CBSE Class 12 Business Studies Question Paper 2018 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: 80**

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. Define 'Decentralisation'. [1 mark]

Solution:

Concept:

- Decentralisation concerns the distribution of decision-making authority within the organisation.
- It extends delegation systematically to the lower levels instead of retaining most decisions at the top.

Step 1: Identify the authority involved Managers need authority to make decisions and carry out the responsibilities assigned to them. The issue here is how widely that authority is shared.

Step 2: State the meaning Decentralisation is the systematic delegation of authority throughout all levels of management. Decision-making power is dispersed down the hierarchy, while top management retains authority over major policies and overall coordination.

Step 3: Conclusion Decentralisation means systematic delegation of authority throughout all levels of the organisation.

Quick Tip to Solve: Use the words systematic delegation and all levels: they distinguish decentralisation from an isolated act of delegation.

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

Solution:

Concept:

- A method is a standing plan that specifies the prescribed way of performing an activity.
- It describes how a particular task is to be carried out, allowing work to be performed consistently.

Step 1: Locate the task A method deals with the manner of doing a particular job or activity. Its focus is the technique of performance rather than the overall result sought.

Step 2: Define the plan A method provides the prescribed manner in which a task has to be performed, taking its objectives into consideration. For example, a particular training method specifies how employees will be trained; it is more specific than a general policy guiding decisions.

Step 3: Conclusion A method is a type of plan that prescribes the manner in which a particular task is to be performed.

Quick Tip to Solve: Remember method as how to do a task; a procedure instead lays down the sequence of activities.

3. Saurabh decided to start a chocolates manufacturing business. He set the target of earning 10% profit on sales in the first year. As a good businessman, he was concerned about the future of the business, which was uncertain. He gathered information that the demand for chocolates is increasing day-by-day. He used this information as the base for future planning and shared it with his team. On the basis of the gathered information, he scheduled a meeting in the following week to find innovative ways to achieve the objectives.

List the first two steps, which have been followed by Saurabh that are related to the process of one of the functions of management. [1 mark]

Solution:

Concept:

- Planning starts with setting objectives and then developing premises about future conditions.
- Objectives state the desired results, while premises are the assumptions on which plans are based.

Step 1: Identify setting objectives The first step is **setting objectives**. Saurabh sets the target of *earning 10% profit on sales in the first year*, which states the result his business seeks to achieve.

Step 2: Identify developing premises The second step is **developing premises**. He gathers information that demand for chocolates is increasing and uses it as the base for future planning. This information supplies an assumption about the future business environment; the later meeting will consider alternative ways to achieve the target.

Step 3: Conclusion The first two steps followed are setting objectives and developing premises.

Quick Tip to Solve: Link a measurable target to objectives and an assumption about future demand to developing premises.

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4. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods. Identify the factor affecting the working capital requirements of this industry. [1 mark]

Solution:

Concept:

- Working capital finances the day-to-day operations and stocks of a business.
- Availability of raw materials affects the amount of inventory that must be maintained.

Step 1: Read the supply clue The crucial clue is that one raw material is *not readily and regularly available*, with a time lag between ordering and receipt. This is a supply-availability problem.

Step 2: Connect availability with inventory The relevant factor is **availability of raw materials**. When supply is irregular or the lead time is long, firms must maintain larger stocks to avoid interruption of production, raising working capital needs. The short conversion time indicates that a long production cycle is not the issue highlighted here.

Step 3: Conclusion The factor is availability of raw materials; irregular availability requires larger inventories and therefore more working capital.

Quick Tip to Solve: Look for delays in obtaining inputs: they indicate raw-material availability, whereas delays in converting inputs indicate the production cycle.

5. An investor wanted to invest ₹ 20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.

Identify the reason why the investor could not invest in the Treasury Bill. [1 mark]

Solution:

Concept:

- Treasury Bills are short-term Government of India money-market instruments issued through the Reserve Bank of India.
- In the textbook framework applicable to this paper, they are issued for a minimum of Rs 25,000 and in multiples thereof.

Step 1: Check the proposed term A period of 91 days is an available maturity for Treasury Bills, so the proposed period does not explain the inability to invest.

Step 2: Compare the investment with the minimum The investor proposes to invest only Rs 20,000. Treasury Bills require a minimum investment of Rs 25,000 and are available in multiples of Rs 25,000 under the prescribed textbook description. His proposed amount falls below that minimum and therefore cannot be accepted.

Step 3: Conclusion The investor could not invest because Rs 20,000 is below the minimum Treasury Bill investment of Rs 25,000.

Quick Tip to Solve: In this question check the denomination before the maturity: 91 days is suitable, but Rs 20,000 is insufficient.

6. Why is the understanding of 'Marketing Management Philosophies' important ? [1 mark]

Solution:

Concept:

- Marketing management philosophies guide the way a business approaches its market and achieves its marketing objectives.
- They assign different importance to production, product quality, selling, customer satisfaction and social welfare.

Step 1: Recognise the competing interests A firm must decide how much weight to give its own objectives, customers' needs and society's interests. Different philosophies guide that choice differently.

Step 2: Explain their importance Understanding these philosophies is important because it helps managers select an appropriate orientation for their marketing efforts. It guides how the organisation

will achieve desired outcomes in its target market and whose interests receive priority when business, customer and societal interests conflict.

Step 3: Conclusion Understanding marketing management philosophies helps a business choose the orientation that will guide its marketing efforts and the relative importance given to business, consumer and societal interests.

Quick Tip to Solve: Explain their role as guiding orientations for marketing decisions, rather than merely listing the five philosophies.

7. Give the constitution of the District Consumer Disputes Redressal Forum under the Consumer Protection Act, 1986. [1 mark]

Solution:

Concept:

- The question concerns the District Consumer Disputes Redressal Forum constituted under the Consumer Protection Act, 1986.
- Its constitution specifies both the number of members and the required judicial qualification of its head.

Step 1: State the number and the head The District Forum consists of a President and two other members. Its President must be a person who is, has been, or is qualified to be a District Judge.

