CBSE Class 12 Business Studies Question Paper 2012 with Solution PDF-Set 66/2/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) Answers to questions carrying 1 mark may be from **one word** to **one sentence**.

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

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

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

(v) Attempt all parts of a question together.

1. Name the type of plan which provides the prescribed ways in which a task has to be performed considering the objective. [1 mark]

Solution:

Concept:

- Methods are standing plans that prescribe how a task is to be performed to achieve an objective.
- A method specifies the standard way of carrying out an activity; a procedure specifies a sequence of activities.

Step 1: Identify the clue The words "prescribed ways in which a task has to be performed describe the manner of doing a particular task, rather than a general guide to decision-making.

Step 2: Name the plan The plan is a method. For example, a business may prescribe a particular method for valuing stock or training workers so that the task is performed consistently.

Step 3: Conclusion The type of plan is a **method**.

Quick Tip to Solve: Associate "how to do a task with method; associate "sequence of steps with procedure.

2. How is planning a pervasive function ? State. [1 mark]

Solution:

Concept:

- Planning is a basic function performed throughout an organisation.
- Pervasiveness means that planning is required at every level of management and in every department.

Step 1: Explain its reach Top, middle and supervisory managers all decide in advance what is to be done. Production, finance, marketing and personnel departments also need plans for their activities.

Step 2: Distinguish the scope The scope differs: top management makes broad organisational plans, while lower levels make detailed operational plans. This difference in scope does not remove the need to plan at any level.

Step 3: Conclusion Planning is pervasive because it is required at **all levels of management and in all departments** of an organisation.

Quick Tip to Solve: For a question on pervasiveness, mention both management levels and functional departments.

3. Identify the nature of management when a manager applies the existing theoretical knowledge in his own unique manner. [1 mark]

Solution:

Concept:

- Art involves the personal and skilful application of existing theoretical knowledge to achieve desired results.
- Managers use their experience, creativity and judgement, so their manner of applying the same knowledge can differ.

Step 1: Read the identifying words The manager applies existing theoretical knowledge in his "own unique manner. The clue emphasises personalised application rather than the mere existence of a body of knowledge.

Step 2: Identify the nature This is management as an art. Like other artists, a manager uses knowledge creatively in a particular situation, and improves the skill through practice and experience.

Step 3: Conclusion The statement identifies **management as an art**.

Quick Tip to Solve: "Unique manner, creativity and personal skill point to art; a systematic body of knowledge points to science.

4. At which level of management are the managers responsible for maintaining the quality of output and the safety standards ? [1 mark]

Solution:

Concept:

- Supervisory or operational management directly oversees the work of the operating workforce.
- Supervisors are concerned with day-to-day execution, quality of output, minimising wastage and maintaining safety standards.

Step 1: Relate the duties to operations Maintaining output quality and safety requires close observation of workers, machines and the actual production process. These duties arise where the work is carried out.

Step 2: Identify the level Supervisory or lower-level managers guide and supervise workers directly. They ensure that operating instructions are followed and that the required quality and safety standards are maintained.

Step 3: Conclusion These responsibilities belong to **supervisory (lower-level or operational) management**.

Quick Tip to Solve: Link direct supervision, output quality and worker safety with the supervisory level.

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

Solution:

Concept:

- Performance appraisal is a step in staffing concerned with evaluating an employee's performance.
- Actual performance is compared with predetermined standards, and the assessment is communicated to the employee.

Step 1: Identify what is assessed The organisation reviews how effectively an employee has carried out the assigned job during the relevant period. The focus is job performance rather than only personal impressions.

Step 2: State the basis of evaluation The employee's actual performance is evaluated against established standards. Communicating the assessment provides feedback on strengths and areas requiring improvement.

Step 3: Conclusion Performance appraisal means **evaluating an employee's actual performance against predetermined standards and communicating the assessment to the employee**.

Quick Tip to Solve: An appraisal definition should include actual performance, standards and feedback to the employee.

6. Define 'motivation'. [1 mark]

Solution:

Concept:

- Motivation is the process of stimulating people to act in a desired manner.
- In management, it encourages employees to work towards the achievement of organisational goals.

Step 1: Identify the process A manager seeks to stimulate the willingness of employees to act. Motivation concerns the inner drive that leads a person to put effort into an activity.

Step 2: Connect it with the desired result The stimulation is directed towards desired actions and organisational goals. Suitable incentives and attention to employee needs can encourage this willingness to perform.

Step 3: Conclusion Motivation is **the process of stimulating people to action to accomplish desired goals**.

Quick Tip to Solve: Use "stimulating people to action as the core phrase, and connect the action to desired goals.

7. State any one objective of setting up of Securities and Exchange Board of India (SEBI). [1 mark]

Solution:

Concept:

- The Securities and Exchange Board of India regulates the securities market.
- One of its objectives is to protect investors' interests, particularly against unfair practices in the securities market.

Step 1: Select one objective The question asks for any one objective. Investor protection is a recognised objective of SEBI, alongside regulation and development of the securities market.

Step 2: Explain the objective briefly SEBI seeks to protect investors against practices such as fraud and misleading information. Protecting their interests helps them participate in the securities market with greater confidence.

Step 3: Conclusion One objective of SEBI is **to protect the interests of investors in the securities market**.

Quick Tip to Solve: For "any one objective, state a clear objective such as investor protection rather than listing regulatory activities.

8. What is meant by 'Financial Market' ? [1 mark]

Solution:

Concept:

- A financial market facilitates the creation and exchange of financial assets.
- It links savers who supply funds with investors or borrowers who require funds.

Step 1: Identify what is exchanged Financial markets deal in financial assets, such as shares, debentures and other securities. They allow claims on funds to be created or transferred between participants.

Step 2: Explain the link between participants Through these markets, savings can move from people with surplus funds to those needing funds for investment. The term market refers to this arrangement and need not mean a single physical place.

Step 3: Conclusion A financial market is **a market for the creation and exchange of financial assets**.

Quick Tip to Solve: Remember both "creation and "exchange; a financial market covers new issues as well as trading in existing assets.

9. How does the 'Government' protect the interests of consumers ? State. [1 mark]

Solution:

Concept:

- Consumer Protection: the government safeguards consumers through legislation and machinery for enforcing consumer rights.
- Legal protection makes businesses answerable for unfair practices and provides remedies for defective goods or deficient services.

Step 1: Identify the government's role The government enacts laws to protect consumer interests, such as the Consumer Protection Act, 1986, which provides safeguards against exploitation.

Step 2: State how protection is enforced It establishes consumer redressal agencies where consumers can seek relief for defective goods, deficient services and unfair trade practices. Thus legal rights are supported by a mechanism for obtaining remedies.

Step 3: Conclusion The government protects consumers by enacting consumer-protection laws and establishing consumer redressal machinery to enforce their rights.

Quick Tip to Solve: For the government's role, connect consumer-protection legislation with the machinery that provides redressal.

10. Give any one responsibility of a consumer in addition to obtaining a cash memo while purchasing an edible oil. [1 mark]

Solution:

Concept:

- Consumer Protection: an informed consumer checks the quality and safety of a product before purchasing it.
- Checking recognised quality certification is a responsibility distinct from obtaining a cash memo.

Step 1: Identify the relevant responsibility While purchasing edible oil, the consumer should check that the product bears the AGMARK certification mark, wherever applicable, as an indication of certified quality.

