equity to dilution of control.

19. Explain the following 'Rights of Consumers' :

(a) Right to Safety and

(b) Right to Consumer Education [4 marks]

Solution:

Concept:

- Consumer rights protect buyers against unfair and unsafe business practices and enable them to make informed decisions in the marketplace.
- The right to safety concerns protection against hazardous goods and services, while the right to consumer education concerns knowledge of rights, responsibilities and remedies.

Step 1: Explain the right to safety **Protection against hazards:** A consumer has the right to be protected against goods and services which are hazardous to life and health. A product should be safe to use for its intended purpose; for example, a defective electrical appliance can cause an electric shock and endanger the user.

Quality and safe use: Consumers should therefore purchase quality products carrying appropriate standardisation or certification marks, such as the ISI mark on electrical goods, and follow the prescribed safety instructions. This right makes safety a basic consideration in the production and sale of goods rather than leaving the buyer to bear avoidable risks.

Step 2: Explain the right to consumer education **Knowledge of consumer rights:** A consumer has the right to acquire knowledge and to be a well-informed consumer throughout life. Consumers should know their rights and the reliefs available when a seller supplies defective goods, deficient services or uses unfair trade practices.

Ability to exercise those rights: Consumer education helps buyers understand their responsibilities, read labels and instructions, insist on a cash memo and learn how and where to seek redressal. Consumer organisations, educational institutions and responsible businesses can spread such awareness so that buyers can recognise exploitation and take appropriate action.

Step 3: Conclusion The right to safety protects the consumer's life and health from hazardous goods and services. The right to consumer education equips the consumer with the knowledge needed to buy wisely and exercise consumer rights effectively.

Quick Tip to Solve: Link safety with protection from physical danger, and consumer education with awareness of rights, responsibilities and the means of redressal.

20. Manu, a Chief Manager in a company using highly sophisticated machines and equipments, wants that every employee should be fully trained before using the machines and equipments.

Suggest and describe the best method of training that Manu can use for training of the employees.

[4 marks]

Solution:

Concept:

- Training improves an employee's knowledge and practical skills for performing a particular job. The method chosen must suit both the equipment used and the risks of learning on it.
- Vestibule training is an off-the-job method in which employees learn to use the equipment they will use at work in a training area that duplicates the actual work environment.

Step 1: Identify vestibule training from the case **Recommended method: Vestibule training.** Manu's company uses 'highly sophisticated machines and equipments', and he wants employees to be 'fully trained before using the machines and equipments'. Employees should therefore learn away from the actual work floor in a specially created training setting before taking up production duties.

This is particularly suitable where expensive and sophisticated machinery must be handled carefully. It enables the employee to practise the required operations without interrupting normal production or exposing the actual work process to the errors of an untrained operator.

Step 2: Describe how the method works **Reproduce the work environment:** A separate training area, often called a vestibule, is set up with machinery and equipment of the type employees will use on the job. The essential working conditions are duplicated so that the skills acquired are relevant to the actual task.

Provide supervised practice: Competent trainers demonstrate the operating procedures, safety precautions and correct handling of the equipment. Trainees then practise under supervision until they develop the necessary skill and confidence.

Transfer trained employees to work: Once employees can perform the operations properly, they move to the actual workplace. Although creating a separate training facility can be expensive, the method permits focused learning and reduces the likelihood of costly damage or accidents on the production floor.

Step 3: Conclusion Manu should use vestibule training: train employees on the relevant machinery in a separate area duplicating actual working conditions, and place them on their regular jobs after they have acquired the required competence.

Quick Tip to Solve: Sophisticated equipment plus learning away from the production floor points to vestibule training; the separate training area reproduces real work conditions.

21. What is meant by 'co-ordination' ? How it 'integrates group efforts' and 'ensures unity of action' ? Explain. [5 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to achieve organisational goals.
- It provides the orderly arrangement of group efforts so that their timing, sequence and contribution fit a common purpose. It is the essence of management and runs through all managerial functions.

Step 1: Explain the meaning of coordination **Meaning:** Coordination binds the efforts of people and departments into a unified whole. In an organisation, employees perform specialised tasks and departments pursue their own immediate targets. Managers deliberately link these activities so that each contribution supports the organisation's common objectives. Thus, coordination brings harmony among individual efforts and interdependent activities rather than leaving their relationship to chance.

Step 2: Explain how it integrates group efforts **Integration of group efforts:** Coordination unifies unrelated or diverse interests into purposeful work activity. People come from different backgrounds and have different skills, attitudes and aspirations. Likewise, production, finance and sales have distinct responsibilities. Coordination brings their contributions together and gives a focus to group effort so that the group performs as a cohesive team. For example, a sales forecast is linked with the production schedule, availability of funds and procurement of materials. Each department continues its specialised work, but its effort becomes part of one connected plan instead of an isolated activity.

