CBSE Class 12 Business Studies Question Paper 2014 with Solution PDF-Set 66/1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 90**

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. What is meant by 'Management of Work' ? [1 mark]

Solution:

Concept:

- Management of work is one of the dimensions of management; an organisation exists to perform some work.
- Management translates this work into goals and specifies the means for achieving them.

Step 1: Identify the work to be done Every organisation performs a basic activity, such as producing goods in a factory or providing education in a school. Management must understand this work and the results expected from it.

Step 2: Relate the work to organisational goals Management converts the work into specific objectives and determines how these objectives can be achieved effectively and efficiently. This gives the work a clear purpose and direction.

Step 3: Conclusion Management of work means translating the work to be performed into goals to be achieved and assigning the means to achieve them.

Quick Tip to Solve: Remember the sequence: identify the work, turn it into goals, then decide the means of achieving those goals.

2. What is determined by 'Time-Study' ? [1 mark]

Solution:

Concept:

- Time study is a technique of scientific management developed to determine a fair standard of task performance.
- The standard time is determined for a well-defined job under specified working conditions.

Step 1: Identify what is measured A time study observes and measures the time taken to perform a particular job. The job and the working conditions are defined so that the measurement refers to a clear and comparable task.

Step 2: State the result of the study It determines the standard time required by a worker of reasonable skill and efficiency to perform that job. Management can use this standard in planning work and determining the number of workers needed.

Step 3: Conclusion Time study determines the standard time required to perform a well-defined job.

Quick Tip to Solve: Connect time study with standard time; motion study concerns movements, while fatigue study concerns rest intervals.

3. What is included in 'Legal Environment' of Business ? State. [1 mark]

Solution:

Concept:

- The legal environment consists of the legal framework within which business enterprises operate.
- Businesses must comply with applicable laws and the decisions of legally empowered authorities.

Step 1: Identify the legal framework The legal environment includes laws passed by the government and administrative orders issued by government authorities. These establish the rules that regulate the establishment and operation of businesses.

Step 2: Include judicial decisions It also includes court judgments and decisions of commissions and agencies at the central, state or local level. Such decisions clarify and enforce the obligations of business enterprises.

Step 3: Conclusion The legal environment includes laws, government administrative orders, court judgments and decisions of commissions and agencies at different levels of government.

Quick Tip to Solve: For legal environment, recall legislation, administrative orders and judicial decisions rather than general social attitudes.

4. Give the meaning of 'Method' as a type of plan. [1 mark]

Solution:

Concept:

- A method is a type of plan prescribing the way in which a task is performed.
- It provides a standard manner of doing a particular activity, helping to avoid unnecessary variation.

Step 1: Identify the activity concerned A method deals with the manner of performing a specific task. For example, a firm may prescribe a particular method of training its new employees or valuing its inventory.

Step 2: State what the method prescribes It specifies the prescribed way or manner in which the task should be carried out, taking the objective into account. Unlike a procedure, its emphasis is on how an activity is done rather than a sequence of several activities.

Step 3: Conclusion A method is the prescribed way or manner in which a particular task is to be performed.

Quick Tip to Solve: Use the word how for a method; use the sequence of activities to recognise a procedure.

5. Give the meaning of 'Responsibility' as an element of delegation. [1 mark]

Solution:

Concept:

- Responsibility is the obligation of a subordinate to carry out duties assigned by a superior.

- It arises from the superior-subordinate relationship and requires proper performance of the assigned task.

Step 1: Identify the assigned duty In delegation, a superior assigns work to a subordinate and grants the necessary authority to carry it out. Accepting this assignment creates an obligation to perform the work.

Step 2: Explain the obligation to perform This obligation is responsibility. The subordinate must discharge the assigned duties properly and in accordance with the instructions received; it refers to doing the task, rather than merely possessing the power to make decisions.

Step 3: Conclusion Responsibility is the obligation of a subordinate to properly perform the duties assigned by the superior.

Quick Tip to Solve: Distinguish responsibility, the obligation to perform, from authority, the right to act, and accountability, answerability for results.

6. Define 'organizing' as a function of management. [1 mark]

Solution:

Concept:

- Organising is the management function that establishes working relationships to achieve organisational goals.
- It connects the work to be done with the people and resources needed to perform it.

Step 1: Identify and divide the work Organising begins by identifying the activities necessary to achieve the objectives and dividing the work into manageable tasks. Related activities are grouped so that the work can be coordinated.

Step 2: Assign duties and establish relationships Duties are assigned to suitable people and authority-responsibility relationships are established. This enables employees to work together and use resources effectively towards the planned objectives.

Step 3: Conclusion Organising is the process of identifying and grouping activities, assigning duties and establishing authority-responsibility relationships to enable people to work together effectively in achieving organisational goals.

Quick Tip to Solve: Recall the organising sequence: identify work, group activities, assign duties and establish reporting relationships.

7. How are employees motivated to improve their performance when the organization uses internal sources of recruitment ? State. [1 mark]

Solution:

Concept:

- Internal recruitment fills vacancies from employees already working in the organisation.

- Promotion opportunities provide an incentive for existing employees to improve their performance.

Step 1: Identify the opportunity offered When an organisation recruits internally, existing employees can be considered for higher positions through promotion. They see that good performance can lead to advancement within their own organisation.

Step 2: Explain the effect on motivation The prospect of promotion and the resulting improvement in status and responsibility encourages employees to work harder and improve performance. It strengthens their expectation that their effort and merit will be recognised.

Step 3: Conclusion Employees are motivated to improve their performance because internal recruitment gives them an opportunity for promotion to higher positions.

Quick Tip to Solve: Link internal recruitment to career advancement: the chance of promotion encourages better performance by existing employees.

8. 'Providing for social security and welfare of employees' is one of the specialised activities performed by Human Resource Management. Mention any two other specialised activities of Human Resource Management. [1 mark]

Solution:

Concept:

- Human Resource Management includes specialised activities that acquire, develop and retain the people needed by an organisation.
- Besides employee welfare and social security, HRM carries out recruitment, training, performance appraisal and other personnel activities.

Step 1: Name the acquisition activity **Recruitment:** HRM searches for prospective employees and encourages suitable people to apply for jobs. This creates a pool of applicants from which the organisation can select employees.

Step 2: Name the development activity **Training and development:** HRM improves employees' job knowledge and skills through training and prepares them for future responsibilities through development.

Step 3: Conclusion Two other specialised activities are **recruitment** and **training and development**.

Quick Tip to Solve: When asked for two HRM activities other than welfare, give one related to obtaining people and one related to developing them.