Step 2: Apply it before buying The consumer should inspect the package for the quality mark rather than choosing the oil only on the basis of price or an advertisement. This helps the consumer select a quality-certified food product; keeping a bill serves a separate purpose as proof of purchase.

Step 3: Conclusion One responsibility is to check for the AGMARK quality certification mark on the edible-oil package before purchasing it.

Quick Tip to Solve: Match the quality mark to the product: AGMARK relates to agricultural and food products such as edible oil.

11. Explain how principles of management :

(i) help in optimum utilization of resources and effective administration and

(ii) help in thoughtful decision making. [3 marks]

Solution:

Concept:

- Principles of Management: principles are broad guidelines for managerial decisions and behaviour, developed through observation and experience.
- Their significance includes optimum resource utilisation, effective administration and thoughtful decision making; they are applied according to the situation.

Step 1: Explain optimum utilisation of resources **Optimum utilisation of resources:** Management principles help managers obtain the maximum possible benefit from available human and material resources. They guide the appropriate allocation of work and avoidance of waste, helping achieve organisational objectives at minimum cost. For example, division of work develops employee specialisation and improves efficiency.

Step 2: Explain effective administration **Effective administration:** Principles help managers make their actions systematic and coordinated. Clear authority, responsibility and discipline establish a more orderly working environment. Managers can understand the likely effects of their decisions and administer the organisation more effectively, rather than relying on personal whims.

Step 3: Explain thoughtful decision making **Thoughtful decision making:** Management principles emphasise logic and reason instead of blind faith. They provide a useful basis for weighing alternatives and assessing the consequences of a decision. A manager considers the relevant facts and the circumstances before applying a principle, because principles are flexible guides rather than rigid rules. Decisions consequently become more balanced, realistic and free from personal prejudice.

Step 4: Conclusion Management principles reduce resource waste and support systematic administration. They also guide reasoned, situation-based decisions instead of arbitrary actions.

Quick Tip to Solve: Separate the resource benefit from the decision benefit: efficiency concerns using inputs well; thoughtful decisions concern logic and facts.

12. Define 'Training' and 'Development'. [3 marks]

Solution:

Concept:

- Staffing: training and development improve employees' capabilities, but differ in their immediate purpose and breadth.
- Training relates primarily to the skills required for a specific job; development concerns the overall growth and future capability of an employee.

Step 1: Define training **Training:** Training is the process of increasing an employee's knowledge, skills and abilities for performing a particular job effectively. It is job-oriented and aims to improve performance in present duties. For example, teaching a newly appointed machine operator how to

operate a specific machine safely is training. The learning has a direct connection with the work the employee must carry out.

Step 2: Define development **Development:** Development is the learning process that brings about an employee's overall growth and enables the employee to take up greater responsibilities in the future. It extends beyond the technical requirements of a particular current job and may improve understanding, judgement, attitudes and leadership ability. For example, broadening a manager's decision-making and leadership abilities prepares that person for more demanding roles.

Step 3: Clarify the difference in scope Training therefore has a relatively narrow, job-specific focus, whereas development has a broader focus on the individual's long-term growth. Both form part of improving the human resources of an organisation, and they complement each other rather than being competing activities.

Step 4: Conclusion Training increases knowledge and skills for a specific job; development promotes the employee's overall growth and capacity for future responsibilities.

Quick Tip to Solve: Use the cues "present job skills" for training and "overall growth and future responsibilities" for development.

13. What is meant by 'Capital Structure' of a company ? State any two factors which affect the capital structure of a company. [3 marks]

Solution:

Concept:

- Financial Management: capital structure refers to the mix of owners' funds and borrowed funds used to finance a company.
- Debt creates fixed commitments for interest and repayment; choosing the debt-equity mix therefore requires attention to the company's ability to meet those commitments.

Step 1: Define capital structure **Meaning:** Capital structure is the proportion of debt and equity in the total capital of a company. Equity includes owners' funds, while debt represents borrowed funds such as debentures and long-term loans. The financing decision determines the appropriate combination of these sources rather than merely the total amount of funds needed.

Step 2: State the cash-flow factor **Cash-flow position:** Debt requires payment of interest and repayment of principal at specified times. A company with strong and stable cash flows can generally employ more debt because it can meet these fixed financial obligations. A company with weak or uncertain cash flows should rely more on equity to avoid the danger of default.

Step 3: State the return-on-investment factor **Return on investment (ROI):** When the company's ROI exceeds the cost of debt, using debt can increase the earnings available to equity shareholders through favourable financial leverage. If ROI is lower than the cost of debt, debt may reduce the return to shareholders. Thus a company should consider the relationship between expected ROI and the interest cost when choosing its financing mix.

Step 4: Conclusion Capital structure is a company's debt-equity mix. Two factors affecting it are its

cash-flow position and its return on investment relative to the cost of debt.

Quick Tip to Solve: For each factor, state its effect on debt: stable cash flows support debt, while favourable leverage requires ROI above the debt cost.

14. Jasdeep, a dealer in school uniforms, decided to maximise his profit by using different aggressive promotional efforts.

(i) Identify the market management philosophy adopted by Jasdeep.

(ii) Explain this philosophy on the basis of

(a) Main Focus

(b) Means and Ends [3 marks]

Solution:

Concept:

- The selling concept assumes that customers will not buy enough unless the business undertakes substantial selling and promotional effort.
- Its starting point is the existing product, and its objective is profit through a larger volume of sales.

Step 1: Identify the philosophy from the case Jasdeep adopts the **selling concept**. The clue is his decision to maximise profit by using 'different aggressive promotional efforts'. He seeks to persuade customers to buy the uniforms rather than starting by investigating their needs.

Step 2: Explain the main focus **Main focus:** The focus is on the existing product and selling what the firm has already produced or stocked. Thus, Jasdeep concentrates on increasing sales of his school uniforms. The approach stresses converting available products into cash rather than designing an offering around identified customer needs.

Step 3: Explain the means and the end **Means:** Aggressive selling and promotional efforts, such as persuasive advertising and sales promotion, stimulate purchases. **End:** These efforts aim at earning profit through an increased sales volume. In this approach, a larger quantity sold is the route to higher profit; customer satisfaction is not its starting point.

Step 4: Conclusion The philosophy is the selling concept: its focus is existing products, its means are aggressive selling and promotion, and its end is profit through increased sales volume.

Quick Tip to Solve: When a case stresses aggressive promotion to sell existing goods, identify the selling concept; when it starts with customer needs, consider the marketing concept.

15. Describe any three points which explain the role of supervision in management. [3 marks]

Solution:

Concept:

- Supervision means overseeing subordinates at work and guiding their efforts towards the effective performance of assigned tasks.

- As an element of directing, supervision connects managerial plans with the employees who carry out the work.

Step 1: Explain the link between workers and management **Link between workers and management:** A supervisor communicates management's plans, policies and instructions to workers in a form they can understand. The supervisor also conveys workers' suggestions, grievances and difficulties to management. This two-way link promotes understanding and helps avoid misunderstandings that could obstruct work.

Step 2: Explain how supervision maintains group unity **Maintains group unity:** A supervisor remains in direct contact with workers, notices disagreements and helps settle conflicts. By encouraging cooperation and discouraging friction, the supervisor helps employees work as a team. This directs their collective effort towards organisational goals instead of allowing personal differences to disrupt performance.