Step 3: Explain how it ensures unity of action **Unity of action:** Coordination acts as the binding force between departments and ensures that their actions are directed towards the same organisational goal. It secures the right timing and sequence of activities and prevents departments from working at cross-purposes. For example, production must supply the quantity and quality promised by sales at the time customers require it, while finance must make funds available when needed. Common priorities, communication and linked schedules help resolve differences between departmental targets. The actions of the various units therefore complement one another and jointly serve the common objective.

Step 4: Conclusion Coordination synchronises individual and departmental activities. It integrates diverse contributions into cohesive group effort and ensures unity of action by aligning those contributions in timing, sequence and direction with organisational goals.

Quick Tip to Solve: Separate the two features: integration combines diverse efforts into a team; unity of action makes the team's activities serve the same goal in a coordinated sequence.

22. State any five impacts of Government policy changes on Business and Industry. [5 marks]

Solution:

Concept:

- The policy changes associated with liberalisation, privatisation and globalisation altered the conditions in which Indian businesses operate.
- Relaxation of controls and greater integration with the world economy increased competitive pressures and required enterprises to respond more actively to customers, technology and market conditions.

Step 1: State the changes in competition and customers

- **Increasing competition:** Changes in industrial licensing and the entry of foreign firms increased competition for Indian firms, especially in service industries such as telecommunications and banking. Domestic enterprises could no longer depend on protection from rivals and had to improve their performance to retain customers.
- **More demanding customers:** Customers became better informed and had a wider choice of goods and services. Consequently, they expected improved quality and performance at reasonable prices. Firms had to pay greater attention to customer requirements rather than merely selling whatever they produced.

Step 2: State the effects on technology and the pace of change

- **Rapidly changing technological environment:** Increased competition forced firms to develop or adopt improved technology. Technological progress made possible new products and better production methods, enabling firms to improve quality and reduce costs. Keeping pace with technology became necessary to remain competitive.
- **Necessity for change:** Market forces became more dynamic after the policy changes. Enterprises therefore had to modify their operations, strategies and practices continuously. Rigid adherence to old methods could weaken their position, while a flexible response helped them adjust to changing business conditions.

Step 3: State the increased importance of human resources

- **Need for developing human resources:** New technologies and new methods of business required employees with suitable knowledge, skills and commitment. Enterprises had to invest in training and development, improve employee capabilities and encourage initiative. The ability to attract, retain and develop competent people became an important requirement for dealing successfully with the changed environment.

Step 4: Conclusion Five impacts are increasing competition, more demanding customers, rapid technological change, the necessity for continuous change, and a greater need for developing human resources. Together, these pressures required firms to become more responsive and competitive.

Quick Tip to Solve: Recall five affected areas: rivals, customers, technology, business practices and employees. Name the textbook impact first, then explain its consequence for firms.

23. State any five features of 'Planning' . [5 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it. It sets objectives and chooses a course of action for achieving them.
- The features of planning describe how it guides managerial work throughout an organisation, rather than the benefits obtained from a particular plan.

Step 1: State the purpose and position of planning

- **Planning focuses on achieving objectives:** Every organisation has objectives. Planning specifies these desired results and develops activities to attain them. A proposed activity is included in a plan because it contributes to an objective; planning is therefore purposeful rather than an exercise in making unrelated decisions.
- **Planning is a primary function of management:** Planning precedes organising, staffing, directing and controlling. Managers must first decide the objectives and the activities required; only then can they arrange resources, appoint people and guide their efforts. Plans also provide the standards against which actual performance is controlled.

Step 2: State its coverage, continuity and future orientation

- **Planning is pervasive:** Planning is required at all levels of management and in all departments. Top management plans for the organisation as a whole, while departmental and supervisory managers plan within their responsibilities. The scope and detail vary, but no managerial level can dispense with planning.
- **Planning is continuous:** Plans are prepared for a particular period. When that period ends, new plans are needed; plans may also require revision when circumstances change. Planning thus continues as a regular managerial activity rather than ending with the preparation of one document.
- **Planning is futuristic:** Planning concerns action to be taken in the future. Managers anticipate future conditions and make forecasts and assumptions about likely events. They use these expectations to decide how present resources should be used to achieve future objectives.

Step 3: Conclusion Five features of planning are its focus on objectives, its primacy among management functions, its pervasiveness, its continuity and its future orientation.