9. What is meant by 'Decoding' as an element of communication ? [1 mark]

Solution:

Concept:

- Communication involves transmitting a message and understanding its meaning. A sender encodes an idea into symbols, and a receiver interprets those symbols.

- Decoding is performed by the receiver after the message reaches them.

Step 1: Locate the receiver's task The receiver gets a message expressed in words, signs, gestures or other symbols. Merely receiving the signals is not enough: the receiver has to interpret what those signals represent.

Step 2: State the meaning of decoding **Decoding** is the process of converting the encoded symbols of the sender into a meaning understood by the receiver. For example, reading an instruction and understanding the action it requires is decoding.

Step 3: Conclusion Decoding means converting the sender's encoded symbols into the meaning understood by the receiver.

Quick Tip to Solve: Remember the direction: encoding changes an idea into symbols; decoding changes received symbols back into understood meaning.

10. Give any two characteristics of 'Organizational Climate' that influence the behaviour of individuals and act as a non-financial incentive. [1 mark]

Solution:

Concept:

- Organisational climate refers to the characteristics that describe an organisation and distinguish it from other organisations.
- These characteristics influence employees' behaviour and can motivate them without a direct monetary reward.

Step 1: State the first characteristic **Individual autonomy:** Freedom to exercise initiative and make decisions in one's work makes employees feel trusted. Such independence can encourage responsibility and better effort.

Step 2: State the second characteristic **Reward orientation:** The extent to which an organisation recognises and rewards good performance affects employee motivation. A climate that acknowledges contributions encourages employees to perform well.

Step 3: Conclusion Two characteristics are **individual autonomy** and **reward orientation**.

Quick Tip to Solve: For organisational climate, name features of the work environment, such as autonomy or reward orientation, rather than a cash payment.

11. What is meant by 'Financial Risk' ? [1 mark]

Solution:

Concept:

- Debt creates fixed financial obligations, particularly interest payments and repayment commitments. These obligations remain payable even when business earnings decline.
- Financial risk concerns the possibility that a business cannot meet these fixed financial obligations.

Step 1: Identify the obligation A business using borrowed funds must pay interest according to the borrowing terms. Unlike dividends on equity, interest cannot simply be omitted because earnings in a particular period are low.

Step 2: Define the resulting risk **Financial risk** is the risk that a company will be unable to meet its fixed financial obligations. A higher proportion of debt generally increases this risk because it increases the fixed financial burden.

Step 3: Conclusion Financial risk is the risk of being unable to meet fixed financial obligations, such as interest on debt.

Quick Tip to Solve: Link financial risk to fixed financing commitments; uncertainty about sales or operating earnings is business risk.

12. State the objective of 'Financial Management'. [1 mark]

Solution:

Concept:

- The primary objective of financial management is to maximise the wealth of the shareholders.
- For a company, shareholders' wealth is reflected in the market price of its equity shares. Sound financial decisions seek to increase that value.

Step 1: Identify whose wealth is maximised Equity shareholders are the owners of the company. Financial management aims to increase the value of their investment through appropriate investment, financing and dividend decisions.

Step 2: Express the objective precisely **Wealth maximisation** means maximising the current market value of the company's equity shares. Decisions should create value for shareholders by considering the returns expected and the risks involved, rather than merely increasing an accounting profit figure.

Step 3: Conclusion The objective of financial management is **maximisation of shareholders' wealth**, reflected in maximisation of the market price of equity shares.

Quick Tip to Solve: Use the precise objective, shareholder wealth maximisation; profit alone does not account adequately for timing and risk.

13. Huma is working in a company on a permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realised that she was fulfilling only some of her needs while some other needs still remained to be fulfilled.

(i) By quoting the lines from the above para, identify the needs of Huma which she is able to fulfil.

(ii) Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied. [3 marks]

Solution:

Concept:

- Maslow's hierarchy arranges needs as basic physiological, safety or security, affiliation or belongingness, esteem, and self-actualisation needs.
- Employment and earnings help meet basic needs, while a permanent job provides security. After these, social belonging and esteem become significant sources of motivation.

Step 1: Identify the fulfilled needs with case evidence **Basic physiological needs:** The words "she had to work for 8 hours a day and was free to work overtime" indicate opportunities to earn her livelihood and meet basic requirements such as food, clothing and shelter.

Safety or security needs: The line "Huma is working in a company on a permanent basis" indicates job security and stability of employment. The employment arrangement therefore helps satisfy the first two levels of the hierarchy.

Step 2: Explain the next unsatisfied need **Affiliation or belongingness needs:** These are the needs for affection, acceptance, friendship and a sense of belonging to a group. The statement "No one showed concern and enquired about her health" directly indicates the lack of social concern and belonging experienced by Huma.

Step 3: Explain the following unsatisfied need **Esteem needs:** These include self-respect, autonomy, recognition, status and the respect of others. After basic and safety needs, Huma also needs her contribution to be recognised and to feel valued at work. These needs are distinct from merely receiving pay or having a permanent job.

Step 4: Conclusion Huma can fulfil her **basic physiological** and **safety or security** needs. The next two needs still to be satisfied are **affiliation or belongingness** and **esteem**.

Quick Tip to Solve: Map case evidence onto the hierarchy in order: earnings to basic needs, permanence to security, concern to belonging, and recognition to esteem.

14. Explain any three functions performed by a supervisor that are vital to any organization. [3 marks]

Solution:

Concept:

- Supervision means overseeing employees at work and guiding their efforts towards organisational objectives. A supervisor is the first-line manager who has direct contact with the workers.

- The supervisor connects management decisions with their implementation at the operating level. Guidance, communication and team relations help employees perform their assigned duties effectively.

Step 1: Link workers with management **Acts as a link between workers and management:** The supervisor communicates management policies, plans and instructions to workers in language they can understand. In the other direction, the supervisor conveys workers' suggestions, grievances and difficulties to management. This two-way link reduces misunderstandings and enables management to take account of conditions on the shop floor.

Step 2: Build cooperation and develop workers **Maintains group unity:** A supervisor is in direct contact with workers and can identify differences between them. By handling conflicts fairly and encouraging cooperation, the supervisor promotes harmony and a feeling of belonging within the work group.

Provides on-the-job training: The supervisor guides workers in the correct methods of doing their jobs, demonstrates tasks and helps them correct mistakes. Such practical instruction improves their skill and ability, leading to better quality work and more effective use of resources.

Step 3: Conclusion Three vital functions of a supervisor are acting as the communication link between workers and management, maintaining unity within the work group, and providing on-the-job training.