Step 3: Explain how supervision improves performance **Ensures performance of work:** The supervisor guides workers, checks progress against assigned targets and gives corrective instructions when needed. Continuous oversight helps detect mistakes early and ensures that employees carry out their duties effectively. Guidance at the point of work also helps workers use the proper methods rather than repeat avoidable errors.

Step 4: Conclusion Supervision supports management by linking workers with management, maintaining unity within the work group, and ensuring effective performance of assigned work.

Quick Tip to Solve: For each role of supervision, name the role and explain how the supervisor's direct contact with workers makes it possible.

16. Explain the technique of scientific management which separates the planning and execution work. [4 marks]

Solution:

Concept:

- Taylor's functional foremanship is a technique of scientific management based on the division of supervisory work among specialist foremen.
- It separates planning from execution so that specialists plan how work should be done while other specialists supervise its actual performance.

Step 1: Identify functional foremanship The technique is **functional foremanship**. Taylor recognised that one foreman might not possess all the qualities and specialised knowledge required to supervise every aspect of production. He therefore divided supervisory responsibilities among specialists. Under this arrangement a worker receives instructions from different foremen for their respective specialised functions.

Step 2: Explain the planning specialists **Planning department:** Four specialists plan the work. The **instruction card clerk** prepares instructions for performing the job. The **route clerk** specifies the sequence or route of operations. The **time and cost clerk** determines the time required and the relevant cost information. The **disciplinarian** ensures observance of rules and discipline. Together

they determine how work should be organised before execution.

Step 3: Explain the execution specialists **Production department:** Four specialists supervise execution. The **gang boss** keeps machines, materials and tools ready for operation. The **speed boss** ensures that work proceeds at the proper speed and with suitable methods. The **repair boss** keeps machinery and tools in working condition. The **inspector** checks the quality of the work produced. Each oversees a defined aspect of actual production.

Step 4: State the benefit of the separation **Specialisation and efficiency:** Planning specialists can concentrate on deciding the method, sequence, time and cost of work, while production specialists concentrate on carrying it out correctly. This division provides workers with expert guidance and makes supervisory responsibilities more specific, supporting efficient production.

Step 5: Conclusion Functional foremanship separates planning and execution through two groups of four specialist foremen, providing specialised supervision of both the preparation and performance of work.

Quick Tip to Solve: Remember two groups: planning uses instruction, route, time-and-cost and discipline; execution uses gang, speed, repair and inspection.

17. Define organising 'as a process' and 'as a structure'. [4 marks]

Solution:

Concept:

- Organising is the management function that arranges work, people and resources to implement plans and achieve organisational objectives.
- Organising as a process describes the managerial activities that create an organisation; organising as a structure describes the resulting framework of jobs and authority relationships.

Step 1: Define organising as a process **As a process:** Organising is the process of identifying and dividing the work to be performed, grouping related activities, assigning duties to individuals and establishing authority and reporting relationships among them so that organisational objectives can be achieved efficiently.

The manager first identifies the activities required by the plan and divides them into manageable jobs. Similar jobs are grouped into departments. Duties are then allocated according to people's abilities, with suitable authority and clear accountability. Establishing who reports to whom coordinates these separate efforts. Thus, the process converts a plan into an arrangement through which people can actually carry it out.

Step 2: Define organising as a structure **As a structure:** Organising refers to the framework of jobs, positions, departments and formal authority relationships within which managerial and operating tasks are performed. This framework specifies the duties attached to each position and the authority, responsibility and reporting relationships connecting different positions.

For example, a production department and a sales department may each report to the general manager. The arrangement indicates how their activities are linked and where responsibility lies. The structure is therefore the outcome of the organising process: it provides a definite pattern for dividing, grouping

and coordinating work, rather than merely a list of employees or a physical office layout.

Step 3: Conclusion Organising as a process is the sequence of activities that arranges work and establishes relationships. As a structure, it is the resulting framework of positions, duties and authority relationships through which people work towards common objectives.

Quick Tip to Solve: Use action words such as identify, group, assign and establish for the process; use jobs, positions and authority relationships for the structure.

18. How do 'Choice of Technique' and 'Nature of Business' affect the 'Fixed Capital' requirements of a company ? Explain. [4 marks]

Solution:

Concept:

- Fixed capital means funds invested in fixed assets such as land, buildings, plant and machinery, which support business operations over a long period.
- The amount required depends on the assets needed to carry out the firm's activities. The production technique and the nature of the business therefore influence fixed capital investment.

Step 1: Explain the effect of choice of technique **Capital-intensive technique:** A company that relies heavily on machinery, automated equipment and advanced production systems requires a larger investment in fixed assets. Its fixed capital requirement is therefore higher because machines and plant must be acquired before production can take place.

Labour-intensive technique: A company using more human labour and relatively less machinery generally needs a smaller investment in plant and equipment. Its fixed capital requirement is consequently lower. For example, mechanised production calls for more fixed capital than comparable production using largely manual methods. The comparison concerns the long-term asset investment, rather than the wages paid to workers during routine operations.

Step 2: Explain the effect of nature of business **Manufacturing business:** A manufacturing company transforms inputs into finished goods and ordinarily needs a factory, production plant, machinery and other equipment. It therefore requires relatively large amounts of fixed capital to establish and operate these production facilities.

Trading business: A trading company purchases and sells finished goods without manufacturing them. It generally needs fewer production-related fixed assets and hence requires less fixed capital than a manufacturing concern of comparable scale. It may still invest in premises, storage and office equipment, but it does not usually need an extensive manufacturing plant. Thus the activities the company undertakes determine the type and volume of fixed assets needed.

Step 3: Conclusion Capital-intensive production raises fixed capital requirements, while labour-intensive production lowers them. Manufacturing generally needs more fixed capital than trading because manufacturing requires substantial investment in production facilities and machinery.

Quick Tip to Solve: For each factor, identify which alternative needs more long-term physical assets, then explain why that raises fixed capital requirements.

19. Explain the following 'Rights of Consumers' :

(a) Right to be Heard

(b) Right to Consumer Education [4 marks]

Solution:

Concept:

- Consumer rights protect buyers against unfair trade practices and enable them to obtain fair treatment in the market.
- The right to be heard gives consumers a voice in matters affecting their interests; consumer education gives them the knowledge to use their rights responsibly.

Step 1: Explain the right to be heard **Representation of consumer interests:** A consumer has the right to be heard and to be assured that consumer interests receive due consideration at appropriate forums. A buyer's views and complaints must receive attention rather than being ignored simply because the seller is economically stronger.

Opportunity to complain: A dissatisfied consumer may raise a complaint about a defective product, deficient service or unfair practice. Businesses should provide complaint mechanisms and grievance cells, while consumer organisations can represent consumer interests. Where necessary, the consumer can approach the appropriate consumer dispute redressal agency. The right ensures an opportunity to present the grievance; it does not mean that every complaint automatically succeeds.

Step 2: Explain the right to consumer education **Knowledge of rights and remedies:** A consumer has the right to acquire the knowledge and skills needed to be an informed consumer throughout life. This includes awareness of consumer rights, responsibilities, available remedies and the procedure for seeking relief.

Ability to make informed choices: Consumer education enables buyers to examine product information, compare alternatives, recognise quality marks, insist on bills and resist exploitation. Educational institutions, consumer organisations, the government and the media can spread this awareness. An educated consumer is better able both to prevent unfair treatment and to act effectively if a problem arises.