Step 2: State the representation requirement Of the two other members, one must be a woman. Thus, the Forum is a three-member body headed by the qualified judicial President, with the specified representation among its members. This describes its composition, rather than its monetary jurisdiction or the remedies it can order.

Step 3: Conclusion The District Forum consists of a President qualified as a District Judge and two other members, one of whom must be a woman.

Quick Tip to Solve: For constitution, state President plus two members and the woman-member requirement; jurisdiction is a different issue.

8. 'Buy one get one free' is printed on the label of the package of a mosquito repellant. State the labelling function being performed by this statement. [1 mark]

Solution:

Concept:

- Labelling includes placing information and messages on a product's package. One function of a label is to help in the promotion of the product.
- A label can advertise a special offer and attract a customer's attention, encouraging the customer to buy the product.

Step 1: Read the message on the package The statement 'Buy one get one free' tells the buyer about

a special offer attached to the mosquito repellant. It gives an additional product free with a purchase and therefore provides an incentive to buy.

Step 2: Identify the function of the label By communicating this offer at the point of purchase, the label helps in promoting the product. The message is persuasive: its purpose is to attract customers rather than merely identify the product or grade its quality.

Step 3: Conclusion The labelling function being performed is **helping in the promotion of the product**.

Quick Tip to Solve: When a package label highlights a discount, a free gift or a special offer, connect the message with the promotional function of labelling.

9. Differentiate between formal and informal organisations on the basis of (i) origin, (ii) authority, and (iii) flow of communication. [3 marks]

Solution:

Concept:

- A formal organisation is the structure of relationships deliberately designed by management to accomplish organisational objectives. It specifies jobs, authority and reporting relationships.
- An informal organisation is a network of social relationships that arises spontaneously when people interact at work. Its influence rests on personal relations and acceptance by the group.

Step 1: Compare origin and authority For origin, ask whether management intentionally created the relationship or whether it developed naturally through interaction. For authority, ask whether influence comes from an official position or from personal qualities and group acceptance.

Step 2: Present the three differences

Basis	Formal organisation	Informal organisation
Origin	Created deliberately by management through defined jobs and official relationships.	Arises spontaneously through social interaction and personal relationships among employees.
Authority	Originates in the position occupied in the organisational structure; it is attached to the official role.	Arises from personal qualities, social influence and acceptance by other group members.
Flow of communication	Follows prescribed channels and the official chain of command.	Has no fixed or prescribed path; information can flow freely in different directions through the grapevine.

Step 3: Conclusion Formal organisation is deliberately created, with position-based authority and prescribed communication channels. Informal organisation develops naturally, with personally derived influence and unrestricted communication paths.

Quick Tip to Solve: Build a distinction around the exact bases asked: creation, source of authority and route of communication. Compare the same basis in both columns.

10. State the steps in the selection procedure, after the employment interview and before the job offer. [3 marks]

Solution:

Concept:

- Selection is the process of choosing the most suitable candidate for a job from the applicants. Its successive checks establish the candidate's suitability before employment is offered.
- In the NCERT selection procedure, employment interview is followed by reference and background checks, selection decision and medical examination. The job offer follows these stages.

Step 1: Check references and background **Reference and background checks:** After the employment interview, the employer contacts the referees named by the candidate, such as previous employers, teachers or other responsible persons. This verifies the information supplied and obtains additional information about the candidate's experience, ability, character and conduct. The check helps establish whether the interview and application present a reliable account.

Step 2: Make the selection decision **Selection decision:** The organisation makes the final decision from among the candidates who have passed the preceding stages. The concerned manager should be involved because this manager will be responsible for the selected employee's performance. The decision uses the information collected through the tests, interview and reference checks to choose the most suitable person.

Step 3: Conduct a medical examination **Medical examination:** Once the selection decision has been made, the candidate is required to undergo a medical fitness examination. This establishes whether the candidate is medically fit for the work. The job offer is made after the candidate is declared fit, completing the checks that precede the offer.

Step 4: Conclusion The steps, in order, are **reference and background checks**, **selection decision**, and **medical examination**.

Quick Tip to Solve: Anchor this sequence between the interview and the offer: verify the background, decide whom to select, then establish medical fitness.

11. Sandhya is a successful manager at Manisons Enterprises. She has a team of twelve people working under her. She encourages them to set their own objectives and take decisions. She respects their opinions and supports them, so that they can perform their duties and accomplish organisational objectives. To manage and exercise effective control she uses forces within the group.

As an intelligent manager, at times, she also makes use of positive aspects of informal communication. This way, she is able to unify diverse interests and ensure that targets are met. [3 marks]

11(a). There are many theories and styles of influencing people's behaviour. Identify the style used by Sandhya which is based on the use of authority.

Solution:

Concept:

- Leadership is the process of influencing people's behaviour so that they willingly work towards organisational objectives. Styles based on the use of authority include autocratic, democratic and laissez-faire leadership.
- A democratic or participative leader involves subordinates in decisions, respects their opinions and uses the forces operating within the group to obtain cooperation.

Step 1: Identify participation in decisions Sandhya "encourages them to set their own objectives and take decisions" and "respects their opinions and supports them". These words show that the team participates in deciding how to achieve its work objectives, rather than merely receiving orders imposed by the manager.

Step 2: Match the evidence to the leadership style The style is **democratic or participative leadership**. Sandhya consults and supports her team, and the case specifically says that she "uses forces within the group" to exercise effective control. This is characteristic of a democratic leader. She does not display autocratic control through unilateral orders; participation also occurs alongside her active support and guidance, rather than complete managerial withdrawal.

Step 3: Conclusion Sandhya follows the **democratic (participative) style of leadership**, as shown by employee participation in setting objectives and making decisions, respect for their views and the use of group forces.

Quick Tip to Solve: Link "participation in decisions" and "forces within the group" to democratic leadership; quote the case before explaining the label.

11(b). State two positive aspects of the communication discussed above, which Sandhya is using as an intelligent manager.