Quick Tip to Solve: Remember the supervisor as the manager closest to workers: explain the link, team harmony and practical guidance separately.

15. 'Stock Exchange not only contributes to the economic growth, but performs many other functions.' Explain any three such functions. [3 marks]

Solution:

Concept:

- A stock exchange is an organised market in which existing securities are bought and sold under prescribed rules. Its functions extend beyond contributing to economic growth.
- The exchange provides a continuous market, helps determine security prices through demand and supply, and supports regulated dealings in securities.

Step 1: Explain liquidity and price discovery **Provides liquidity and marketability:** A stock exchange supplies a ready and continuous market for existing securities. An investor can sell securities to another investor and convert the investment into cash when required. This makes investment in securities more attractive; it does not mean that the company refunds the investor's capital.

Determines prices of securities: Buyers and sellers interact on the exchange, and the forces of demand and supply establish market prices. Information about the company and general economic conditions is reflected in these dealings. The resulting quotations help investors assess the value of their investments and decide when to buy or sell.

Step 2: Explain safety of transactions **Ensures safety of transactions:** Dealings take place within the rules and regulations of the stock exchange and the securities-market regulatory framework. Listed companies must comply with prescribed requirements and disclose relevant information, while

trading is conducted through regulated intermediaries. These controls promote fair dealings and protect investors against malpractices, although they do not eliminate the normal risk of changes in market prices.

Step 3: Conclusion Three functions, besides contributing to economic growth, are providing liquidity and marketability, determining the prices of securities, and ensuring safety of transactions through regulated dealings.

Quick Tip to Solve: For stock-exchange functions, connect each heading to an investor benefit: saleability, market valuation and regulated dealing.

16. ABC Crackers Ltd., a fire-cracker manufacturing company launched some new products on the eve of Diwali in the market, which attracted many buyers. To meet the increased demand the company employed people from nearby villages where there is a lot of unemployment. Because of the good behaviour of the management with the employees, more and more people wanted to join the company. As the products were in great demand in the market, a competitor imitated the products. The products of the competitor were not accepted by the consumers as it was a status symbol to buy the products of ABC Crackers Ltd. because of their quality.

(a) Identify and explain the product-related decision because of which consumers preferred the products of ABC Crackers Ltd.

(b) Also identify any two values which ABC Crackers Ltd. wanted to communicate to the society.

[3 marks]

Solution:

Concept:

- Branding is the product-related decision of giving a product a name, sign, symbol or design, or a combination of them, to identify the seller's product and differentiate it from competing products.
- A recognised brand can create confidence in quality, customer loyalty and prestige. Values in a business case must be supported by the specific actions described, rather than by unrelated desirable practices.

Step 1: Identify and explain the product decision **(a) Branding:** The product-related decision is branding. ABC Crackers Ltd.'s products had a distinct identity and reputation, so buyers could distinguish them from those of the imitator. The case says that the competitor's products were not accepted and that buying ABC's products was "a status symbol" because of their quality. These clues show that consumers preferred the established brand, not merely a similar physical product. Branding enables product differentiation and helps the firm obtain repeat purchases through confidence in the brand's quality.

Step 2: Identify two values from the case **(b) Employment generation and concern for the community:** The company "employed people from nearby villages where there is a lot of unemployment". Providing work to local unemployed people shows concern for their livelihoods and the economic welfare of the surrounding community.

Respect for employees and humane treatment: The "good behaviour of the management with the

employees" encouraged more people to join. This demonstrates respect for employees' dignity, fair interpersonal treatment and concern for their well-being. These are supported by the case; no claim about unstated safety or environmental practices is needed.

Step 3: Conclusion The product decision was branding, which differentiated ABC's quality products and made them a preferred status symbol. Two values were generating employment for the local community and treating employees with respect and humanity.

Quick Tip to Solve: Use the refusal of an imitation to identify branding; use the employment and management-behaviour sentences as evidence for the two values.

17. State any six reliefs available to a consumer under the Consumer Protection Act, 1986. [3 marks]

Solution:

Concept:

- The Consumer Protection Act, 1986 provides redressal against defective goods, deficient services and unfair trade practices. A consumer can seek an appropriate order from the consumer redressal agency.
- Relief means the remedy granted to remove the grievance or compensate the consumer. The remedy depends on the nature of the defect, deficiency or loss established in the complaint.

Step 1: State the reliefs relating to the goods or service

- **Removal of defect:** The opposite party may be ordered to remove the defect in the goods supplied to the consumer.
- **Replacement of goods:** Defective goods may be replaced with new goods of similar description that are free from defects.
- **Refund of price:** The price paid for the goods, or the charges paid for the service, may be returned to the consumer.

Step 2: State the reliefs against loss and unfair conduct

- **Compensation:** The consumer may be awarded compensation for loss or injury suffered because of the negligence of the opposite party.
- **Discontinuance of unfair practices:** The trader may be directed to discontinue an unfair or restrictive trade practice and not repeat it.
- **Withdrawal of hazardous goods:** Hazardous goods may be ordered to be withdrawn from sale so that they do not endanger consumers.

Step 3: Conclusion Thus, any six available reliefs are removal of defects, replacement, refund, compensation, discontinuance of unfair or restrictive trade practices, and withdrawal of hazardous goods from sale.

Quick Tip to Solve: Recall three product remedies first—repair, replace and refund—then add compensation, stopping unfair practices and withdrawing hazardous goods.

18. Explain the following Rights of Consumers :

(i) Right to Consumer Education

(ii) Right to Choose [3 marks]

Solution:

Concept:

- Consumer rights protect buyers against exploitation and help them make informed purchasing decisions. Awareness of these rights enables consumers to recognise a violation and seek redressal.
- The right to consumer education concerns acquiring knowledge and skills, whereas the right to choose concerns access to alternatives and freedom in making the purchase decision.

Step 1: Explain the right to consumer education **Right to Consumer Education:** A consumer has the right to acquire knowledge and become a well-informed consumer throughout life. This includes learning about consumer rights, responsibilities and the remedies available when those rights are violated. Such education helps a buyer examine product information, recognise misleading claims and know where and how to complain. Consumer organisations, educational institutions and the media can spread this awareness. For example, knowing the importance of checking quality marks, price and expiry information helps the consumer make a responsible purchase.

Step 2: Explain the right to choose **Right to Choose:** A consumer has the right to choose from a variety of products at competitive prices. This requires access to different products in terms of quality, brand, size and price so that the buyer can compare them and select according to personal needs and purchasing power. The seller should give consumers a reasonable opportunity to select and should not compel them to buy a particular product. For example, a buyer should be free to compare different brands of a household appliance and choose the one offering the desired features within the buyer's budget.