Step 3: Conclusion The right to be heard ensures that consumer grievances and interests receive consideration. The right to consumer education equips consumers with the awareness and skills to make informed purchases and exercise their rights.

Quick Tip to Solve: Link "heard" with presenting a grievance, and "education" with learning how to buy wisely and seek a remedy; explain each separately.

20. Ramesh is working under the guidance of Harish, a carpenter, for the last three years to learn the different skills of this job.

Name and explain the method of training Ramesh is undergoing. [4 marks]

Solution:

Concept:

- Staffing includes training employees to develop the knowledge and practical skills required for their work.
- Apprenticeship training is an on-the-job method in which a trainee learns a skilled trade by working under the guidance of an experienced master worker for a prescribed period.

Step 1: Identify the training method from the case The method is **apprenticeship training**. The words "under the guidance of Harish, a carpenter" show that Ramesh is learning directly from a skilled and experienced worker. The phrase "for the last three years" indicates sustained training in a trade rather than a brief introduction to the workplace. Carpentry requires practical mastery of tools and techniques, so this guided learning fits apprenticeship training.

Step 2: Explain how apprenticeship training works **Learning under a master worker:** The trainee works with an experienced person who demonstrates the correct methods, supervises practice and corrects mistakes. In this case, Harish guides Ramesh in acquiring the different skills of carpentry.

A prescribed training period: Apprenticeship generally extends over a specified period so that the learner can acquire the range of skills needed for a skilled occupation. It is used for trades such as carpentry, plumbing and electrical work, where proficiency cannot be developed merely by listening to a lecture.

Practical skill development: The trainee learns while actually doing the work. Repeated supervised practice develops accuracy, confidence and independent competence. Relevant theoretical instruction may supplement this practical experience, but guidance in the real work setting is central to the method.

Step 3: Conclusion Ramesh is undergoing apprenticeship training: he is learning the skilled trade of carpentry through prolonged practical work under the supervision and guidance of Harish, an experienced carpenter.

Quick Tip to Solve: When a case combines a skilled trade, a master worker and an extended learning period, identify apprenticeship training and connect each clue to the method.

21. What is meant by 'Co-ordination' ? Explain any two points of its importance in management.

[5 marks]

Solution:

Concept:

- Co-ordination is the process of integrating the efforts of different individuals and departments to achieve organisational objectives efficiently.
- It brings unity of action by linking activities that are performed by different people but contribute

to a common purpose. It is the essence of management and runs through all managerial functions.

Step 1: Explain the meaning of co-ordination Co-ordination means orderly arrangement and integration of group efforts so that people work together harmoniously towards common objectives. It ensures that activities are performed in the right sequence and at the right time, without unnecessary duplication or conflict. For example, production and sales must act together: the production department must make the goods that the sales department has undertaken to supply. Individual efforts then become a unified organisational effort rather than unrelated departmental actions.

Step 2: Explain its importance as the organisation grows **Growth in size:** As an organisation grows, the number of employees and the volume of its activities increase. Different individuals have different backgrounds, interests, attitudes and ways of working. Their personal objectives may not automatically agree with the organisation's objectives. Co-ordination integrates their efforts and reconciles individual goals with organisational goals. It helps employees recognise their contribution to the common purpose, so that the larger workforce works as a team rather than pursuing conflicting priorities.

Step 3: Explain its importance in functional differentiation **Functional differentiation:** Work is divided among departments such as production, marketing, finance and personnel. Each department may concentrate on its own goals and overlook the organisation's overall interests. For instance, marketing may seek a wide product range while production prefers fewer varieties to reduce costs. Co-ordination links the interdependent activities of these departments, resolves conflicting demands and ensures that departmental plans support one another. It thereby produces unity of action and directs every department towards the overall objectives.

Step 4: Conclusion Co-ordination integrates individual and departmental efforts into a harmonious whole. It is especially important because organisational growth increases the number of people whose efforts must be united, while functional differentiation creates interdependent departments whose objectives must be reconciled.

Quick Tip to Solve: Define co-ordination through integration and unity of action; explain each importance point by showing the conflict it prevents.

22. Describe any five features of Business Environment. [5 marks]

Solution:

Concept:

- Business environment means the totality of external individuals, institutions and other forces that affect a business enterprise and its performance.
- These external forces include economic, social, technological, political and legal conditions. The business must understand their nature to adapt its decisions to changing conditions.

Step 1: Describe the totality of external forces **Totality of external forces:** Business environment is the aggregate of all forces outside the enterprise that influence its functioning. It includes customers, suppliers, competitors, government policies and wider social and economic conditions. Thus, it does not refer to one isolated influence; it includes the combined effect of the external surroundings within

which the business operates.

Step 2: Distinguish specific and general forces **Specific and general forces:** The environment contains both kinds of forces. Specific forces, such as customers, suppliers, investors and competitors, affect an individual enterprise directly and immediately in its day-to-day operations. General forces, such as economic, social, political, legal and technological conditions, affect enterprises more broadly. For example, a change in a supplier's delivery terms directly affects its buyer, whereas a change in interest rates influences businesses throughout the economy.

Step 3: Explain inter-relatedness **Inter-relatedness:** Different elements of the business environment are closely related. A change in one can lead to changes in others. For example, increased health consciousness in society raises demand for fitness products and services, creating business opportunities and encouraging related technological developments. Environmental elements must therefore be understood together rather than treated as completely independent influences.

Step 4: Explain the dynamic nature **Dynamic nature:** Business environment keeps changing because of changes in technology, consumer preferences, competition and government policies. An enterprise cannot assume that the conditions under which it operates today will remain the same. For example, the growth of online shopping changes customer expectations and the selling methods used by businesses, requiring enterprises to adapt their practices.

Step 5: Explain uncertainty **Uncertainty:** Future changes in the business environment cannot always be predicted accurately, particularly when changes are frequent or rapid. A business may anticipate broad trends but cannot know their exact timing or impact. For example, it may be difficult to forecast which new technology customers will adopt. Managers therefore need to monitor developments and prepare flexible responses instead of relying on a single certain forecast.

Step 6: Conclusion Five features of the business environment are the totality of external forces, the presence of specific and general forces, inter-relatedness, dynamic nature and uncertainty. Together, they explain why managers must continuously study external conditions and adapt business decisions.

Quick Tip to Solve: Use a separate heading for each feature and an example that demonstrates that feature, especially when distinguishing change from uncertainty.

23. Explain any three advantages and any two limitations of Planning. [5 marks]

Solution:

Concept:

- Planning means deciding in advance what to do, how to do it, when to do it and who will do it. It specifies objectives and the course of action for achieving them.
- Planning provides useful direction and standards, but its effectiveness is limited by rigidity and changes in the business environment.

Step 1: Explain three advantages of planning

- **Provides direction:** Planning clearly states the objectives to be achieved. Employees know what the organisation expects and what they must do, so their efforts move towards a common purpose

instead of being scattered among unrelated activities.

- **Reduces the risks of uncertainty:** Planning requires managers to look ahead, anticipate changes and consider their likely effects. They can prepare suitable responses to possible future situations. Planning cannot eliminate uncertainty, but it helps the organisation face it with greater preparedness.
- **Reduces overlapping and wasteful activities:** Plans coordinate the work of different departments and individuals. Clear duties and coordinated action reduce duplication, confusion and unnecessary effort, helping the organisation use its resources more efficiently.