Solution:

Concept:

- Informal communication arises from social interaction and personal relationships among employees, rather than the formally prescribed lines of authority. Its network is also called the grapevine.
- Although informal messages need to be checked for accuracy, this network can help a manager communicate quickly and understand employee reactions. Its positive features can support formal

communication.

Step 1: State the benefit of rapid transmission **Speedy communication:** Information spreads rapidly through the informal network because it is not restricted to the successive levels and procedures of the formal chain. A manager can use this channel to convey information promptly to employees. This helps people become aware of relevant matters without waiting for every formal stage of communication.

Step 2: State the benefit of employee feedback **Knowledge of employee reactions:** Informal communication allows the manager to learn the real reactions of employees to organisational policies and decisions. Employees may express their views more freely in informal conversations. By understanding these responses, Sandhya can address concerns, obtain cooperation and help unify diverse interests, as the case describes.

Step 3: Conclusion Two positive aspects of informal communication are **rapid transmission of information** and **useful feedback about employees' actual reactions to policies and decisions**. These help Sandhya support coordination and the achievement of targets.

Quick Tip to Solve: For advantages of the grapevine, give the paired ideas "fast messages" and "real employee reactions", then explain how each helps the manager.

12. The Return on Investment (ROI) of a company ranges between 10 – 12% for the past three years. To finance its future fixed capital needs, it has the following options for borrowing debt :

Option 'A' : Rate of interest 9%

Option 'B' : Rate of interest 13%

Which source of debt, 'Option A' or 'Option B', is better ? Give reason in support of your answer. Also state the concept being used in taking the decision. [3 marks]

Solution:

Concept:

- Financial Management: the choice of debt depends on whether the return earned on the funds exceeds the fixed interest payable on them.
- Trading on equity means using fixed-interest funds to increase the earnings available per equity share. It is favourable when the return on investment is higher than the cost of debt.

Step 1: Compare Option A with the company's return **Choose Option A:** The company has earned a return on investment of 10–12% over the past three years, whereas Option A requires interest at only 9%. Even the lowest return in the stated range exceeds this interest rate. Thus, on the given return pattern, the earnings generated by the borrowed funds can cover their interest cost and leave a surplus for the equity shareholders. This is a favourable use of debt.

Step 2: Reject the higher-cost borrowing **Avoid Option B:** Its interest rate is 13%, which is higher than both ends of the stated ROI range. The return earned on the borrowed funds would therefore be insufficient to meet their own interest cost. This shortfall would reduce the earnings otherwise available to equity shareholders. Merely obtaining funds for fixed assets does not make an expensive borrowing beneficial.

Step 3: Identify the concept behind the choice **Trading on equity, or favourable financial leverage:** The decision uses the difference between the return on investment and the fixed cost of debt to improve equity shareholders' earnings. Option A offers a positive spread on the stated figures; Option B offers a negative spread. The past ROI is the basis of this comparison, rather than a guarantee of future returns.

Step 4: Conclusion Option A, carrying interest at 9%, is better because its cost is below the company's ROI of 10–12%. The concept used is trading on equity, also described as favourable financial leverage.

Quick Tip to Solve: Compare the interest rate with the whole ROI range: debt below even the lowest ROI is favourable on the given figures; debt above the highest ROI is unfavourable.

13. Explain briefly any two points of importance of consumer protection from the point of view of business. [3 marks]

Solution:

Concept:

- Consumer Protection: businesses should protect consumers against exploitation and provide safe products, accurate information and fair treatment.
- From the business viewpoint, protecting consumers supports the firm's continued success and fulfils its responsibility towards a major stakeholder group.

Step 1: Explain the long-term interest of business **Long-term interest of business:** Satisfied customers are the foundation of a business's survival and growth. When a firm supplies good-quality goods at reasonable prices, gives truthful information and deals fairly with complaints, consumers develop confidence in it. They are more likely to buy again and recommend it to others. Such repeat purchases and favourable word of mouth help the firm build goodwill and expand its customer base. Exploiting buyers may produce a short-term gain, but it damages trust and future sales; therefore, consumer protection serves the business's own lasting interest.

Step 2: Explain the firm's social responsibility **Social responsibility:** Business has obligations towards different stakeholder groups, and consumers are an important group because the firm's activities directly affect their welfare. It must therefore look after their interests, rather than focus only on profit. Supplying safe and dependable products, avoiding misleading advertisements and unfair practices, and attending to genuine grievances are ways of fulfilling this responsibility. Protecting consumers demonstrates that the enterprise accepts its duties towards the people it serves and supports a responsible relationship between business and society.

Step 3: Conclusion Consumer protection is important to business because it promotes long-term survival and growth through satisfied customers, and because it fulfils the firm's social responsibility towards consumers.

Quick Tip to Solve: For each business-viewpoint reason, state the textbook heading and explain its link to the firm: customer trust supports growth, while fair treatment fulfils social responsibility.

14. Aradhana and Gandharv are heads of two different departments in 'Yumco Ltd.' They are efficient managers and are able to motivate the employees of their respective departments to improve performance. However, their drive to excel in their own sphere of activity instead of giving emphasis on objectives of the enterprise has hindered the interaction between the departments that Aradhana and Gandharv are heading. Often there are inter-departmental conflicts and they have become incompatible. This has proved to be harmful in the fulfilment of the organisational objectives. The situation has deteriorated to such an extent that the CEO of 'Yumco Ltd.' has hired a consultant, Rashmi, to resolve the problem. After studying the situation closely, Rashmi found that the problem has arisen due to inflexibility and a narrow perspective on the part of both Aradhana and Gandharv. She is of the view that this situation is a result of the type of organisational structure 'Yumco Ltd.' has adopted.

From the above information, identify the organisational structure adopted by 'Yumco Ltd.' and state any three advantages of the structure so identified. [4 marks]

Solution:

Concept:

- **Functional structure:** Activities of a similar nature are grouped into specialised departments, such as production, finance, marketing and personnel. Each department is headed by a functional specialist.
- Functional structure promotes expertise, but departmental heads may pursue their own functional interests at the expense of the enterprise's overall objectives. This can create interdepartmental conflict and a narrow outlook.