Step 3: Conclusion Consumer education equips buyers with knowledge of their rights, duties and remedies. The right to choose ensures variety and freedom to select a suitable product at a competitive price.

Quick Tip to Solve: Link education with an informed consumer and choice with variety at competitive prices; explain each right separately rather than repeating the same point.

19. Mega Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided

(i) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.

(ii) to start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly. This will not only help in covering the risks, but also help in meeting other objectives too.

(a) Identify and explain the objectives of management discussed above.

(b) State any two values which the company wanted to communicate to the society. [4 marks]

Solution:

Concept:

- Nature and Significance of Management: organisational objectives secure the economic interests of the enterprise through survival, profit and growth.
- Social objectives recognise that a business is part of society. They include employment opportunities, especially for disadvantaged areas, and environmentally responsible production.

Step 1: Identify the organisational objectives in the case **Survival:** In its first year, Mega Ltd.'s revenue was "just sufficient to meet its costs". Earning enough revenue to cover costs enables the enterprise to survive and continue operating.

Profit: The company then sought "to increase the revenue" and "reduce the labour cost". Profit is the surplus of revenue over costs; it rewards the owners for risk, finances continued activity and helps meet business uncertainties. Lower costs can improve that surplus.

Growth: Its decision "to start manufacturing solar water-heaters" expands its product offering. Growth means increasing the scale or scope of business operations; developing a new product provides a route to future business expansion while spreading risk.

Step 2: Explain the social objective and state two values **Social objective:** Shifting production to a "backward area" can create employment and contribute to the development of that area. Moving gradually from electric to solar water-heaters encourages the use of renewable energy and conservation of conventional energy resources. Thus, alongside its economic aims, the company can benefit society.

The two values communicated are:

- **Concern for disadvantaged regions:** Establishing the unit in a backward area offers local employment opportunities and supports more balanced regional development.
- **Environmental responsibility:** Manufacturing solar water-heaters promotes a renewable source of energy and reduces dependence on conventional electricity generation.

Step 3: Conclusion Mega Ltd. pursues organisational objectives of survival, profit and growth together with social objectives. Its decisions communicate concern for employment and development in backward areas and for energy conservation through renewable energy.

Quick Tip to Solve: Link each objective to a specific case phrase: covering costs indicates survival, lowering costs indicates profit, and entering a new product line indicates growth.

20. Explain the concept of 'Business Environment' and any three features of it. [4 marks]

Solution:

Concept:

- Business Environment: the term refers to the sum total of external individuals, institutions and forces that affect the performance of a business enterprise.
- These external influences include economic, social, technological, political and legal conditions. An enterprise must understand them because they create opportunities as well as threats.

Step 1: Explain the meaning of business environment Business environment is the totality of external forces and institutions that influence an enterprise's functioning and performance. These forces lie outside the individual enterprise's direct control, but the enterprise must take them into account while making decisions. For example, changes in customers' preferences can affect demand, while a new technology can change the way goods are produced. The environment therefore provides the conditions within which the business operates and to which it must respond.

Step 2: Explain any three features

- **Totality of external forces:** Business environment comprises all forces external to the enterprise, considered together. Customers, suppliers, competitors, government policies and social conditions collectively influence its activities; the environment is the aggregate of these influences.
- **Specific and general forces:** Specific forces, such as customers, suppliers, investors and competitors, directly and immediately affect an individual enterprise. General forces, such as economic, social, political, legal and technological conditions, affect enterprises more broadly and influence the conditions in which they operate.
- **Dynamic nature:** Business environment keeps changing. Changes in technology, consumer tastes, competition and government policy may alter an enterprise's opportunities and threats. For example, growing preference for digital payments may require a retailer to change the payment facilities it offers. A business must therefore monitor its environment continuously.

Step 3: Conclusion Business environment is the sum total of external influences on business performance. Three of its features are the totality of external forces, the presence of specific and general forces, and its dynamic nature.

Quick Tip to Solve: Define the environment as external influences first; then give each feature its own heading and a short explanation showing how it affects a business.

21. State any four advantages of external sources of recruitment. [4 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation. External recruitment seeks applicants from outside the existing workforce.
- External sources include advertisements, employment exchanges, placement agencies and campus recruitment. Their advantages arise from access to a wider labour market and to skills and ideas

not already present in the organisation.

Step 1: State the benefits relating to skills and choice

- **Qualified personnel:** External recruitment gives management an opportunity to attract people with the required qualifications and specialised training. The organisation can obtain suitable knowledge and skills from the labour market instead of depending only on the capabilities of its present employees.
- **Wider choice:** A large number of candidates can apply from outside the organisation. Management can compare their qualifications, experience and suitability and select the person who best meets the requirements of the vacant job.

Step 2: State the benefits relating to ideas and competition

- **Fresh talent:** New employees bring fresh ideas, different experience and new approaches to work. This widens the organisation's knowledge base and can help improve existing methods of performing tasks.
- **Competitive spirit:** When existing employees see that capable outsiders can enter the organisation, they are encouraged to improve their performance and update their abilities. This introduces healthy competition and discourages complacency among the present workforce.

Step 3: Conclusion Four advantages of external recruitment are the availability of qualified personnel, a wider choice of candidates, the introduction of fresh talent and the encouragement of competitive spirit among existing employees.

Quick Tip to Solve: Recall the four headings as qualifications, choice, fresh ideas and competition; explain how each benefits the recruiting organisation.

22. Give the meaning of 'Investment' and 'Financing' decisions of financial management. [4 marks]

Solution:

Concept:

- Financial management concerns the acquisition and efficient utilisation of funds. Its decisions aim at increasing the market value of the shareholders' investment while keeping financial risk within acceptable limits.
- An investment decision concerns the use of funds in assets, whereas a financing decision concerns the sources from which those funds are obtained. The two decisions are connected because the assets selected must be financed through an appropriate combination of sources.

Step 1: Explain the meaning of an investment decision **Investment decision:** This is the decision about how the firm's funds are invested in different assets. Management selects the assets or investment opportunities in which money should be committed so that they contribute to the firm's objectives and earning capacity.

Investment decisions may be long term or short term. A long-term investment decision, also called a capital-budgeting decision, concerns expenditure on fixed assets or projects, such as buying machinery or establishing a new factory. A short-term investment decision concerns current assets, such as

inventories, debtors and cash, and is also known as a working-capital decision. Thus, it determines the use and allocation of funds.