Quick Tip to Solve: For a features question, describe the nature of planning. Link each heading to a brief explanation, rather than listing advantages such as reduced risk or improved efficiency.

24. Neelabh is engaged in 'Transport Business' and transports fruits and vegetables to different states. Stating the reason in support of your answer, identify the working capital requirements of Neelabh. Neelabh also wants to expand and diversify his transport business, explain any two factors that will affect his fixed capital requirements. [5 marks]

Solution:

Concept:

- Working capital finances day-to-day operations through current assets such as cash, inventories and receivables. Its requirement depends partly on the nature of the business.
- Fixed capital is invested in long-term assets such as vehicles, buildings and equipment. Growth prospects and diversification influence the amount of long-term investment required.

Step 1: Identify the working capital requirement and justify it Neelabh's working capital requirement is **relatively low**, because transport is a service business. The words "engaged in 'Transport Business' and transports fruits and vegetables" show that he provides carriage of goods rather than manufacturing or trading in those goods. He need not maintain inventories of production raw materials or finished goods. The fruits and vegetables carried for customers are cargo, rather than his trading inventory. This reduces funds tied up in stock and keeps working capital lower than in a comparable manufacturing or trading business.

Relatively low does not mean that no working capital is needed. Neelabh still needs funds for daily expenses such as fuel, drivers' wages and routine repairs, and for any delay in collecting transport charges. The vehicles themselves are long-term assets and belong to fixed capital, rather than working capital.

Step 2: Explain the effect of growth prospects on fixed capital **Growth prospects:** A business expecting expansion needs greater investment in fixed assets to build additional operating capacity. The case states that Neelabh "wants to expand" his transport business. To carry more consignments or serve additional routes, he may need more transport vehicles and supporting facilities. Thus, his proposed growth will increase his fixed capital requirement; the greater the capacity expansion envisaged, the larger the long-term investment generally needed.

Step 3: Explain the effect of diversification on fixed capital **Diversification:** Entering a new line of business ordinarily requires additional long-term assets suited to that activity. Neelabh also wants to "diversify his transport business". If the proposed new activity requires assets beyond those already available, he must provide funds for those assets as well as his existing operations. Diversification therefore increases fixed capital requirements according to the nature and extent of the new activity. The case does not specify a new line, so no particular new business needs to be assumed.

Step 4: Conclusion Neelabh has relatively low working capital needs because transport is a service business without manufacturing or trading inventories. His growth plans and proposed diversification are two factors likely to increase his fixed capital requirements.

Quick Tip to Solve: Classify daily operating funds as working capital and investment in vehicles or other long-term capacity as fixed capital. Use the service nature of transport to justify the relative working capital level.

25. Differentiate between 'Marketing' and 'Selling' on any five bases. [5 marks]

Solution:

Concept:

- Marketing is the process of identifying customer needs and satisfying them through suitable products and an appropriate marketing mix. It includes activities before production as well as after the sale.
- Selling is the activity of persuading customers to purchase the firm's existing goods and transferring their ownership for money. It is one part of marketing.

Step 1: Establish the scope of the two approaches A marketing approach starts by asking what the customer needs, then coordinates product design, price, distribution and promotion to meet those needs. A selling approach starts with goods already produced and concentrates on finding buyers for them. The following comparison uses five distinct bases rather than treating the two terms as synonyms.

Step 2: Compare marketing and selling on five bases

Basis	Marketing	Selling
Scope	A wider process including identifying needs, developing products, pricing, promotion, distribution and after-sales service.	A narrower activity concerned with persuading buyers and transferring ownership of goods.
Emphasis	Focuses on satisfying customers' needs and wants; products are developed to suit those needs.	Focuses on the product already made and on converting it into cash through sales.
Starting point	Begins before production, with the identification and assessment of customer needs.	Begins after production, when finished goods are available for sale.
Means	Uses integrated marketing efforts: a coordinated product, price, place and promotion mix.	Relies chiefly on selling and promotional efforts to persuade customers to buy.
Objective	Seeks profits through customer satisfaction, repeat purchases and lasting customer relationships.	Seeks profits chiefly through increasing sales volume.

Step 3: Conclusion Marketing is the broad, customer-oriented process, whereas selling is its narrower sales-oriented activity. They differ in scope, emphasis, starting point, means and the way profits are pursued.

Quick Tip to Solve: For a clear comparison, keep the same basis in each row: needs before production indicate marketing; pushing existing goods indicates selling.

26(a). What is meant by 'Informal Organisation'? State the features of Informal organisation.