Step 2: Explain two limitations of planning

- **Leads to rigidity:** A well-defined plan specifies the course of action and responsibilities in advance. Employees may have little freedom to depart from it, even when circumstances call for a different response. Strict adherence can therefore reduce flexibility.
- **May not work in a dynamic environment:** Business conditions change through economic policies, competition, technology and social developments. Plans are based on assumptions about the future; unexpected changes can make those assumptions and the resulting plans ineffective.

Step 3: Conclusion Planning gives direction, reduces the risks of uncertainty and prevents overlapping and wasteful activities. However, rigidity and a rapidly changing environment can restrict its effectiveness. Managers should therefore review plans as circumstances change.

Quick Tip to Solve: Keep advantages and limitations in separate groups: explain three benefits and two constraints, showing how each affects the organisation.

24. Identify the financial decision which determines the amount of profit earned to be distributed and to be retained in the business. Explain any four factors affecting this decision. [5 marks]

Solution:

Concept:

- The dividend decision concerns the proportion of earnings to distribute to shareholders and the proportion to retain in the business for future requirements.
- Retained earnings are a source of internal finance. Management balances shareholders' desire for current income with the funds needed for growth and financial stability.

Step 1: Identify the financial decision The decision is the **dividend decision**. The words "profit earned to be distributed and to be retained in the business" describe the division of earnings between dividends paid to shareholders and retained earnings kept by the company. It differs from an investment decision, which concerns the assets in which funds are invested, and a financing decision, which concerns the sources from which funds are raised.

Step 2: Explain four factors affecting the dividend decision

- **Amount of earnings:** Dividends are paid out of current and past earnings. A company with higher earnings has a greater capacity to distribute dividends, whereas low earnings restrict the amount available for distribution.

- **Stability of earnings:** A company with relatively stable earnings can commit to a higher dividend with greater confidence. A company whose earnings fluctuate is likely to retain more funds and be cautious about promising a dividend that it may be unable to maintain.
- **Growth opportunities:** A company with attractive expansion and investment opportunities generally needs more funds. It may retain a larger share of profits to finance these opportunities, reducing the proportion available for dividends. A company with fewer such requirements may distribute more.
- **Cash flow position:** A dividend payment involves an actual outflow of cash. Even a profitable company may be unable to pay a large dividend if its cash is tied up in inventories, receivables or other commitments. A sound cash flow position supports a higher dividend payment.

Step 3: Conclusion The financial decision is the dividend decision. The amount and stability of earnings, growth opportunities and cash flow position influence how much profit is paid to shareholders and how much is retained in the business.

Quick Tip to Solve: Identify dividend decisions by the split between distribution and retention; explain both the profit available and the cash or growth needs affecting that split.

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

Solution:

Concept:

- Marketing is a social and managerial process of satisfying customers' needs and wants through creating and exchanging products of value. It begins with understanding the market and continues after the sale.
- Selling is the narrower activity of persuading a buyer to purchase the firm's existing product. Selling is one part of marketing, rather than a substitute for the entire marketing process.

Step 1: Identify the scope of each activity Marketing takes the customer's needs as the starting point and coordinates the firm's activities to satisfy them profitably. Selling concentrates on transferring ownership of the product already produced. Therefore, the comparison must distinguish their approaches rather than treat advertising or salesmanship as the whole of marketing.

Step 2: Compare marketing and selling on five bases

Basis	Marketing	Selling
Starting point	Starts before production, with identification of customers' needs and wants in the target market.	Starts after production, with the product already available in the factory.
Focus	Focuses on customer satisfaction by developing an appropriate product and value offering.	Focuses on the product and on persuading buyers to purchase what the firm has made.
Scope	Has a broad scope: market research, product design, pricing, promotion, distribution and after-sales service.	Has a narrow scope: promotional and selling efforts that secure orders and transfer ownership.
Means	Uses integrated marketing efforts, coordinating product, price, place and promotion to serve customers.	Uses salesmanship and promotional techniques to stimulate demand for the existing product.
Objective	Seeks profits through customer satisfaction and the resulting continuing relationship with customers.	Seeks profits mainly through increasing the volume of sales.

Step 3: Conclusion Marketing and selling differ in their starting point, focus, scope, means and objective. Marketing coordinates the whole process of satisfying customers, while selling concentrates on converting the firm's products into sales.

Quick Tip to Solve: Remember the sequence: marketing begins with the market and customer needs; selling begins with an already manufactured product. Use the same basis for both columns.

26(a). What is meant by 'Decentralisation' ? Explain any four points of its importance. [6 marks]

Solution:

Concept:

- Decentralisation is the systematic delegation of authority throughout all levels of management and all departments of an organisation. It extends decision-making authority towards the levels where work is performed.
- Decentralisation is an organisational policy, going beyond an isolated act of delegation. Top management retains authority over major policy decisions and overall control, while lower levels receive suitable authority to act within their responsibilities.

Step 1: State the meaning of decentralisation **Meaning:** Decentralisation means a systematic effort to delegate to the lowest levels all authority except that which can be exercised only at central points. Consequently, managers at different levels can make decisions within their assigned areas instead of referring every matter to top management. It involves dispersal of decision-making authority, not the abandonment of overall managerial control.

Step 2: Explain four points of its importance

- **Develops initiative among subordinates:** When managers at lower levels are allowed to decide and act, they gain freedom to exercise judgement. They learn to rely on their own abilities, develop

confidence and accept responsibility for results. This encourages them to find solutions instead of waiting for instructions on every issue.

- **Develops managerial talent for the future:** Decentralisation gives subordinates practical experience in making decisions and handling challenging assignments. They discover their strengths and weaknesses through actual responsibility. This prepares a pool of capable managers who can take up more demanding positions as the organisation expands.
- **Facilitates quick decision-making:** Authority is placed closer to the point where action is required. Local managers understand the facts of their own operations and can respond without repeatedly sending proposals up the hierarchy. Fewer levels of approval reduce delays and help the organisation deal promptly with problems and opportunities.
- **Provides relief to top management:** Routine operating decisions are handled at lower levels, reducing the burden on senior executives. Top management can therefore concentrate on important policy matters, long-term planning, coordination and overall control. This allows senior managers to use their time on decisions affecting the organisation as a whole.

Step 3: Conclusion Decentralisation systematically distributes decision-making authority across the organisation. It develops initiative and future managerial talent, speeds up decisions and relieves top management of routine work, while retaining overall policy direction and control at the top.

Quick Tip to Solve: Link each benefit to authority moving downward: subordinates gain initiative and experience, local decisions become quicker, and senior managers gain time for strategic work.