Step 2: Explain the meaning of a financing decision **Financing decision:** This is the decision about the amount of finance to be raised from various long-term sources. It involves determining the appropriate proportion of owners' funds and borrowed funds for meeting the firm's financing requirements.

Owners' funds include equity share capital and retained earnings; borrowed funds include debentures, bank loans and other borrowings. For example, when funds are required for a new factory, management decides how much should come from equity and how much from debt. In choosing this mix, it considers the cost of funds and the financial risk associated with fixed interest and repayment obligations. Thus, the financing decision determines the sources and composition of funds.

Step 3: Conclusion An investment decision determines where the firm's funds are employed in assets; a financing decision determines the sources and the debt-equity mix through which funds are raised to finance those assets.

Quick Tip to Solve: Use the questions "Where will the funds be invested?" for investment and "From which sources will funds be raised?" for financing.

23. State any five features of planning. [5 marks]

Solution:

Concept:

- Planning is the management function of deciding in advance what is to be done and how it is to be done. It bridges the gap between the present position and the desired future position.
- Its features explain the nature of planning. Five features are goal orientation, primacy, pervasiveness, continuity and a futuristic outlook.

Step 1: State how planning relates to objectives and other functions

- **Planning focuses on achieving objectives:** Every plan specifies the goals that an organisation seeks to achieve and the activities required to achieve them. Planning has no purpose unless it contributes to organisational objectives; resources and effort are directed towards the desired results.
- **Planning is a primary function of management:** Planning lays the foundation for organising, staffing, directing and controlling. Managers first decide objectives and the course of action, then arrange people and resources to execute it. Plans also provide the standards against which actual performance is controlled.

Step 2: Explain its scope, continuity and future orientation

- **Planning is pervasive:** It is required at every level of management and in every department. Top management prepares plans for the organisation as a whole, whereas middle and supervisory managers prepare plans within their respective areas. The scope of the plans varies, but the need to plan exists throughout the organisation.
- **Planning is continuous:** Plans are prepared for a specific period. Once that period ends, new

plans are required. Plans may also need revision when circumstances change; therefore, planning is an ongoing process of preparing, implementing and revising plans rather than a one-time activity.

- **Planning is futuristic:** Planning involves looking ahead and anticipating future events. Managers use forecasts and assumptions about future conditions to decide present action. For example, an estimate of future demand helps a business plan production and the resources it will need.

Step 3: Conclusion Thus, planning focuses on objectives, precedes the other management functions, is pervasive, continues over time and anticipates future conditions.

Quick Tip to Solve: For a features question, name each feature in the textbook's words and add a sentence explaining what that feature means in managerial practice.

24. Differentiate between 'Capital Market' and 'Money Market' on the basis of the following :

(i) Meaning

(ii) Liquidity

(iii) Safety

(iv) Expected Return

(v) Duration [5 marks]

Solution:

Concept:

- Financial markets channel funds from savers to users of funds. The distinction between capital and money markets depends primarily on the maturity of the financial instruments traded.
- Capital markets meet medium- and long-term financing needs, while money markets meet short-term needs. Their instruments therefore differ in liquidity, risk and expected return.

Step 1: Identify the financing needs served by the two markets The capital market helps businesses obtain funds for purposes such as expansion and investment in fixed assets. It includes instruments such as shares and debentures. The money market provides short-term funds, including working-capital finance, through instruments such as treasury bills and commercial paper. Use the five prescribed bases separately rather than comparing only the examples of instruments.

Step 2: Compare the markets on each specified basis

Basis	Capital Market	Money Market
Meaning	A market for medium- and long-term funds through securities such as shares and debentures.	A market for short-term funds through instruments such as treasury bills, commercial paper and certificates of deposit.
Liquidity	Securities are relatively less liquid, although stock exchanges provide a mechanism for their sale. Finding a buyer at the desired price may take time.	Instruments are highly liquid because of their short maturity and the arrangements for their conversion into cash.
Safety	Investment generally carries greater risk owing to longer exposure to changes in business performance and security prices.	Instruments are generally safer owing to short maturity and the financial standing of issuers; they are not all entirely risk-free.
Expected Return	Expected returns are generally higher, reflecting greater risk and possible capital gains in addition to interest or dividends.	Expected returns are generally lower because the instruments are short-term and comparatively safer.
Duration	Deals in funds for periods longer than one year; equity shares have no fixed maturity.	Deals in funds for periods up to one year, often for only a day or a few months.

Step 3: Conclusion The capital market supplies longer-term finance with comparatively greater risk and expected return. The money market supplies short-term finance through comparatively safer and more liquid instruments with lower expected returns.

Quick Tip to Solve: Begin with duration: short maturity explains the money market's greater liquidity and safety, and consequently its generally lower expected return.

25. What is meant by 'Personal Selling' ? Explain any three qualities of a good salesman. [5 marks]

Solution:

Concept:

- Personal selling is a promotional method involving direct, personal communication between a salesperson and a prospective buyer, with the purpose of making a sale.
- A good salesperson combines a favourable personal impression, understanding of human behaviour and sound knowledge of the product to help the buyer make a suitable purchase.

Step 1: Explain personal selling **Meaning:** Personal selling involves oral presentation of a message in the form of a conversation with one or more prospective customers for the purpose of making sales. It brings the seller into direct contact with the buyer. The salesperson can explain the product, answer questions and clear doubts immediately. Unlike a standard advertisement, the presentation can be adjusted to the particular customer's needs and reactions. Thus, personal selling is a two-way communication process and can also develop a continuing relationship with customers.

Step 2: Explain three qualities of a good salesman

- **Physical qualities:** A salesperson should have a pleasing personality, a smart appearance and good health. Neat dress, cleanliness, a cheerful expression and appropriate posture create a favourable first impression. Good health and stamina help the salesperson work actively and meet customers patiently. These qualities help attract attention and make the buyer comfortable during the interaction.
- **Psychological qualities:** The salesperson should be friendly, patient, confident and sensitive to the customer's needs. The ability to understand a buyer's motives and reactions helps in presenting the right benefits. Patience is especially necessary when customers raise repeated questions or hesitate to buy. The salesperson should explain calmly and handle objections without becoming irritated or putting improper pressure on the buyer.
- **Technical qualities:** The salesperson should possess complete knowledge of the product, including its features, uses, price, quality and advantages. Knowledge of competing products and the firm's policies is also useful. This enables accurate answers, convincing demonstrations and a fair explanation of why the product suits the customer's requirements. Correct information builds confidence and prevents promises that the product cannot fulfil.

Step 3: Conclusion Personal selling is direct, conversational communication intended to make a sale. Three important qualities of a good salesman are physical qualities, psychological qualities and technical qualities; together these help establish contact, understand the buyer and explain the product effectively.