[6 marks]

Solution:

Concept:

- Informal organisation is the network of social relationships among employees that arises spontaneously through their interaction at work. It develops alongside the formally prescribed organisational structure.
- Common interests, friendship and personal needs bring people together informally. Its relationships, norms and influence are distinct from the official positions and authority prescribed by management.

Step 1: Define informal organisation **Meaning:** Informal organisation is a network of social relationships that originates spontaneously from interaction among people in an organisation. For example, employees who regularly meet during lunch may form a friendship group, even though they work in different departments. Management has not officially created that group or prescribed its relationships.

Step 2: State its features

- **Spontaneous origin:** It arises from personal interaction among employees rather than from a deliberate management decision. Friendship, shared interests and social needs lead people to associate with one another.
- **Informal standards of behaviour:** The group's members develop their own norms, values and expectations. These guide members' conduct even though they are not the organisation's formally written rules.
- **Independent channels of communication:** Information flows through personal contacts and the grapevine, without necessarily following the official chain of command. Communication can cross departmental and hierarchical boundaries.
- **No fixed structure:** Its relationships are not prescribed by an organisation chart. Membership, influence and patterns of interaction can change as friendships and circumstances change.
- **Emerges within the formal organisation:** It develops when people interact while carrying out their officially assigned roles. Thus it exists alongside the formal organisation, but its relationships need not follow formal reporting lines.

An informal leader gains influence through personal qualities and acceptance by the group, rather than merely through an official designation. This illustrates why the informal network cannot be identified only from the formal hierarchy.

Step 3: Conclusion Informal organisation is the spontaneously formed social network among employees. It is characterised by spontaneous origin, group norms, independent communication channels, absence of a fixed structure and development within the formal organisation.

Quick Tip to Solve: Distinguish origin from structure: informal organisation develops naturally through social interaction; it is not a department or committee deliberately created by management.

OR

26(b). What is meant by 'Decentralisation' ? State any four points of importance of decentralisation.

[6 marks]

Solution:

Concept:

- Decentralisation is the systematic delegation of authority throughout all levels of management and in all departments, except authority that must necessarily remain centralised.
- It extends decision-making power to the levels where work is performed, while managers remain accountable for the authority and responsibilities assigned to them.

Step 1: Explain the meaning of decentralisation Under decentralisation, top management deliberately shares decision-making authority with middle and lower levels instead of retaining most decisions at the top. Managers at different levels are allowed to decide matters within their assigned areas and limits. Thus, it is a policy of distributing authority across the organisation, rather than an isolated act of delegating one task.

Step 2: State four points explaining its importance

- **Develops initiative among subordinates:** Lower-level managers gain freedom to make decisions and act on their judgement. They become self-reliant, learn to accept responsibility and take initiative instead of waiting for instructions on every matter.
- **Develops managerial talent for the future:** Making decisions gives subordinates practical experience in handling problems and assessing consequences. This provides training for higher managerial positions and helps the organisation build a pool of capable managers.
- **Enables quick decision-making:** Decisions can be made close to the point of action by managers familiar with local conditions. Since every matter need not travel up the hierarchy for approval, delays in responding to operational problems are reduced.
- **Provides relief to top management:** Routine operational decisions are handled at lower levels. Top managers can therefore devote more attention to major policy decisions, strategic planning and other matters of long-term importance to the organisation.

Step 3: Conclusion Decentralisation systematically distributes decision-making authority across management levels. It is important because it develops initiative, prepares future managers, speeds up decisions and frees top management to concentrate on major organisational matters.

Quick Tip to Solve: Link each benefit to authority given to lower levels: freedom develops initiative, practice develops managers, proximity speeds decisions and shared work relieves the top.

27(a). Give the meaning of 'Supervision' as an element of 'Directing' and any four points that explain its role. [6 marks]

Solution:

Concept:

- Supervision means overseeing the work of subordinates and giving them instructions, guidance and support so that organisational plans are carried out effectively.
- As an element of directing, supervision involves personal contact with workers, monitoring their performance and helping them perform their duties according to the required standards.

Step 1: Give the meaning of supervision Supervision is the process of guiding, instructing and overseeing employees while they perform their work. A supervisor observes actual performance, explains how tasks should be done and helps workers overcome difficulties. Its purpose is to ensure that their efforts contribute to organisational objectives; it therefore includes supportive guidance as well as checking work.