Step 1: Identify the structure from the case Yumco Ltd. has adopted a **functional organisational structure**. The clue is the managers' "drive to excel in their own sphere of activity instead of giving emphasis on objectives of the enterprise." The resulting "inter-departmental conflicts" and "inflexibility and a narrow perspective" are characteristic limitations of functional structure. Aradhana and Gandharv emphasise the success of their respective functions rather than coordination across the organisation.

Step 2: State three advantages of functional structure

- **Occupational specialisation:** Employees repeatedly perform similar tasks within a specialised department. This builds expertise and proficiency, improving the quality and efficiency of their work.
- **Effective control and coordination within a department:** Similar activities are handled together under one departmental head. This makes supervision and coordination within that function easier, since the head understands the work and can monitor related activities together.
- **Increased managerial and operational efficiency:** Managers focus on a limited range of specialised activities rather than supervising every kind of task. Better attention to the function and efficient performance of its operations help the organisation earn higher profits.

Step 3: Conclusion The structure is **functional**. Its three advantages are occupational specialisation, effective control and coordination within each department, and increased managerial and operational efficiency. The case illustrates that these advantages require managers to keep the enterprise's common

objectives in view.

Quick Tip to Solve: A narrow departmental outlook and conflicts between functional heads point to functional structure. Distinguish coordination within a department, an advantage, from coordination between departments, which can be difficult.

15. In 2015, Naveen left his luxurious life in Mumbai, where he worked as a manager for Blue Birds Ltd. He shifted to Begampur, Chhattisgarh to fulfil his grandmother's dream of converting their 25-acre ancestral land into a fertile farm. For this he set out specific goals along with the activities to be performed to achieve the goals.

Every activity was a challenge since he was clueless about farming. He learnt every activity from filling the land to sowing the seeds. To aid farmers he launched his own company 'Innovative Agriculture Solutions Pvt. Ltd'.

It was difficult initially as no one trusted an urban youth telling farmers about farming. But when everything was discussed in detail the farmers started taking interest. He wanted to ensure that the future events meet effectively the best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales.

He also found that the farmers grew only paddy, which was an activity of 3 – 4 months and the land remained idle for the rest 8 – 9 months of the year. He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year. Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated. He presented a plan to the farmers, where after harvesting paddy, vegetables could be grown.

The above case highlights the features of one of the functions of management. By quoting lines from the above identify and explain these features. [4 marks]

Solution:

Concept:

- **Planning** means setting objectives and deciding in advance the course of action needed to achieve them. It determines what is to be done and how it is to be done.
- The case illustrates four features of planning: it focuses on achieving objectives, is futuristic, involves decision making, and is a mental exercise. Each feature is identified by the activity Naveen undertakes.

Step 1: Identify objective focus and future orientation

- **Planning focuses on achieving objectives:** "For this he set out specific goals along with the activities to be performed to achieve the goals." Planning begins with clearly defined objectives. The activities selected are directed towards their achievement; here Naveen connects his farming activities with his goal of making the ancestral land productive.
- **Planning is futuristic:** "Through sales forecasting, he prepared an annual plan for production and sales." Planning looks ahead and prepares the organisation for future events. Forecasting the likely demand enables Naveen to determine production and sales activities in advance rather than respond only after events occur.

Step 2: Identify choice and intellectual effort

- **Planning involves decision making:** "He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year." Planning requires selecting a suitable course from different possible courses of action. Naveen examines alternative uses of the idle land and chooses the plan of growing vegetables after harvesting paddy.
- **Planning is a mental exercise:** "Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated." Planning is an intellectual activity that requires foresight, judgement and rational analysis. Naveen studies the facts about land use and evaluates alternatives logically before presenting his plan.

Step 3: Conclusion The management function is **planning**. Its features shown in the case are focus on objectives, future orientation, decision making among alternatives, and mental exercise through logical and systematic analysis.

Quick Tip to Solve: Match each quotation to its key clue: specific goals mean objective focus; forecasting means futuristic; alternatives mean decision making; and logical analysis means mental exercise.

16. Explain any four points of importance of the controlling function of management. [4 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with predetermined standards, analysing deviations and taking corrective action.
- Control is important because it keeps activities directed towards organisational goals and provides feedback for improving future performance and standards.

Step 1: Explain the contribution to goals and standards

- **Accomplishing organisational goals:** Controlling measures progress towards planned objectives and reveals deviations between actual and desired performance. Managers can then identify their causes and take corrective action, bringing activities back on course. Thus, control guides the organisation towards its goals instead of allowing errors to continue unnoticed.
- **Judging accuracy of standards:** An effective control system helps management check whether the standards set during planning are realistic and appropriate. Repeated deviations may indicate that a standard needs revision rather than that employees are necessarily at fault. Feedback from control therefore enables managers to review standards in the light of actual experience and changes in the business environment.

Step 2: Explain the contribution to resources and employees

- **Making efficient use of resources:** By comparing performance with standards, managers can detect wastage, spoilage, duplication and inefficient use of materials, money or effort. Corrective measures reduce such losses and ensure that available resources are used in the intended manner. This helps the organisation achieve more with the resources at its disposal.
- **Improving employee motivation:** When standards and the basis of performance appraisal are clearly communicated, employees know what is expected of them. They can assess their own

progress and work towards better performance. Objective appraisal based on these standards also supports recognition and rewards, encouraging employees to contribute to organisational objectives.

Step 3: Conclusion Four points of importance are accomplishing organisational goals, judging the accuracy of standards, making efficient use of resources and improving employee motivation. In each case, control converts performance information into managerial action.

Quick Tip to Solve: For each importance point, name the benefit and link it to comparing actual performance with standards; merely repeating the stages of control does not explain its importance.

17. Ram Murthy, the CEO of 'Goodcare Hospitals', a leading chain of hospitals, decided to reward the good work of the doctors of his organisation. For this he instituted two running trophies. A 'Healthcare Achievers Trophy' to acknowledge and appreciate the tireless efforts of the doctors who rendered selfless services to the patients and another 'Beti Bachao Trophy' to recognise the outstanding work done by the doctors in saving the girl child.