Quick Tip to Solve: Organise the qualities as appearance, understanding the customer and knowing the product. Explain how each helps the salesperson rather than merely listing adjectives.

26. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gains with the workers, while the other suggested that employees compensation should depend on the earning capacity of the company and should give them a reasonable standard of living.

Identify and explain the principles of Fayol and Taylor referred to in the above para. [5 marks]

Solution:

Concept:

- Taylor's principle of Harmony, Not Discord calls for cooperation in outlook between management and workers, based on recognition that each needs the other for prosperity.
- Fayol's principle of Remuneration of Employees requires overall pay and compensation to be fair to employees as well as to the organisation.

Step 1: Identify and explain Taylor's principle **Harmony, Not Discord:** The statement that management should "share the gains with the workers" refers to this principle of scientific management. Taylor recognised that conflict between workers and management harms both sides. Management and labour should realise that each is important to the other's success and work towards the prosperity of the enterprise instead of treating one another as opponents.

This requires a **mental revolution**: a complete change in the attitudes of both management and

workers towards each other. Management should share the gains from increased productivity with workers. Workers, in turn, should work hard and be willing to accept changes that benefit the organisation. Both should focus on increasing the size of the surplus rather than quarrelling only over its distribution. Such mutual trust and a shared interest in progress replace discord with harmony.

Step 2: Identify and explain Fayol's principle **Remuneration of Employees:** The words "employees compensation should depend on the earning capacity of the company" and provide "a reasonable standard of living" refer to Fayol's principle of remuneration. Overall pay and compensation should be just and equitable for both employees and the organisation.

Employees should receive fair wages that allow at least a reasonable standard of living and satisfy them with their employment. At the same time, remuneration must remain within the paying capacity of the company; a payment policy that the enterprise cannot sustain would harm its continued operation. In determining fair remuneration, management should therefore consider the employee's interests along with the financial position of the business. A fair balance helps maintain a good relationship between workers and management and supports the smooth functioning of the organisation.

Step 3: Relate the two principles to the paragraph Both principles recognise the mutual interests of workers and management. Taylor stresses a change of outlook and sharing the gains of greater productivity, while Fayol stresses a fair and financially sustainable compensation policy. They are complementary because harmonious relations are supported when employees receive fair remuneration and share in organisational prosperity.

Step 4: Conclusion Taylor's principle is **Harmony, Not Discord**, involving mental revolution and sharing gains with workers. Fayol's principle is **Remuneration of Employees**, under which compensation should provide a reasonable standard of living while remaining within the company's paying capacity.

Quick Tip to Solve: Link "share the gains" with Taylor's Harmony, Not Discord and mental revolution. Link "reasonable standard of living" and the company's paying capacity with Fayol's Remuneration of Employees.

27(a). Differentiate between formal and informal organization on the basis of the following :

(i) Meaning

(ii) Origin

(iii) Authority

(iv) Behaviour

(v) Flow of communication

(vi) Nature [6 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately created by management to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that arises spontaneously when people interact at work. Its influence rests on acceptance by group members.

Step 1: Establish the two kinds of relationships The formal structure specifies positions, duties and reporting relationships: it tells an employee who assigns work and to whom the employee is accountable. The informal network develops alongside this structure through friendship, shared interests and social contact. Distinguish them on the six bases requested, rather than treating the informal network as another officially prescribed department.

Step 2: Compare all six prescribed bases

Basis	Formal organisation	Informal organisation
Meaning	A structure of authority relationships created by management.	A network of social relationships arising from interaction among employees.
Origin	Arises as a result of the organisation's rules and policies; management deliberately creates it.	Arises spontaneously through social interaction and common interests.
Authority	Arises by virtue of a position in management and the authority assigned to that position.	Arises from personal qualities and acceptance by members of the group.
Behaviour	Is directed by prescribed rules and procedures.	Is guided by group norms, values and expectations.
Flow of communication	Takes place through the scalar chain and officially prescribed channels.	Can take place in any direction through personal contacts; no prescribed path is necessary.
Nature	Is comparatively rigid, because established roles and procedures regulate relationships.	Is flexible, because relationships and interaction can change with members' needs.

Step 3: Conclusion Formal organisation is deliberately designed and position-based, whereas informal organisation develops spontaneously and is relationship-based. These differences explain their distinct origins, sources of authority, behavioural controls, communication paths and degree of flexibility.

Quick Tip to Solve: Link each formal feature to prescribed positions and rules, and each informal feature to personal relationships and group acceptance; keep the six bases in the question's order.

OR

27(b). With the help of any four points, explain the importance of 'Decentralization' in an organization.

[6 marks]

Solution:

Concept:

- Decentralisation means the systematic delegation of authority throughout the organisation, so that decisions are taken at appropriate lower levels as well as at the top.
- Responsibility is accompanied by sufficient authority to act within defined limits. Top management retains overall policy-making authority and accountability while developing initiative at lower levels.

Step 1: Explain how decentralisation develops employees

- **Develops initiative among subordinates:** When lower-level managers are allowed to take decisions independently within their authority, they learn to rely on their own judgement. The freedom to act gives them confidence, encourages them to find answers to work problems and reduces their dependence on superiors for every instruction. It also allows them to recognise and correct mistakes through experience.
- **Develops managerial talent for the future:** Decision-making authority gives subordinates practical experience of handling managerial problems and accepting responsibility for the results. They learn to assess alternatives and exercise judgement. Such experience prepares capable employees to take up more demanding managerial positions when the organisation needs them.

Step 2: Explain how decentralisation improves organisational functioning

- **Enables quick decision-making:** Authority is placed closer to the point where action is required. Lower-level managers, who are familiar with local circumstances and operational information, can decide without repeatedly referring routine matters upwards. Fewer approval levels reduce delays and enable a prompt response to emerging situations.
- **Provides relief to top management:** By entrusting routine and operating decisions to lower levels, decentralisation reduces the day-to-day decision burden on senior managers. Top management can therefore devote more time and attention to major policy decisions, long-term planning and coordination. This does not mean abandoning control; lower-level managers continue to act within their assigned authority.

Step 3: Conclusion Decentralisation is important because it develops subordinate initiative, builds future managerial talent, speeds up decisions and relieves top management. It combines greater freedom at lower levels with continued overall direction from the top.

Quick Tip to Solve: For each importance point, explain the link from delegated decision authority to its benefit; naming confidence or speed alone does not explain decentralisation.