Step 2: Explain four points describing its role

- **Maintains day-to-day contact with workers:** The supervisor interacts directly with employees and understands their work and difficulties. This personal contact creates a helpful working relationship and encourages workers to seek guidance when problems arise.
- **Links workers and management:** The supervisor communicates management's plans, policies and instructions to workers, and conveys workers' suggestions, grievances and needs to management. This two-way link promotes understanding between the two groups.
- **Maintains group unity:** Since the supervisor is close to the workers, differences and conflicts can be identified and resolved promptly. By encouraging cooperation and mutual understanding, the supervisor helps employees work together as a team.
- **Ensures achievement of targets:** The supervisor allocates and follows up work, provides instructions and checks actual progress against the expected standards. Correcting mistakes and guiding employees at the point of work helps the organisation achieve its quality, quantity and time targets.

Step 3: Conclusion Supervision is direct guidance and oversight of employees during the performance of their duties. It supports directing through daily contact, communication between workers and management, group unity and the achievement of work targets.

Quick Tip to Solve: Explain supervision through the supervisor's daily actions: contact workers, connect them with management, resolve conflicts and guide performance towards targets.

OR

27(b). What is meant by 'Motivation' ? Explain Maslow's need hierarchy theory of motivation.

[6 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to act in order to accomplish desired goals. An unsatisfied need creates tension, which encourages action directed towards satisfying that need.
- Maslow's need hierarchy theory classifies human needs into five levels. A substantially satisfied need ceases to be the main motivator, and the next higher need becomes important.

Step 1: State the meaning and basis of motivation Motivation means stimulating people to act towards desired goals. A manager motivates employees by identifying their needs and linking their satisfaction with organisational performance. Maslow assumed that behaviour is based on needs, that needs can be arranged in a hierarchy, and that people generally move to a higher level after a lower-level need is reasonably satisfied. Thus, the same incentive need not motivate every employee equally.

Step 2: Explain basic physiological needs **Basic physiological needs:** These are the most basic needs for survival, such as food, clothing, shelter and other necessities of life. They occupy the lowest level of the hierarchy and ordinarily demand attention before higher needs. In an organisation, basic salary helps an employee meet these needs. For a person unable to meet essential living expenses, adequate pay will normally be a stronger immediate incentive than an honorary title.

Step 3: Explain safety and security needs **Safety and security needs:** Once basic needs are reasonably satisfied, a person seeks protection from physical danger and economic insecurity. These needs include security of employment, stability of income and protection against illness or loss of earning capacity. Job security, pension arrangements and safe working conditions can help satisfy this level. The employee wants reasonable confidence that basic needs can continue to be met in the future.

Step 4: Explain affiliation and belongingness needs **Affiliation or belongingness needs:** People seek affection, acceptance, friendship and a sense of belonging to a group. An employee wishes to be accepted by colleagues and to maintain cordial relationships at work. Friendly supervision, supportive work groups and opportunities for interaction help satisfy these social needs. Here the important incentive is being valued as a member of the group, rather than merely receiving income or protection.

Step 5: Explain esteem needs **Esteem needs:** These include self-respect, autonomy, achievement, recognition, status and respect from others. After securing a sense of belonging, an employee may seek appreciation for worthwhile contributions and confidence in personal ability. Recognition of good performance, greater responsibility and appropriate status can help satisfy esteem needs. These incentives acknowledge the employee's competence and contribution to the organisation.

Step 6: Explain self-actualisation needs **Self-actualisation needs:** These are the highest-level needs: the desire to realise one's full potential, develop one's capabilities and become what one is capable of becoming. Challenging work, opportunities for learning, creativity and personal growth can satisfy this need. For example, scope to devise an original solution to a demanding work problem may motivate an employee whose lower-level needs are already substantially satisfied.

Step 7: Conclusion Maslow's hierarchy moves from physiological needs to safety, belongingness, esteem and self-actualisation. Managers should identify the need currently important to an employee and offer a suitable incentive, since a need already substantially satisfied loses much of its motivating force.

Quick Tip to Solve: Recall the order as survival, security, society, status and self-development; connect each level with one workplace incentive.

28(a). Describe the relationship between 'Planning' and 'Controlling'. [6 marks]

Solution:

Concept:

- Planning decides in advance what is to be achieved and how it will be achieved. Controlling measures actual performance against planned standards and takes corrective action where needed.
- Planning and controlling are interdependent functions. Plans provide the basis for control, while control provides information that improves future plans and their implementation.

Step 1: Explain how planning provides the basis of control **Planning precedes controlling:** Planning lays down objectives and the standards of performance to be achieved. Controlling requires these standards to judge actual results. For example, a production plan specifying an output target supplies the benchmark against which actual output is compared. Without such a target, the manager cannot determine whether performance is satisfactory or identify a meaningful deviation.