The CEO also wanted to improve the health services in rural areas all over the country. He decided that all doctors must work in rural areas for at least six months. He also decided that the paramedical staff should be employed locally. [4 marks]

17(a). Identify the incentive provided by 'Goodcare Hospitals' to its doctors through running trophies.

Solution:

Concept:

- Employee recognition programmes are non-financial incentives that acknowledge and appreciate employees' good performance.
- Recognition may be given through awards, certificates, public appreciation or trophies; its motivational value comes from honour rather than extra pay.

Step 1: Identify the reward described The incentive is an **employee recognition programme**. The CEO institutes running trophies to acknowledge good work, so the doctors receive recognition for their professional contribution.

Step 2: Connect the term with the case The Healthcare Achievers Trophy appreciates the doctors' "tireless efforts and "selfless services, while the Beti Bachao Trophy recognises outstanding work in saving the girl child. These trophies publicly value meritorious service. The case does not offer a salary increase or bonus; the incentive is the appreciation and prestige attached to the award.

Step 3: Conclusion The running trophies constitute **employee recognition**, a non-financial incentive.

Quick Tip to Solve: A trophy or public award generally signals employee recognition; identify the incentive separately from the psychological need it satisfies.

17(b). Which need of the doctors will be satisfied through the incentive identified in part (a) ? State.

Solution:

Concept:

- Maslow's need hierarchy includes esteem needs: recognition, respect, status, self-confidence and appreciation of achievement.
- A recognition award satisfies esteem by acknowledging an employee's competence and contribution; it does not primarily meet basic physical or safety needs.

Step 1: Name the need satisfied The trophies satisfy the doctors' **esteem needs**. These are the needs for recognition and respect for their work, along with a feeling of personal worth and achievement.

Step 2: Explain how the incentive meets the need The awards acknowledge the doctors' "tireless efforts and recognise their "outstanding work. Being honoured for service makes the doctors feel valued by their organisation and respected for their professional achievements. Thus the motivating satisfaction is appreciation and status. It is not a physiological need such as food or a security need such as job protection, since the trophy recognises achievement rather than providing those benefits.

Step 3: Conclusion The recognition through trophies satisfies **esteem needs**, especially the desire for recognition, appreciation and respect.

Quick Tip to Solve: Ask what the award makes an employee feel: being valued and respected indicates esteem, whereas belonging to a group indicates social needs.

17(c). State any two values that the CEO of 'Goodcare Hospitals' is trying to communicate to the society.

Solution:

Concept:

- Values are desirable beliefs reflected in managerial decisions and conduct towards employees and society.
- In a case-based values question, each value should be linked to a specific action rather than inferred from an unmentioned benefit.

Step 1: Identify concern for the girl child **Gender equality and respect for the girl child:** The Beti Bachao Trophy recognises doctors for "saving the girl child. It communicates that girls' lives deserve equal protection and that efforts to safeguard them should be valued.

Step 2: Identify concern for rural communities **Social responsibility and service to rural communities:** Requiring doctors to work in rural areas "for at least six months shows concern for improving rural healthcare. This decision directs professional services towards rural people and expresses a commitment to society's welfare beyond the hospital's immediate business interests.

Step 3: Conclusion Two values are **gender equality** and **social responsibility towards rural communities**.

Quick Tip to Solve: For each social value, quote the matching action: the girl-child award supports equality, and rural service supports social responsibility.

18. State the protective functions of Securities and Exchange Board of India. [4 marks]

Solution:

Concept:

- Securities and Exchange Board of India (SEBI) protects investors' interests and promotes the orderly functioning of the securities market. Its protective functions safeguard investors against unfair conduct in securities transactions.
- Protective functions prevent exploitation and improve investors' ability to make informed decisions. They are distinct from SEBI's developmental activities, such as training market intermediaries.

Step 1: State how SEBI prevents market abuse

- **Prohibiting fraudulent and unfair trade practices:** SEBI prohibits practices such as price rigging, in which prices of securities are artificially manipulated. This protects investors from misleading prices and transactions designed to exploit them.
- **Controlling insider trading:** SEBI controls insider trading and imposes penalties for it. An insider must not use unpublished, price-sensitive information obtained through a privileged position to trade for personal gain at the expense of other investors.

Step 2: State how SEBI strengthens investor protection

- **Undertaking investor education:** SEBI undertakes steps to educate investors so that they understand securities-market dealings, know their interests and can make informed investment decisions rather than fall prey to misleading claims.
- **Promoting fair practices and a code of conduct:** SEBI promotes fair practices and a code of conduct in the securities market. This encourages honest and responsible dealings by market participants and helps protect investors against unfair treatment.

Step 3: Conclusion SEBI's protective functions are prohibiting fraudulent and unfair trade practices, controlling insider trading and imposing penalties, educating investors, and promoting fair practices and a code of conduct in the securities market.

Quick Tip to Solve: Recall the four protective headings: unfair practices, insider trading, investor education, and fair conduct. Link each heading to the investor interest it protects.

19. Sumit purchased an ISI marked washing machine of a famous brand 'MG' from TG Electronics Ltd. The shopkeeper asked him to wait for two days for installation of the machine. His friend, Vivek, was very fond of experimenting with new electronic products. He told Sumit that there is no need to wait for the company's representative to install the machine and that he could do it. So, both of them installed the machine without following the manufacturer's instructions. Initially, the machine worked effectively and the wash was good. But after two days, the machine stared stopping in between the wash cycle. Sumit and Vivek tried their best to start the machine but failed in their efforts. Sumit, therefore, approached TG Electronics Ltd., which refused to provide any service on the plea that the installation of the machine was not done by the company. [4 marks]

19(a). State the responsibility which Sumit had to fulfil as an aware consumer to get the services of the company.