OR

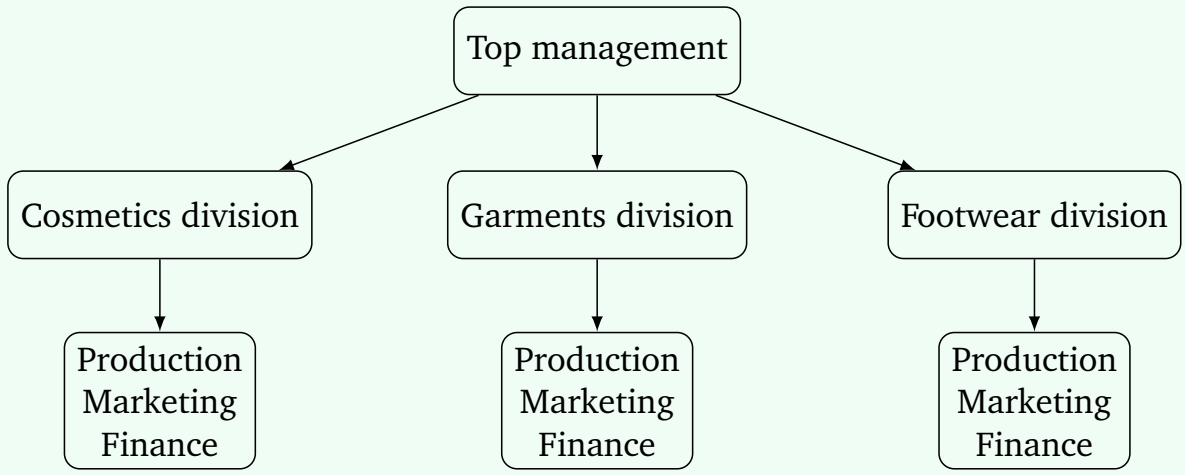
26(b). With the help of a diagram, give the meaning of 'Divisional Structure'. Explain any three advantages of this structure. [6 marks]

Solution:

Concept:

- A divisional structure groups activities on the basis of products or product lines. Each division is responsible for a distinct product and has the functions needed to carry on that product's business.
- It is suitable for a large enterprise producing several different products. A divisional head coordinates production, marketing, finance and other activities within the division, while top management coordinates the divisions.

Step 1: Define the structure and illustrate the grouping **Meaning:** Divisional structure is an organisational structure in which activities related to one product are grouped into a separate division. Each division functions as a relatively self-contained unit under a divisional manager and is accountable for its own results. For example, a diversified company may have separate cosmetics, garments and footwear divisions. Each division has its own production, marketing and finance departments. Thus the first grouping below top management is by product, rather than a single production department serving every product. The diagram illustrates this product-based arrangement; the product names are examples.



Illustrative divisional structure: grouping by product, then by function within each division

Step 2: Explain the development of managerial skills **Product specialisation and development:** The divisional head deals with several functions concerning a particular product, rather than handling only one specialised function for the whole enterprise. This experience develops varied managerial skills and prepares managers for higher positions. Because all activities of a product are under one divisional head, decisions and coordination concerning that product become easier.

Step 3: Explain accountability for performance **Fixing responsibility:** The revenues, costs and profits of each division can be identified separately. Therefore responsibility for poor divisional performance can be fixed, and suitable remedial action can be taken. Division heads are encouraged to improve efficiency and profitability because their own division's results can be assessed. This provides a clear basis for comparing the performance of different product divisions.

Step 4: Explain expansion and growth **Facilitating growth:** New products can be added as new divisions without seriously disturbing the existing product divisions. Each new division can establish the functional departments needed for its product, while existing divisions continue their operations. This flexibility makes expansion easier for an enterprise with a diversified range of products.

Step 5: Conclusion Divisional structure creates separate product-based units, each containing the necessary functions. Its advantages include developing managerial skills through product responsibility, making divisional performance accountable, and facilitating expansion through the addition of new divisions.

Quick Tip to Solve: In the diagram, place product divisions immediately below top management and repeat functional departments under each product. Reversing these levels would show a functional structure instead.

27(a). Giving the meaning of 'Communication', explain any four semantic barriers to communication.

[6 marks]

Solution:

Concept:

- Communication is the process of exchanging information, ideas, views and feelings between two or more persons so as to create a common understanding.
- Semantic barriers arise from problems in the meaning, interpretation or expression of words and other symbols used in a message. The receiver may interpret the message differently from what the sender intended.

Step 1: State the meaning of communication Communication involves a sender conveying a message through a suitable channel to a receiver, who interprets it. Its purpose is not merely to transmit words but to establish common understanding. Feedback helps the sender know whether the intended meaning has been understood. For example, a production manager's instruction should make the supervisor understand both what work is required and when it is to be completed.

Step 2: Explain four semantic barriers

- **Badly expressed message:** A message may fail to convey its intended meaning because the sender uses inadequate vocabulary, incorrect words, omissions or an unclear arrangement of ideas. A loosely worded instruction may leave the receiver uncertain about the action expected. The sender should therefore frame the message precisely and in an orderly manner.
- **Symbols with different meanings:** The same word or symbol may have several meanings, and the receiver may select a meaning different from the sender's intention. For example, the word 'value' may refer to price, importance or a principle of behaviour. Unless the context makes the intended sense clear, the two persons may attach different meanings to the same message.
- **Faulty translations:** In an organisation, a message may have to be translated from one language into another. If the translator is not proficient in both languages, the original meaning may be changed or lost. A literal translation of an expression may convey an incorrect instruction even though the original message was clear.
- **Unclarified assumptions:** A message may be based on assumptions that the sender takes for granted but does not explain to the receiver. The receiver may then interpret it using a different assumption. For instance, an instruction to send goods by the usual method is unclear when the two persons have different ideas about which delivery method is usual.

Step 3: Conclusion Communication aims at common understanding. Bad expression, symbols with different meanings, faulty translation and unclarified assumptions obstruct this understanding by altering or obscuring the meaning of the message; hence they are semantic barriers.

Quick Tip to Solve: For semantic barriers, keep every explanation linked to the meaning of the message. Do not substitute psychological barriers such as distrust or premature evaluation.

OR

27(b). Give the meaning of 'Directing' as a function of management and any four points of its importance. [6 marks]

Solution:

Concept:

- Directing is the management function of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives.
- Directing puts plans into action through people. Its importance includes initiating action, integrating employees' efforts, realising their potential and facilitating necessary changes.

Step 1: Explain directing as a management function Directing is the process through which a manager guides and leads subordinates to perform their assigned tasks in pursuit of organisational objectives. It includes giving instructions, supervising work, communicating, motivating and providing leadership. Planning decides what should be done and organising assigns duties, whereas directing encourages and guides employees to actually perform those duties. It is a continuing function exercised at every level where a manager has subordinates.

Step 2: Explain four points of importance

- **Initiates action:** Directing helps people start working towards the desired objectives. Plans, organisation structures and appointments alone do not produce results. By issuing instructions, guiding employees and supervising their work, the manager translates these preparations into actual performance. Thus directing activates the other managerial functions.
- **Integrates employees' efforts:** Different employees and departments perform different tasks. Through guidance and leadership, directing brings these individual efforts together so that they contribute to a common organisational objective. It helps employees understand how their particular assignments relate to the work of others and prevents scattered efforts from pulling the organisation in different directions.
- **Realises employees' potential:** Employees may possess abilities that remain unused without suitable encouragement and guidance. Motivation and effective leadership inspire them to give their best performance. By recognising their needs and helping them overcome difficulties, a manager enables employees to use their knowledge and skills more fully while achieving organisational goals.
- **Facilitates introduction of changes:** Changes in technology, methods or the working environment may create uncertainty and resistance among employees. Effective directing explains the purpose and benefits of a change, answers doubts and motivates employees to accept it. This cooperation helps the organisation introduce necessary changes more smoothly.

Step 3: Conclusion Directing means guiding, motivating and leading employees to achieve organisational objectives. It is important because it initiates action, integrates individual efforts, develops employees' potential and helps them accept necessary changes.

Quick Tip to Solve: State a distinct importance heading, then explain how directing produces that benefit. Keep the meaning focused on guiding people rather than making plans or assigning jobs.