Step 2: Explain how controlling gives meaning to planning **Controlling ensures implementation of plans:** Merely preparing a plan does not guarantee that employees will carry it out or that results will match expectations. Controlling checks progress, detects deviations and initiates corrective action so that activities remain directed towards the planned objectives. Consequently, planning without controlling is meaningless, because there is no systematic assurance that the desired results are being achieved.

Step 3: Show why controlling depends on planning **Controlling without planning is blind:** Actual results have to be compared with what was intended. In the absence of a plan, there is no predetermined direction, performance criterion or expected result to guide this comparison. A manager might observe activity but could not assess whether it contributes adequately to the organisation's objectives. Thus, a useful control system must be based on clear and realistic plans.

Step 4: Explain their forward-looking nature **Both functions look ahead:** Planning is forward looking because it selects a future course of action and anticipates the conditions in which the organisation will operate. Controlling is also forward looking: corrective action aims to improve future performance and prevent a repetition of past mistakes. A control report on missed output targets is useful when it leads to better scheduling, training or resource provision for subsequent operations.

Step 5: Explain their backward-looking nature **Both functions also look back:** Controlling compares actual performance already achieved with standards, so it necessarily examines past results. Planning also uses past experience and information obtained through control. For instance, recurring delays identified in an earlier period may reveal that a proposed schedule is unrealistic. The manager

considers that evidence while preparing the next plan. Thus, it is incomplete to describe only planning as forward looking and only controlling as backward looking.

Step 6: Describe the continuous planning-control cycle **They reinforce one another continuously:** Control reveals whether deviations arise from poor execution, unsuitable standards or changed conditions. This feedback may lead to corrective action in current operations or a revision of future plans. Revised plans then establish fresh standards for the next round of control. The two functions therefore form a continuous cycle and are described as inseparable twins of management, rather than independent activities that end once a plan has been written.

Step 7: Conclusion Planning supplies objectives and standards; controlling checks achievement and provides corrective feedback. Each depends on the other, and both use past information to improve future action. Together they guide the organisation towards its objectives through a continuing cycle of planning, implementation, comparison and improvement.

Quick Tip to Solve: Organise this answer around standards, implementation and feedback, then explain why both functions look forward as well as backward.

OR

28(b). Briefly explain the importance of Controlling. [6 marks]

Solution:

Concept:

- Controlling compares actual performance with planned standards, identifies deviations and initiates corrective action so that organisational activities remain directed towards objectives.
- Its importance extends beyond detecting mistakes: it tests the quality of standards, improves resource use, motivates employees and integrates the work of different departments.

Step 1: Explain how control supports goals and standards

- **Accomplishing organisational goals:** Controlling measures progress towards the organisation's objectives. By revealing deviations from the plan and arranging corrective action, it brings activities back on course. For example, when output falls below the production target, management can identify and remove the cause rather than allowing the shortfall to continue.
- **Judging the accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and appropriate. Changes in the organisation or its environment may make an earlier standard unrealistic. Reviewing actual results helps management reconsider such standards while making future plans.

Step 2: Explain how control improves resources and employee effort

- **Making efficient use of resources:** Performance is assessed against predetermined standards, and activities are carried out according to established norms. This helps reduce wastage and spoilage and ensures that human, material and financial resources are used effectively in pursuing objectives.
- **Improving employee motivation:** Employees know the standards against which their work

will be evaluated. Clear expectations help them direct their effort appropriately. Performance appraisal based on these standards also provides a basis for recognising and rewarding good work, encouraging employees to improve.

Step 3: Explain how control maintains order and coordination

- **Ensuring order and discipline:** Control systems establish checks on employee behaviour and activities. They help detect and prevent dishonest practices, misuse of resources and other undesirable conduct, thereby supporting an orderly and disciplined working environment.
- **Facilitating coordination in action:** Every department and employee works towards predetermined standards linked with organisational objectives. Control checks whether their efforts are consistent with these objectives and with one another. Corrective action helps align different activities and departments, so that their combined work supports the common goal.

Step 4: Conclusion Controlling is important because it helps accomplish goals, assess standards, use resources efficiently, motivate employees, maintain discipline and coordinate action. It converts performance information into corrective action and keeps organisational effort directed towards planned objectives.

Quick Tip to Solve: Recall the six headings as goals, standards, resources, motivation, discipline and coordination; explain the benefit under each instead of merely listing the headings.

29(a). Explain any four functions of 'Financial-Market'. [6 marks]

Solution:

Concept:

- A financial market facilitates the creation and exchange of financial assets. It connects households and other savers supplying funds with businesses and other users requiring funds.
- The four main functions are mobilising savings and channelling them into productive uses, facilitating price discovery, providing liquidity to financial assets and reducing transaction costs.