Solution:

Concept:

- A consumer must learn about product risks and follow the manufacturer's instructions so that the product can be installed and used safely.
- Buying a standardised product and following its installation and operating requirements are distinct consumer responsibilities; an ISI mark does not replace proper installation.

Step 1: State the responsibility Sumit had to **follow the manufacturer's instructions and use the washing machine safely**. This included complying with the requirement that the company's representative install the machine, rather than attempting installation without those instructions.

Step 2: Apply the responsibility to the events The shopkeeper told Sumit to wait for two days for installation. Instead, Sumit and Vivek installed it themselves "without following the manufacturer's instructions. As an aware consumer, Sumit should have waited for the authorised representative and followed the prescribed installation and use procedure. Merely choosing an ISI-marked machine did not fulfil this separate responsibility. Following the directions would have avoided the company's stated objection about unauthorised installation; the question then asks about the rights he could exercise if that responsibility had been fulfilled.

Step 3: Conclusion Sumit should have followed the manufacturer's installation and operating instructions, including waiting for the company's representative to install the machine.

Quick Tip to Solve: When a case mentions unauthorised installation, identify the duty to follow instructions; do not substitute the separate duty to buy standardised goods.

19(b). Explain briefly any two rights which Sumit could have exercised had he fulfilled his responsibility identified in part (a).

Solution:

Concept:

- Consumer rights protect a purchaser's interests when goods or services are defective or deficient, subject to the facts and applicable conditions.

- The right to be heard concerns consideration of a complaint, while the right to seek redressal concerns obtaining appropriate relief for the grievance.

Step 1: Explain the right to be heard **Right to be heard:** Sumit could have his complaint about the defective washing machine heard and his interests duly considered at the appropriate forum. After following the installation directions, he could approach the seller or company with the complaint; if it remained unresolved, he could approach the appropriate consumer forum. This right provides an opportunity for the grievance to receive attention.

Step 2: Explain the right to seek redressal **Right to seek redressal:** Sumit could seek relief against defective goods or deficient service. Depending on what the competent forum found appropriate, relief could include removal of the defect, replacement of the machine, refund of its price or compensation for loss suffered. Following the required instructions would remove the company's stated objection about installation; it would not mean that every requested remedy was automatically guaranteed.

Step 3: Conclusion He could exercise the **right to be heard** and the **right to seek redressal** by raising his complaint and seeking appropriate relief.

Quick Tip to Solve: Distinguish the two rights: being heard means the complaint receives consideration; redressal means seeking a remedy such as repair, replacement or refund.

20. What is meant by co-ordination ? State its any four features. [5 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to bring unity of action towards the organisation's common objectives.
- It is the force that binds all the other functions of management. Planning, organising, staffing, directing and controlling all require coordination so that separate efforts contribute to a common result.

Step 1: Explain the meaning of coordination Coordination means integrating and harmonising individual and departmental efforts to achieve organisational goals efficiently. Different departments may perform different tasks, but their activities must fit together. For example, production must match the sales plan, while purchasing must make the necessary materials available at the right time. Coordination gives these separate activities a common purpose.

Step 2: State four features of coordination

- **It integrates group efforts:** Coordination unifies the diverse interests and efforts of individuals and departments. It gives a common focus to group activity so that everyone contributes to the organisation's goals.
- **It ensures unity of action:** Coordination binds the activities of different departments into a purposeful whole. It connects their work and resolves differences so that one department's actions support, rather than obstruct, those of another.
- **It is a continuous process:** Coordination starts at the planning stage and continues through

organising, staffing, directing and controlling. Managers must maintain it throughout operations; a single discussion or instruction cannot ensure lasting harmony.

- **It is an all-pervasive function:** Coordination is required at every level of management and in all departments. Top managers coordinate overall plans, middle managers coordinate departments, and supervisory managers coordinate the work of employees carrying out daily tasks.

Step 3: Conclusion Coordination synchronises separate efforts for common organisational objectives. Four of its features are integration of group efforts, unity of action, continuity and an all-pervasive presence across levels and departments.

Quick Tip to Solve: Begin with synchronisation towards a common goal, then use the four headings: group efforts, unity of action, continuous process and all-pervasive function. Explain each heading rather than listing it alone.

21. 'Konark Ltd.' is an electronic goods manufacturing enterprise situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual firms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc. [5 marks]

21(a). Identify and state the feature of the concept discussed in the above paragraph.

Solution:

Concept:

- Business environment comprises individuals, institutions and external forces that may affect the performance of an enterprise.
- One feature is the presence of specific and general forces: specific forces directly affect individual firms, while general forces influence firms indirectly through wider conditions.

Step 1: Identify and state the feature The feature is **specific and general forces**. Specific forces include investors, customers, competitors and suppliers; they affect individual enterprises directly and immediately. General forces include economic, social, political, legal and technological conditions that affect enterprises indirectly.

Step 2: Support the distinction with case evidence The case says that the firms are affected "directly by the investors, customers, competitors and suppliers. These are their specific forces. It also names "money supply in the economy, "composition of the families and "technological changes. These illustrate economic, social and technological general forces respectively. The paragraph therefore shows both direct influences particular to a firm and broader influences shaping the conditions in which firms operate.

Step 3: Conclusion The feature is **specific and general forces of the business environment**: direct influences on individual firms coexist with wider forces that influence them indirectly.

Quick Tip to Solve: Map investors, customers, competitors and suppliers to specific forces; map economy-wide, social and technological conditions to general forces.

21(b). Also, state any four points of importance of this concept.

Solution:

Concept:

- Understanding the business environment enables managers to recognise external developments and respond to their effects on the enterprise.
- The importance of environmental awareness concerns its usefulness to a business; it is distinct from features such as uncertainty or specific and general forces.

Step 1: State the benefits of recognising external developments

- **Identifying opportunities and gaining first-mover advantage:** Environmental awareness helps a firm identify favourable external trends and exploit them before competitors.
- **Identifying threats and early warning signals:** It alerts managers to unfavourable developments, giving the business time to prepare a response and reduce their harmful effects.