28(a). Explain the relationship between planning and controlling. [6 marks]

Solution:

Concept:

- Planning determines in advance what is to be achieved and how it is to be achieved. It establishes objectives and standards against which actual performance can later be evaluated.
- Controlling measures actual performance, compares it with planned standards and takes corrective action. Planning and controlling are interdependent functions that complete the management cycle.

Step 1: Explain how plans provide the basis for control **Planning provides standards:** The objectives, schedules, budgets and targets fixed during planning become the standards for controlling. For example, a planned monthly production target provides the benchmark for checking actual output. Without a predetermined target, a manager cannot decide whether performance is satisfactory or identify the extent of a deviation. Thus planning precedes controlling and makes meaningful

comparison possible.

Step 2: Explain how controlling gives meaning to plans **Controlling ensures implementation:** Merely preparing a plan does not ensure that employees will achieve its objectives. Controlling checks whether activities follow the plan, identifies departures and initiates corrective action. Without control, plans remain statements of intention because management cannot know whether they are being realised. Hence planning without controlling is meaningless, while controlling without planning is blind.

Step 3: Relate both functions to future action **Both are forward-looking:** Planning looks ahead and selects a future course of action. Although control begins by measuring work already performed, its purpose is to improve future performance and prevent the repetition of mistakes. For example, correcting an avoidable production delay helps the enterprise meet its next delivery schedule. Controlling is therefore a forward-looking function as well.

Step 4: Explain their use of past experience and feedback **Both are backward-looking too:** Planning uses previous experience and the information revealed by control to prepare realistic future plans. Controlling looks back at actual results and compares them with the standards already established. **Feedback links the two:** Findings about deviations and their causes may lead managers to improve methods, revise an unrealistic standard or formulate a better plan for the next period. In this way, each function supports and improves the other.

Step 5: Conclusion Planning and controlling are inseparable and mutually reinforcing. Planning establishes the desired performance, controlling checks its achievement and provides feedback for future planning; together they form a continuous cycle directed towards organisational objectives.

Quick Tip to Solve: Link each function to the other: plans supply the standards, control checks achievement, and control feedback improves the next plan. Explain why both look forward and also draw upon the past.

OR

28(b). Explain the various steps in the process of controlling. [6 marks]

Solution:

Concept:

- Controlling ensures that actual performance conforms to planned performance. It involves setting standards, measuring results, comparing them, analysing deviations and taking corrective action.
- Standards are the criteria for evaluating performance. Control is useful when it identifies significant deviations promptly and leads to action that helps achieve organisational objectives.

Step 1: Set performance standards **Setting performance standards:** Establish the criteria against which actual work will be evaluated. Standards should be clear, realistic and measurable wherever possible. Quantitative standards include units to be produced, sales revenue and cost per unit; qualitative standards may relate to employee motivation or customer satisfaction. For example, management may fix a monthly output target of 1,000 units.

Step 2: Measure actual performance **Measurement of actual performance:** Ascertain the work

actually accomplished using suitable and reliable methods, such as personal observation, sample checking, performance reports and accounting information. Measure performance in the same terms as the standards so that a meaningful comparison is possible. Measurement should be timely and, where practicable, made during work so that problems can be corrected promptly.

Step 3: Compare results with the standards **Comparison of actual performance with standards:** Compare the measured result with the predetermined benchmark to determine the deviation. If actual monthly output is 900 units against a target of 1,000 units, the shortfall is 100 units. Comparison shows whether performance meets, exceeds or falls below the standard.

Step 4: Analyse the deviations **Analysing deviations:** Determine which deviations are significant and identify their causes. Under critical point control, managers focus on key result areas essential to the organisation's success. Under management by exception, they concentrate on deviations beyond acceptable limits. Identify whether a shortfall arises from machine breakdown, material shortage or inadequate training before deciding the response.

Step 5: Take corrective action **Taking corrective action:** Remove the causes of significant deviations and bring performance into line with the plan. Depending on the cause, management may repair machinery, ensure material supplies, train employees or improve supervision. Deviations within acceptable limits need no action. If changed circumstances make a standard unrealistic, revise it after careful investigation.

Step 6: Conclusion The controlling process proceeds through setting standards, measuring actual performance, comparing it with standards, analysing significant deviations and taking corrective action. It closes the gap between intended and actual results and provides feedback for subsequent planning.

Quick Tip to Solve: Remember the sequence: set, measure, compare, analyse and correct. Keep comparison distinct from analysis: the former finds the deviation, while the latter investigates its significance and cause.

29(a). Explain the following as factors affecting the requirements of working capital :

(i) Nature of business

(ii) Scale of operations

(iii) Seasonal factors

(iv) Production cycle [6 marks]

Solution:

Concept:

- Working capital finances day-to-day operations through current assets such as cash, inventories and debtors. Funds are needed while purchases and production take place, before cash is collected from customers.
- Financial Management: the working capital requirement depends on the operating characteristics of the business. A larger amount of funds tied up in current assets, or a longer period before their conversion into cash, increases this requirement.

Step 1: Explain the nature and scale of the business

- **(i) Nature of business:** A trading concern usually needs less working capital than a manufacturing concern of comparable size. It buys finished goods for resale and does not maintain raw materials or work-in-progress. A manufacturer must finance raw materials, production expenses and unfinished goods before the finished product can be sold. Service businesses generally require still less working capital because they ordinarily hold little inventory.
- **(ii) Scale of operations:** A business operating on a larger scale generally requires a larger absolute amount of working capital. It must carry larger stocks, meet greater wage and other operating payments, and finance more credit sales. A smaller enterprise has a smaller volume of these current assets and payments, so its working capital requirement is generally lower.

Step 2: Explain seasonal demand and the production cycle

- **(iii) Seasonal factors:** During the peak season, demand and the volume of activity rise. More stock and operating expenses must be financed, and higher credit sales can increase debtors. Thus, working capital needs rise in the busy season and fall in the lean season. For example, a producer of coolers may build stocks before summer and need extra funds to support peak summer sales.
- **(iv) Production cycle:** The production cycle is the time between procuring raw materials and converting them into finished goods. A longer cycle ties up funds in raw materials, work-in-progress, wages and other expenses for a longer period. It therefore raises working capital needs. A shorter production cycle releases funds sooner and generally reduces the amount needed.

Step 3: Conclusion Manufacturing activity, a larger scale, peak seasonal activity and a longer production cycle generally increase working capital requirements. The financial manager must provide enough current funds to keep operations running until receipts replenish cash.

Quick Tip to Solve: For each factor, identify either the amount of stock and operating expenditure to finance or the length of time for which funds remain tied up.