Step 1: Explain the mobilisation of savings and price discovery

- **Mobilisation of savings and channelling them into the most productive uses:** A financial market brings together people with surplus funds and those who need funds. It offers savers different investment opportunities and transfers their savings to borrowers and business enterprises. Funds can thereby be directed towards productive investment instead of remaining idle. This transfer supports capital formation and the productive use of savings in the economy.
- **Facilitating price discovery:** The interaction between the demand for and supply of funds helps establish the prices of financial assets. Households represent the supply of funds, while business firms represent their demand. Buyers and sellers interact in the financial market, and their demand and supply help determine the prices at which securities are traded. Thus prices emerge through market forces rather than being selected arbitrarily by an individual investor.

Step 2: Explain liquidity and lower transaction costs

- **Providing liquidity to financial assets:** Financial markets provide a mechanism for purchasing

and selling financial assets. Investors can sell their securities and convert their investment into cash when funds are needed. This marketability makes it easier to commit savings to financial assets because the investor has an opportunity to exit the investment through the market. Liquidity is the ease of conversion into cash; it does not mean that the original purchase price or a profit is guaranteed.

- **Reducing the cost of transactions:** Financial markets provide useful information about securities being traded, including their prices and the availability of buyers and sellers. This saves investors and issuers the time, effort and expense of finding one another separately and collecting information independently. By providing a common mechanism for exchange, the market reduces the costs involved in purchasing and selling financial assets.

Step 3: Conclusion Financial markets perform four major functions: they mobilise savings for productive investment, help discover the prices of financial assets, provide liquidity through buying and selling facilities, and reduce the costs of financial transactions. Together these functions improve the flow of funds between savers and users of funds.

Quick Tip to Solve: Use the sequence savings, price, liquidity and cost. For each heading, state what the market does and explain the resulting benefit to savers or users of funds.

OR

29(b). Explain any four functions of 'Stock Exchange'. [6 marks]

Solution:

Concept:

- A stock exchange is an institution that provides a platform for the purchase and sale of existing securities under established rules and regulations.
- Its functions include giving investors liquidity, determining security prices, promoting safe dealings and helping savings flow into productive investment.

Step 1: Explain liquidity and marketability of securities **Providing liquidity and marketability to existing securities:** A stock exchange creates a continuous market in which investors can sell securities they already hold and buy other securities. A person who needs money can transfer an investment to another investor instead of waiting for the issuing company to repay the capital. Thus, the investment can be converted into cash through the market, subject to the availability of buyers and prevailing prices. This facility makes securities more marketable and encourages people to invest their savings in them.

Step 2: Explain how security prices are determined **Pricing of securities:** Buyers and sellers place their orders on the exchange, and the forces of demand and supply determine the prices of securities. Demand and supply reflect information about a company's earnings, future prospects and the general economic environment. The resulting quoted prices provide a continuing valuation of securities. Investors can use these prices to judge the value of their holdings and make purchase or sale decisions; companies also obtain useful information about the market's assessment of their securities.

Step 3: Explain safety in transactions **Safety of transactions:** Dealings take place within a defined

legal framework and according to the exchange's rules. The exchange admits eligible securities and prescribes procedures for trading and settlement, while the securities market operates under regulatory supervision. Such arrangements promote fair dealing, compliance and protection of investors' interests. Safety here concerns the regulated process of dealing: it does not mean that an investor is guaranteed a profit or protected against a fall in the market price of a security.

Step 4: Explain the contribution to economic growth **Contributing to economic growth:** Through trading, securities of different companies are continuously compared and valued. Investors tend to direct their funds towards enterprises offering better prospects, so the market helps allocate savings to productive uses. The ability to sell an existing investment also makes people more willing to provide capital to enterprises in the first place. Although an ordinary secondary-market sale transfers money between investors rather than directly to the issuing company, an active exchange supports capital formation and the growth of the economy.

Step 5: Conclusion Four functions of a stock exchange are providing liquidity and marketability to existing securities, pricing securities through demand and supply, ensuring a regulated and safer transaction process, and contributing to economic growth through better allocation of savings.

Quick Tip to Solve: Link each function to a distinct purpose: easy resale, price discovery, regulated dealing and productive allocation of savings. Explain how the exchange achieves each purpose.