Step 2: State the benefits for resources and adaptation

- **Tapping useful resources:** Understanding the environment helps a firm obtain inputs such as finance, materials and labour and supply outputs that the environment values in return.
- **Coping with rapid changes:** Monitoring markets, technologies and customer expectations helps managers revise products and operating methods when external conditions change.

Step 3: Conclusion Four points of importance are recognising opportunities, detecting threats early, tapping useful resources and coping with rapid changes.

Quick Tip to Solve: Use four different benefits of environmental awareness. Avoid listing features such as complexity or uncertainty when the question asks its importance.

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22. After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practices that were economically viable, environmentally sound and at the same time protecting public health.

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera products. He also thought that competitors prices and their anticipated reactions must also be considered for this.

After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money which they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit.

He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services. [5 marks]

22(a). Identify the concept.

Solution:

Concept:

- Price is the amount of money paid by a buyer in consideration of purchasing a product or service. Pricing is the marketing decision that determines this amount.
- Price is a competitive marketing weapon: the amount charged influences customers' willingness to buy and the firm's ability to compete with rival sellers.

Step 1: Identify the decisive statement Ashok's main consideration is "the amount of money paid by the consumers in consideration of the purchase of Aloevera products". These words directly describe **price**, the monetary consideration for a product. The case is therefore concerned with the price element of the marketing mix and the decision of pricing.

Step 2: Connect the identification to the other clues Ashok examines competitors' prices, buyers' perception of value and whether the amount charged can cover costs. All these considerations help determine an appropriate selling price. The reference to firms competing through this concept further confirms price; the question is not merely asking for the packaging or delivery method mentioned as supporting considerations.

Step 3: Conclusion The concept is **price**, or **pricing**: deciding the amount consumers pay to purchase the Aloevera products.

Quick Tip to Solve: The phrase "amount of money paid" identifies price; use the remaining case details as confirmation of a pricing decision.

22(b). Explain briefly any four factors discussed in the above case related to the concept so identified.

Solution:

Concept:

- Price determination balances the firm's costs and profitability with buyers' willingness to pay and conditions in the market.
- Four NCERT factors expressly discussed in this case are product cost, utility and demand, extent of competition in the market, and marketing methods used. Each affects the price Ashok can sustainably charge.

Step 1: Explain cost and customer-value considerations

- **Product cost:** The price should normally recover the total cost of producing, distributing and selling the product, together with a reasonable profit. Ashok recognises that "in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit". A new entrant may temporarily accept a price that does not recover every cost, but this cannot be its permanent basis of survival.
- **Utility and demand:** Buyers' perception of the product's utility and the intensity of demand affect the amount they are prepared to pay. The case says consumers "compare the value of a product to the value of money" and buy when the perceived value is at least equal to the payment. Demand

exceeding supply also helps explain the products' prevailing high prices.

Step 2: Explain competitive and marketing considerations

- **Extent of competition in the market:** A firm considers competitors' prices, their products' quality and features, and their likely reactions before fixing its price. Strong competition restricts its freedom to charge a higher price. Ashok explicitly considers "competitors prices and their anticipated reactions" and examines competing products' features.
- **Marketing methods used:** Packaging, distribution and customer services influence price by affecting costs as well as the benefits buyers receive. Ashok decides to add "unique features to the packaging" and provide "free home delivery". These services enter the price decision because their cost must be sustained and customers assess their value as part of the overall offer.

Step 3: Conclusion Four case-supported factors affecting price determination are **product cost, utility and demand, extent of competition, and marketing methods used**. Each must be considered before setting a viable price for Ashok's products.

Quick Tip to Solve: Match the four factors to cost recovery, perceived value, competing products, and packaging or delivery; explain how each clue affects the selling price.

23. Karan Nath took over 'D'north Motor Company' from his ailing father three months ago. In the past the company was not performing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as selection of employees in the company were not scientific.

He believed that there was only one best method to maximise efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'.

He asked the Production Manager to develop the best method and carry out the necessary training. The Production Manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage.

Identify and explain the principles and the technique of scientific management followed by the Production Manager in the above case. [6 marks]

Solution:

Concept:

- Taylor's scientific management replaces decisions based merely on habit with methods established through scientific investigation. Its purpose is greater efficiency, productivity and prosperity for both the organisation and its workers.
- A principle is a broad guide to management, while a technique is a specific procedure used to apply it. This case illustrates two principles and the technique of method study.

Step 1: Identify science, not rule of thumb **Principle 1: Science, not rule of thumb.** Taylor argued that there is one best method of doing a job and that it should be discovered through scientific study, analysis and experimentation rather than relying on traditional practices or an individual's personal

judgement. Management should investigate the work and develop the best method to maximise efficiency.

In the case, Karan believes that "there was only one best method to maximise efficiency" and directs the Production Manager to develop it. This replaces the company's earlier unscientific production methods with a carefully investigated way of working.

Step 2: Identify development of every person to greatest efficiency **Principle 2: Development of each and every person to his or her greatest efficiency and prosperity.** Employees should be scientifically selected for work suited to their capabilities and given the training needed to perform it efficiently. Developing workers' knowledge and skills enables them to use the best methods, increases their effectiveness and promotes their prosperity as well as that of the enterprise.

The supporting words are that the workers "should be trained to learn that 'best method'" and that the Production Manager was asked to "carry out the necessary training". The proposed training develops employees so that the scientifically designed method can actually be used throughout the company.

Step 3: Explain the technique of method study **Technique: Method study.** This technique determines the best way of performing a job. It studies the entire production process, from procurement and use of raw materials through the sequence of operations to delivery of the finished product. It examines such matters as the placement of workers and machines and the movement of materials. The objective is to minimise production cost while maximising quality and customer satisfaction.

The case says the Production Manager considered "the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers". These are the specific concerns of method study. Applying the improved method increased output, improved quality and reduced cost and wastage. The focus is the overall way of doing the work, rather than measuring only the time required or eliminating only unnecessary bodily movements.

Step 4: Conclusion The Production Manager follows **science, not rule of thumb** and **development of each and every person to greatest efficiency and prosperity**. The technique used to establish the best production procedure is **method study**.