OR

29(b). Explain the following as factors affecting the choice of capital structure :

(i) Cash flow position

(ii) Cost of equity

(iii) Floatation costs

(iv) Stock-market conditions [6 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and equity used in financing a business. The choice must balance cost, risk and the ability to meet fixed financial commitments.
- Debt entails contractual interest and repayment, whereas equity does not carry compulsory dividend payments. Excessive borrowing also increases the financial risk borne by equity shareholders.

Step 1: Examine cash flows and the cost of equity

- **(i) Cash flow position:** Before borrowing, a company must assess whether its expected cash flows can meet interest, principal repayments and other fixed payments. Strong and reasonably stable cash flows support greater use of debt. Weak or uncertain cash flows favour greater reliance on equity because interest and repayment cannot safely depend on accounting profit alone. There must be cash available when each commitment falls due.
- **(ii) Cost of equity:** Increasing debt increases financial risk for equity shareholders because interest must be paid before their residual return is determined. Consequently, shareholders expect a higher return and the cost of equity rises. Debt should therefore be used only within a level at which the resulting increase in equity cost does not outweigh its advantages. Beyond a point, further debt can raise the overall cost of capital.

Step 2: Consider issue expenses and market conditions

- **(iii) Floatation costs:** These are the costs of raising finance, including brokerage, underwriting commission and other issue expenses. Raising money by issuing shares or debentures can involve substantial floatation costs, whereas obtaining a loan from a financial institution may involve lower issue expenses. The company should compare these costs along with the other costs and risks of each source, especially where the amount to be raised is small.
- **(iv) Stock-market conditions:** During a buoyant stock market, investors are more willing to buy shares and companies can generally issue equity on favourable terms. During depressed market conditions, investors may be reluctant to subscribe and shares may fetch a low price; a company may then find debt a more suitable source, subject to its repayment capacity. Market conditions therefore influence the timing and relative attractiveness of equity and debt issues.

Step 3: Conclusion A suitable capital structure matches debt commitments to cash flows, considers the effect of borrowing on equity cost, compares floatation expenses and responds to stock-market conditions. No single factor should be used without considering the firm's financial risk and overall financing cost.

Quick Tip to Solve: Link cash flows to repayment ability, cost of equity to shareholders' financial risk, floatation costs to issue expenses, and market conditions to investor demand for shares.

30(a). Explain the following functions of marketing :

(i) Product designing and development

(ii) Standardization and Grading

(iii) Customer Support Services

(iv) Pricing of products [6 marks]

Solution:

Concept:

- Marketing functions are activities that help a business create an offering suited to customer needs and make the exchange of goods and services effective.
- Product design, uniform quality, customer assistance and price decisions together influence the value and satisfaction that a buyer receives.

Step 1: Explain product designing and development **Product designing and development:** This function determines the features, shape, size, appearance and performance of a product in the light of customers' requirements. A good design makes the product attractive, convenient and useful, and can give it a competitive advantage. Development converts the design into an actual product and includes improvements in existing products. For example, making a bag lighter while retaining its strength improves its utility to the buyer.

Step 2: Explain standardization and grading **Standardization:** It means producing goods according to predetermined specifications of quality, quantity, size, weight or other characteristics. It ensures uniformity so buyers can rely on the stated specification without inspecting every unit.

Grading: It means classifying products into different groups on the basis of characteristics such as quality, size or colour. It is particularly useful for agricultural products, whose quality cannot always be made uniform. Separate grades help buyers identify the quality they require and permit different prices for different qualities.

Step 3: Explain customer support services **Customer support services:** These include after-sales service, handling customer complaints, maintenance services, technical assistance and credit services. Their purpose is to help customers purchase and use the product satisfactorily. Prompt support builds customer satisfaction and loyalty, encourages repeat purchases and helps the firm retain customers rather than treating the sale as the end of its responsibility.

Step 4: Explain pricing of products **Pricing of products:** This function determines the amount customers must pay to obtain the product. The marketer considers production and distribution costs, the firm's objectives, demand, competition and the value or utility perceived by customers. Price influences demand and the revenue earned by the business. It must therefore be set carefully so that the offering attracts the target buyer while supporting the firm's objectives.

Step 5: Conclusion These functions provide a useful and well-designed product, communicate dependable quality, support its use and determine an appropriate price, thereby facilitating customer satisfaction and exchange.

Quick Tip to Solve: Keep standardization and grading distinct: the first sets uniform specifications; the second sorts output into quality groups.

OR

30(b). 'Though advertising is one of the most frequently used media of promotion of goods and services, yet it attracts lot of objections.' Explain any four such objections. [6 marks]

Solution:

Concept:

- Advertising is a paid form of impersonal communication by an identified sponsor to promote goods, services or ideas. It can inform and persuade a large audience.
- The objections concern its economic and social effects, including higher costs, materialism, confusion and the promotion of inferior products. These are criticisms of advertising and its misuse,

rather than a claim that every advertisement has each defect.

Step 1: Explain how advertising may add to costs **Adds to cost:** A business spends substantial amounts on preparing advertisements and buying media space or time. Critics argue that these expenses increase the cost of distribution and are ultimately recovered from consumers through higher prices. Thus the consumer may pay for the promotional effort as well as the product itself. This is the objection; whether unit costs actually rise also depends on factors such as the increase in sales achieved.

Step 2: Explain how advertising may undermine social values **Undermines social values:** Advertising is criticised for encouraging materialism. By continually presenting goods as sources of happiness, success or status, it can make people dissatisfied with what they possess and stimulate desires for more goods. Consumers may judge their own success and that of others by possessions rather than by qualities such as honesty, service and personal relationships.

Step 3: Explain how advertising can confuse buyers **Confuses the buyers:** Competing brands often make similar claims that their product is the best or superior. A buyer exposed to many such claims may find it difficult to compare products objectively and decide which one meets the need. Instead of clarifying the choice, repetitive or exaggerated promotional messages can increase uncertainty and distract attention from the product's actual characteristics.

Step 4: Explain the criticism concerning inferior products **Encourages sale of inferior products:** Critics argue that attractive advertisements can persuade consumers to buy products of poor quality. The advertisement may emphasise appealing images and promises while giving insufficient attention to actual performance or limitations. A buyer influenced by the promotional message may discover only after purchase that the product does not provide the expected satisfaction.

Step 5: Conclusion Four objections are that advertising adds to costs, undermines social values, confuses buyers and encourages the sale of inferior products. They highlight why promotional claims should be responsible and why consumers should assess actual product value.

Quick Tip to Solve: For each objection, state the textbook heading and explain its effect on the buyer; do not merely list criticisms without showing how they arise.