28(a). What is meant by 'Controlling' ? Describe the steps in the process of controlling. [6 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with planned standards and taking corrective action so that organisational objectives are achieved.
- A standard is the criterion against which performance is judged. Control is a continuous process that links plans, measurement, comparison, analysis and corrective action.

Step 1: State the meaning of controlling Controlling means ensuring that activities are performed according to the plans. Managers establish the performance expected, find out what has actually been achieved and remedy significant differences. Thus, control does not merely identify mistakes after work is over; the information obtained also helps improve future performance and planning.

Step 2: Set performance standards **Setting performance standards:** Standards are the benchmarks for evaluating actual performance. They should be clear, measurable wherever possible and consistent with organisational objectives. For example, a production department may be expected to produce a specified number of units at a stated cost. Where results cannot be expressed numerically, qualitative standards such as employee satisfaction or quality of service may be used.

Step 3: Measure actual performance **Measurement of actual performance:** Managers collect reliable information about the work actually done through personal observation, sample checking, performance reports or other suitable methods. Measurement should use the same units as the standards so that a meaningful comparison is possible. It should be timely enough to detect problems before they become serious.

Step 4: Compare actual performance with standards **Comparison with standards:** Actual results are compared with the predetermined standards to identify deviations. For instance, actual output may be below the output target, or actual expenditure may exceed the cost standard. The comparison reveals both the direction and the extent of the difference; a deviation can be favourable as well as unfavourable.

Step 5: Analyse deviations **Analysis of deviations:** Managers determine the causes and significance of the differences. Critical point control concentrates on key result areas that are essential to organisational success, while management by exception brings only significant deviations beyond an acceptable range to managerial attention. Causes may include unrealistic standards, defective equipment, inadequate training or changes in external conditions.

Step 6: Take corrective action **Taking corrective action:** Where a deviation exceeds the permissible limit, management removes its cause. This may involve repairing equipment, training employees, improving supervision or revising an unrealistic standard. If performance is within the acceptable range, no corrective action may be needed. The action must address the identified cause so that subsequent performance moves towards the planned objective.

Step 7: Conclusion Controlling ensures conformity with plans through five steps: setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action. Feedback from this process also improves the next cycle of planning.

Quick Tip to Solve: Remember the sequence as set, measure, compare, analyse and correct. Comparison identifies the deviation; analysis explains its cause before action is selected.

OR

28(b). What is meant by 'Budgetary Control' ? Explain any five advantages of Budgetary Control.

[6 marks]

Solution:

Concept:

- A budget is a statement of expected results expressed in numerical terms for a specified future period. It translates plans into measurable targets, such as expected sales, production, expenditure or cash receipts and payments.
- Budgetary control uses budgets as standards for comparing actual results, analysing deviations and taking corrective action. It is a technique of managerial control rather than merely the preparation of financial estimates.

Step 1: Explain budgetary control Budgetary control is a system of control in which budgets are prepared for the various activities of an organisation and actual performance is compared with the budgeted figures. Significant deviations are investigated and corrective measures are taken. For example, the actual material cost of production can be compared with the material-cost budget to locate and remedy excessive expenditure. The budget therefore provides a definite standard for control.

Step 2: Explain the focus on specific targets **Focus on specific and time-bound targets:** Budgets state precisely what is expected during a particular period. They help employees and managers direct their efforts towards those targets instead of working without a clear performance criterion. Achievement can be reviewed periodically because both the expected result and the period are specified.

Step 3: Explain better use of resources **Optimum utilisation of resources:** Budgets allocate money, materials, labour and other resources according to planned requirements. Comparison of actual usage with budgeted usage reveals waste and avoidable expenditure. Managers can then take steps to reduce such waste, control costs and obtain better results from the resources available to the organisation.

Step 4: Explain coordination among departments **Coordination:** Preparing budgets requires the plans of different departments to be related to one another. For example, the production budget must be consistent with the sales budget and supported by suitable purchasing and cash budgets. This integration prevents departments from pursuing incompatible plans and coordinates their activities towards common objectives.

Step 5: Explain employee motivation **Motivation:** Employees can participate in preparing the budgets applicable to their work. Participation gives them an opportunity to contribute information, understand the targets and develop a sense of responsibility for achieving them. Targets that employees have helped formulate can therefore encourage commitment and motivate improved performance.

Step 6: Explain management by exception **Management by exception:** Comparison of actual and budgeted results highlights significant deviations. Routine results within acceptable limits can be handled at the appropriate level, while major departures are brought to managerial attention. Managers can concentrate their time on important problem areas, investigate the causes and take corrective action where it is most needed.

Step 7: Conclusion Budgetary control means controlling activities through numerical budgets and comparison with actual results. Its five advantages are a focus on specific time-bound targets, optimum utilisation of resources, coordination, employee motivation and effective management by exception.

Quick Tip to Solve: Keep the distinction clear: a budget is the numerical plan; budgetary control is the comparison-and-correction system that uses it. Explain five separate benefits rather than repeating cost reduction.

29(a). What is meant by 'Capital Market' ? Differentiate between 'Capital Market' and 'Money Market' on any four bases. [6 marks]

Solution:

Concept:

- A financial market transfers funds from savers to users of funds. Its classification as a money market or a capital market depends primarily on the maturity of the funds and instruments involved.
- The capital market mobilises medium-term and long-term finance, whereas the money market meets short-term financing requirements. They differ in participants, instruments, duration and the safety of investments.

Step 1: Define the capital market The capital market is the market for medium-term and long-term funds, including funds raised through shares, debentures and bonds. It channels savings into productive investment, enabling enterprises to acquire fixed assets, expand capacity and undertake long-term projects. It includes both the primary market, where new securities are issued, and the secondary market, where existing securities are traded. Equity has no fixed repayment date; long-term debt generally has a maturity exceeding one year.

Step 2: Compare the two markets on four bases

Basis	Capital market	Money market
Participants	Financial institutions, banks, corporate entities, foreign investors and individual investors participate. Investment is accessible to members of the public as well as institutional investors.	The main participants are the Reserve Bank of India, commercial banks, financial institutions and approved corporate entities; dealings are largely institutional.
Instruments	The principal instruments include equity shares, preference shares, debentures and bonds. They provide ownership capital or long-term borrowing to issuers.	The principal instruments include Treasury bills, commercial paper, certificates of deposit, commercial bills and call money. They provide temporary funds.
Duration	It deals in medium-term and long-term securities, generally for more than one year. Some instruments, such as equity shares, have no maturity date.	It deals in short-term funds and instruments, with maturities up to one year. Call money may be borrowed for a very short period.
Safety	Investment generally carries relatively greater risk because repayment and returns depend on the issuer's long-term performance and market conditions.	Instruments are generally considered relatively safer because of their short duration and the financial standing of participants; this does not make every instrument risk-free.

Step 3: Conclusion The capital market supplies medium-term and long-term funds. Compared with the money market, it has a wider range of participants, different securities, a longer investment horizon and generally greater investment risk.

Quick Tip to Solve: Use the same basis on both sides of each comparison: participants, instruments, duration and safety. Start by defining the capital market separately.

OR

29(b). What is meant by 'Primary Market' ? Differentiate between 'Primary Market' and 'Secondary Market' on any four points. [6 marks]

Solution:

Concept:

- The primary and secondary markets are complementary parts of the capital market. Their essential difference is whether a security is being issued for the first time or an existing security is being resold.
- The primary market mobilises fresh capital for issuers. The secondary market gives investors liquidity and an opportunity to change their investments without requiring the issuing company to repay its capital.