30(a). Consumer products are classified on different basis. 'Shopping Efforts Involved' is one of them. Explain any three types of products in this category. [6 marks]

Solution:

Concept:

- Consumer products are products bought by ultimate consumers for personal use. On the basis of shopping effort, they are classified as convenience, shopping and speciality products.
- This classification considers the time and effort a buyer spends locating a product, comparing alternatives and deciding what to purchase, rather than the product's durability or industrial use.

Step 1: Explain convenience products **Convenience products:** These are consumer products purchased frequently, immediately and with minimum time and effort. Buyers generally know what they want and do not make extensive comparisons of price, quality or suitability before each purchase. Such products usually have a low unit price, and a consumer is normally unwilling to travel far to obtain them. Hence, they need to be readily available through many retail outlets. Bread, milk and common toiletries are examples. Their defining feature is the buyer's small shopping effort, rather than merely the fact that the products are inexpensive.

Step 2: Explain shopping products **Shopping products:** These are products for which buyers devote considerable time and effort to gathering information and comparing alternatives before purchase. The comparison may concern quality, price, style, features and suitability. Purchases are generally less frequent than those of convenience products, and the unit price is often higher. For example, a buyer may visit several shops or compare different models before selecting furniture, clothing or a television. Since consumers actively compare offers, the seller needs to communicate the product's

features and value and provide assistance in making a suitable choice.

Step 3: Explain speciality products **Speciality products:** These possess special characteristics or a particular brand identification for which buyers are willing to make a special purchasing effort. The consumer has a strong preference for the desired product and generally does not treat other brands as close substitutes. The effort therefore goes into locating and obtaining that specific product, rather than into comparing a wide range of acceptable alternatives. A buyer seeking a particular high-end camera model or a distinctive branded designer garment may travel to a distant authorised outlet to obtain it. Strong brand loyalty and limited availability are often associated with such products.

Step 4: Conclusion The three types are convenience products, bought with minimum effort; shopping products, bought after comparing alternatives; and speciality products, for which buyers make a special effort to obtain a specifically desired product or brand.

Quick Tip to Solve: Distinguish the buyer's purpose: convenience means quick purchase, shopping means comparison, and speciality means searching for a particular preferred product.

OR

30(b). Choice of channels of distribution depends on various factors. Explain any four factors which affect the choice of channels of distribution. [6 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the final consumer. A direct channel has no intermediary, while indirect channels use intermediaries such as wholesalers and retailers.
- The choice of a suitable channel depends on the product, the producer and the market. The channel should make the product available conveniently while balancing distribution cost, service and control.

Step 1: Examine the product **Product-related factors:** The nature, unit value, perishability and technical complexity of the product influence channel length. Perishable products, such as fresh fruit, normally require a short channel so that delay and spoilage are reduced. Technical products needing installation, demonstrations or after-sales service also favour direct selling or specialised dealers. Expensive products can justify direct contact with buyers, whereas low-priced, standardised consumer goods usually need a wider network of intermediaries. Bulky products tend to favour shorter routes to reduce repeated handling and transportation costs.

Step 2: Assess the company's resources and desired control **Company characteristics:** A financially strong company can establish its own sales force, showrooms and distribution facilities and can therefore use a shorter or direct channel. A company with limited funds may depend on intermediaries who perform selling and distribution functions. The degree of control desired also matters: direct selling gives the producer greater control over prices, selling methods and customer service, whereas using independent intermediaries reduces that control. Thus, the producer must compare the resources needed for its own distribution system with the control it wishes to retain.

Step 3: Consider competitors' distribution arrangements **Competitive factors:** The channels used by competing firms are another influence. A producer may select the same type of outlets as competitors so that customers can find its product where they already shop and compare alternatives. In other circumstances it may deliberately choose a different channel to distinguish its offering or avoid direct competition in the same outlets. For example, a firm may emphasise direct selling instead of relying on the retail network commonly used in its industry. The decision depends on which arrangement better serves its competitive strategy.

Step 4: Study the customers and their buying pattern **Market factors:** The number and geographical concentration of buyers, their purchasing quantities and buying habits affect channel selection. A small number of buyers concentrated in one area can be served directly and economically. Numerous buyers scattered over a large geographical area generally require wholesalers and retailers to provide market coverage. Large orders can justify direct selling, whereas frequent purchases in small quantities usually favour retail outlets. The channel must therefore match how conveniently customers expect to obtain the product.

Step 5: Conclusion Four factors affecting the choice of channels are product-related factors, company characteristics, competitive factors and market factors. Their combined effect determines the suitable number and type of intermediaries; no single channel is suitable for every product and firm.

Quick Tip to Solve: For each factor, connect its characteristic to a channel decision: perishable goods need speed, limited company funds favour intermediaries, and scattered buyers require wider coverage.