Quick Tip to Solve: Match "one best method" to the scientific principle, "training workers" to employee development, and the study of the complete sequence and workplace arrangement to method study.

24. 'Moga Industries Ltd.' approached a well established university in the city of Madurai to recruit qualified personnel for various technical and professional jobs. They selected Tanya, Ritu, Garima and Chetan for various vacancies in the organisation.

After the selection and placement, 'Moga Industries Ltd.' felt the need to increase the skills and abilities, and the development of positive attitude of the employees to perform their specific jobs better. The company also realised that learning new skills would improve the job performance of the employees. Hence, the company decided to take action for the same. [6 marks]

24(a). Name the step of the staffing process regarding which the company decided to take action.

Solution:

Concept:

- **Staffing:** Staffing includes recruitment, selection, placement and orientation, and then training and development so that employees can perform their work effectively.
- **Training and development:** Training improves the knowledge, skills and attitudes needed for a particular job; development improves employees' overall capabilities and prepares them for greater responsibilities.

Step 1: Identify the stage reached in the staffing process The company has already recruited qualified personnel and completed their selection and placement. Therefore, its next action is concerned with improving the ability of existing employees to perform their jobs. It is not another recruitment or selection exercise: those steps bring suitable people into the organisation, whereas this action improves their performance after appointment.

Step 2: Match the case evidence to the staffing step The expressions 'increase the skills and abilities' and 'development of positive attitude' show the need for **training and development**. The company also recognises that 'learning new skills would improve the job performance'. These are the defining purposes of training: systematic learning enables employees to acquire the knowledge, skills and attitudes required to do their specific jobs better. The broader improvement of their abilities also supports development and future responsibilities.

Step 3: Conclusion The step is **training and development**. Moga Industries Ltd. decided to improve its selected employees' skills, abilities and attitudes to help them perform their specific jobs better.

Quick Tip to Solve: In a staffing case, distinguish obtaining employees from improving employees: learning new skills after selection and placement points to training and development.

24(b). State the benefits of the action to 'Moga Industries Ltd.'

Solution:

Concept:

- **Training and development:** Systematic learning improves employees' knowledge, skills and attitudes, enabling them to perform their present jobs and take on future responsibilities.
- **Benefits to the organisation:** The question asks how the employer gains. Link improved employee competence to savings, productivity, managerial availability, morale and adaptation to change.

Step 1: State the savings and productivity benefits

- **Avoids waste of effort and money:** Systematic training is better than learning only through trial and error. Moga Industries Ltd. can teach correct work methods, reducing mistakes and avoiding unnecessary waste of materials, effort and money.
- **Improves productivity:** Better skills enable employees to produce more and improve the quality of their work. Higher productivity and better quality can improve the company's profitability.

Step 2: State the benefits for staffing and employee morale

- **Develops future managers:** Training and development equip employees to take over responsibilities in an emergency and prepare them for higher positions. The company therefore has a better supply of capable people for future managerial needs.
- **Improves morale:** Employees who can perform their jobs confidently are more satisfied and motivated. Improved morale can reduce absenteeism and employee turnover, helping the company retain its personnel.

Step 3: Explain the benefit in a changing environment **Enables a faster response to change:** Training helps employees acquire skills needed for technological and economic changes. A competent workforce enables Moga Industries Ltd. to introduce new work methods and adapt more effectively when business conditions change.

Step 4: Conclusion Moga Industries Ltd. benefits through less waste, greater productivity and quality, a supply of future managers, improved morale with lower absenteeism and turnover, and a more effective response to changes in technology and business conditions.

Quick Tip to Solve: When asked for benefits to the company, connect training to business outcomes; promotion and higher personal earnings are primarily benefits to the employee.

25. Explain briefly any four factors affecting the fixed capital requirements of an organisation.

[6 marks]

Solution:

Concept:

- Fixed capital refers to funds invested in fixed assets such as land, buildings, plant and machinery. These assets serve the business over a long period, so their purchase requires long-term investment decisions.
- The amount required depends on the kind and size of the business and on how production is organised. A factor must be explained by showing why it increases or reduces investment in fixed assets.

Step 1: Explain the nature of business **Nature of business:** A manufacturing concern generally requires more fixed capital because it needs a factory, plant, machinery and other production facilities to convert raw materials into finished goods. A trading concern buys and sells finished goods and normally needs fewer production assets; therefore, its fixed capital requirement is comparatively lower. The nature of operations thus determines the basic assets the organisation must acquire.

Step 2: Explain the scale of operations **Scale of operations:** An organisation operating on a large scale generally requires more fixed capital than one operating on a small scale. Higher production and sales capacity need larger premises, more machinery and greater investment in supporting facilities. A small business can work with fewer and smaller assets. Hence an increase in the scale of operations normally raises the investment required in fixed assets.

Step 3: Explain the choice of technique **Choice of technique:** A capital-intensive technique relies heavily on machinery and automated equipment. It therefore involves a higher initial investment in fixed assets and a greater fixed capital requirement. A labour-intensive technique relies more on human effort and uses comparatively less machinery, so it normally requires less fixed capital. The production method chosen consequently affects how much long-term finance must be committed to equipment.

Step 4: Explain technology upgradation **Technology upgradation:** In industries where technology changes rapidly, existing equipment becomes obsolete sooner and must be replaced more frequently. Such organisations need a higher provision of fixed capital to keep their facilities up to date and remain competitive. For example, businesses dependent on rapidly changing electronic equipment face more frequent replacement needs than businesses using relatively stable technology. The pace of technological change therefore influences fixed capital requirements.

Step 5: Conclusion Four factors affecting fixed capital requirements are the nature of business, scale of operations, choice of technique and need for technology upgradation. Manufacturing, large-scale and capital-intensive operations, and frequent technological replacement, generally require greater investment in fixed assets.

Quick Tip to Solve: For each factor, state the condition and its effect on fixed assets: manufacturing, larger scale, greater mechanisation and faster obsolescence usually mean more fixed capital.