Step 1: Define the primary market The primary market is the market in which new securities are issued and subscribed to for the first time. It is also called the new issues market. A company may raise fresh funds by issuing shares or debentures to investors, whether it is a newly established enterprise

or an existing enterprise financing expansion or diversification. The funds raised through a fresh issue go to the issuing company and become available for its business purposes. Public issues, rights issues and private placements are among the methods through which new securities may be issued.

Step 2: Distinguish the markets on four points

Basis	Primary market	Secondary market
Nature of securities	It deals in new securities issued for the first time. Investors subscribe to an issue offered by the company.	It deals in existing securities that have already been issued. Investors purchase securities held by other investors.
Parties and recipient of funds	In a fresh issue, the transaction is between the issuing company and subscribing investors, with intermediaries assisting the issue. The company receives the subscription money.	Trading occurs between investors through market intermediaries. The seller receives the sale proceeds; the issuing company receives no fresh funds from that resale.
Price determination	In a fixed-price issue, the company determines the issue price; in a book-built issue, the issue price is discovered through bids under the prescribed process.	Market prices fluctuate with demand and supply and investors' assessment of the security. A buyer and seller transact at the prevailing agreed market price.
Main purpose	It directly provides fresh capital to enterprises for establishment, expansion or other financing requirements and thereby promotes capital formation.	It provides liquidity and marketability to existing securities. The ability to sell investments encourages investors to subscribe in the primary market as well.

Step 3: Conclusion The primary market, or new issues market, raises funds by issuing new securities. The secondary market trades existing securities, pays the selling investor and provides liquidity. The two markets differ in the nature of securities, the parties and funds flow, pricing, and their main purpose.

Quick Tip to Solve: Follow the money: a fresh issue brings funds to the company, while a resale pays the selling investor. Use this distinction to explain the remaining comparisons.

30(a). Products may be classified into two categories : 'Consumer Products' and 'Industrial Products'. Explain three major categories of Industrial Products. [6 marks]

Solution:

Concept:

- Industrial products are purchased for use in producing other products or for carrying on business operations, rather than for final personal consumption.
- The three major categories are materials and parts, capital items, and supplies and business services. Classification depends on how a product enters or supports the production process.

Step 1: Explain materials and parts **Materials and parts:** These goods become part of the buyer's finished product. They include raw materials and manufactured materials and component parts.

Raw materials include farm products, such as cotton, wheat and sugar cane, and natural products, such as minerals, crude petroleum and timber. They are processed or transformed during production. Manufactured materials include iron, cement and yarn, which normally require further processing;

component parts, such as tyres and small motors, enter the finished product with little or no further change in their form.

For example, cotton used by a textile mill becomes part of the cloth, while a tyre purchased by a car manufacturer becomes a component of the completed car. Their defining feature is incorporation into the output.

Step 2: Explain capital items **Capital items:** These are durable goods that help in producing or managing the finished product. They facilitate production over a period of time rather than becoming a physical ingredient of each unit produced.

Capital items include installations, such as factory buildings and major machinery, and equipment, such as tools, office equipment and computers. A building provides the place for production, while a machine performs the manufacturing operations. Equipment may assist production or administrative work.

Such purchases are generally important investment decisions because they involve substantial expenditure or support business activities for several years. A machine used to manufacture cloth is therefore a capital item, whereas the cotton processed by that machine is a material.

Step 3: Explain supplies and business services **Supplies and business services:** These are short-lasting goods and services that facilitate the development or management of the finished product, without becoming part of that product.

Supplies include maintenance and repair items, such as paint, nails and cleaning materials, and operating supplies, such as lubricants, writing paper and stationery. They keep routine business operations functioning.

Business services include maintenance and repair services, such as machinery servicing, and business advisory services, such as legal advice, management consultancy and advertising services. For example, lubricating oil helps a machine operate, and legal advice helps the enterprise manage its affairs, but neither becomes a component of its saleable output.

Step 4: Conclusion Industrial products fall into **materials and parts**, which enter the finished product; **capital items**, which provide durable productive facilities; and **supplies and business services**, which support routine production and management.

Quick Tip to Solve: Ask what the buyer does with the purchase: it enters the output, provides a durable production facility, or supports day-to-day operations. This separates the three categories clearly.

OR

30(b). Pricing occupies an important place in the marketing of goods and services and its determination is affected by many factors. Explain any four such factors.

[6 marks]

Solution:

Concept:

- Price is the amount of money paid by a buyer in consideration of the purchase of a product or service. It directly affects sales revenue and the firm's profitability.
- Price determination requires balancing the seller's costs and objectives with buyers' demand and competing offers. Four important factors are product cost, utility and demand, extent of competition, and pricing objectives.

Step 1: Explain the influence of product cost **Product cost:** The cost of producing, distributing and selling a product is an important factor in fixing its price. Total cost includes fixed costs, which do not change with the level of activity within the relevant range, variable costs, which change with output, and semi-variable costs, which contain both elements.

In the long run, the price should recover the total cost and provide a reasonable profit if the business is to survive. Costs therefore set a lower limit for a sustainable price. The firm estimates the cost per unit at the expected sales volume before deciding the margin to add. However, cost alone does not determine the final price, since customers must also be willing to pay it.

Step 2: Explain the influence of utility and demand **Utility and demand:** The usefulness or value that buyers perceive in a product and the intensity of demand influence the price they are willing to pay. Buyers generally accept a higher price when they perceive greater utility or when demand is strong.

The price elasticity of demand is particularly relevant. If a small increase in price produces a large fall in demand, demand is elastic and the seller has limited freedom to raise the price. If demand is relatively inelastic, a price increase may cause a comparatively small fall in quantity demanded. Thus, the seller considers customers' needs, purchasing power and response to price changes rather than merely adding a margin to cost.

Step 3: Explain the influence of competition **Extent of competition in the market:** The prices, quality and features of competing products affect the price a firm can charge. Where many close substitutes are available, customers can shift to rival products if one firm charges substantially more without offering additional value.

The firm therefore studies competitors' prices and likely responses before setting its own price. Intense competition usually restricts pricing freedom. Where competition is weak, or the product is sufficiently differentiated in quality, service or other features, the firm may have greater freedom to charge a higher price. A price decision must consequently be evaluated relative to the alternatives available to the buyer.

Step 4: Explain the influence of pricing objectives **Pricing objectives:** The purpose that management wants the price to achieve also affects its level. Although earning profit is a general objective, the firm may emphasise different goals in different situations.

To obtain a larger market share, it may fix a comparatively low price to attract more buyers. If survival is the immediate objective during weak demand or excess capacity, it may reduce prices to maintain sales and keep the business operating. If the firm aims at product-quality leadership, it may charge a higher price to cover superior quality and the associated research and development expenditure. The chosen price must therefore be consistent with the firm's specific marketing objective.

Step 5: Conclusion Four factors affecting price determination are **product cost**, **utility and demand**, **extent of competition**, and **pricing objectives**. Their combined effect determines a price that buyers will accept and that supports the firm's business goals.

Quick Tip to Solve: Organise a pricing answer around four questions: What does it cost, what will buyers pay, what do rivals offer, and what objective is the firm pursuing?