

# **Paper 1 - Fundamentals of Economics and Management**

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Full Marks :100

Time allowed: 3 hours

I. Choose the correct answer from the given four alternatives:

[20 × 1 = 20]

1. Normative Economic theory deals with \_\_\_\_\_
  - (a) What to produce
  - (b) How to produce
  - (c) Whom to produce
  - (d) **How the problem should be solved**
  
2. Nature of PPF curve is
  - (a) Convex to the origin
  - (b) **Concave to the origin**
  - (c) Both
  - (d) None
  
3. If an economy is working at the point left to PPF curve that shows \_\_\_\_\_
  - (a) Full employment
  - (b) **Unemployment**
  - (c) Excess production
  - (d) None of the above
  
4. Micro economic theory deals with \_\_\_\_\_.
  - (a) Economy as a whole
  - (b) **Individual units**
  - (c) Economic growth
  - (d) All of the above
  
5. Luxury goods have \_\_\_\_\_ degree of elasticity.
  - (a) **High**
  - (b) Low
  - (c) Moderate
  - (d) None
  
6. Price elasticity demand of product will be more, if it \_\_\_\_\_.
  - (a) Has no substitutes
  - (b) **Has a number of substitutes**
  - (c) Is an item of necessity
  - (d) Is a life saving product
  
7. An increase in price will result in an increase in total revenue if \_\_\_\_\_.
  - (a) Percentage change in quantity demanded is greater than the percentage change in price

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- (b) **Percentage change in quantity demanded is less than the percentage change in price**
- (c) Percentage change in quantity demanded is equal to the percentage change in price
- (d) None of the above
8. Returns to a variable factor operates in \_\_\_\_\_
- (a) **Short run**
- (b) Long run
- (c) either 'a' or 'b'
- (d) neither 'a' nor 'b'
9. All factors of production become variable in \_\_\_\_\_.
- (a) Medium run
- (b) Short run
- (c) **Long run**
- (d) None of the above
10. A rational producer will operate in \_\_\_\_\_
- (a) Stage I
- (b) Stage II
- (c) Stage III
- (d) **All of the above**
11. Why does the Law of Increasing Returns operate?
- (a) Full use of fixed indivisible factors
- (b) Efficiency of variable factors
- (c) Need to reach the right combination
- (d) **All the above**
12. Which of the following is/are the essential features of the market
- (a) Buyers
- (b) Sellers
- (c) Price
- (d) **All the above**
13. In the long run price is governed by \_\_\_\_\_.
- (a) **Cost of production**
- (b) Demand- Supply forces
- (c) Marginal utility
- (d) None of the above
14. Which of these is/are associated with monopolistic competitive market
- (a) **Product differentiation**
- (b) Homogeneous product
- (c) Normal in short run

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- (d) Single buyer
15. Optional money is a \_\_\_\_\_
- (a) Legal tender money
  - (b) **Non-legal tender money**
  - (c) Limited legal tender money
  - (d) Full bodied money
16. Which of these would lead to fall in demand for money?
- (a) Inflation
  - (b) Increase in real income
  - (c) **Increase in real rate of interest**
  - (d) Increase in wealth
17. Which of these is near money?
- (a) Bills of exchange
  - (b) Savings Bond
  - (c) Gilt edged securities
  - (d) **All of these**
18. Which is the apex bank for agricultural credit in India
- (a) RBI
  - (b) SIDBI
  - (c) **NABARD**
  - (d) IDBI
19. Manipulation in CRR enables the RBI to \_\_\_\_\_
- (a) **Influence the lending ability of the commercial banks**
  - (b) Check unemployment growth
  - (c) Check poverty
  - (d) Increase GDP
20. FERA has been replaced by \_\_\_\_\_
- (a) FINA
  - (b) **FEMA**
  - (c) FENA
  - (d) MRTF

### II. Match the following

[5 × 1 = 5]

	Column 'A'		Column 'B'
1.	Commercial Banks	A	Duopoly
2.	Deflation	B	Average Cost
3.	Two firms	C	Discounting Bills

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4.	Land	D	Loss of Borrowers
5.	AFC + AVC	E	Fixed Factor

**Answer:**

	Column 'A'		Column 'B'
1.	Commercial Banks	C	Discounting Bills
2.	Deflation	D	Loss of Borrowers
3.	Two firms	A	Duopoly
4.	Land	E	Fixed Factor
5.	AFC + AVC	B	Average Cost

**III. State whether the following statement is True (or) False.**

**[10 × 1 = 10]**

1. In perfect market AR=MR curve is parallel to X-axis.  
**True**
2. When TP is maximum, then AP is zero.  
**False**
3. PPC is also called PPF.  
**True**
4. Value of Paradox is depicted by law of demand.  
**False**
5. Money is treated as means of trade and commerce.  
**True**

**IV. Answer any four of the following questions.**

**[4 × 10 = 40]**

**1. Wealth:**

The stock of goods under the ownership of a person 'or' a nation is called wealth.

(a) Personal wealth:

The stock of goods under the ownership of a person is called personal wealth. For example: houses, buildings, furniture, land, money in cash, company shares, stocks of other commodities etc., health, goodwill etc. can also be consider to be the parts of Individual wealth. But in economics only transferable goods are consider as wealth.

(b) National Wealth:

The stock of goods under the ownership of a nation is called national wealth. It includes the wealth of all the citizens in the country. For example: Natural resources, roads, parks, bridges, hospitals, public education institutions etc., If the citizen of the country holds a

government bond It is personal wealth. But from the government point of view it is a liability. So, it should not be considered the part of wealth of nation.

### **2. Causes for falling nature of Demand Curve ie. downward sloping demand curve:**

There are many reasons for the falling nature of demand curve. Some of the reasons are explained as follows:

#### **(a) Law of diminishing marginal utility:**

According to law of diminishing marginal utility when the quantity of goods is more the marginal utility of the commodity will be less. So the consumer demands more goods when the price is less. That is why, the demand curve slopes downwards from left to right.

#### **(b) Substitution effect:**

In the case of substitutes if the price of commodity 'x' rises relatively to the other good 'y' the consumer will buy less of commodity 'x' and buy more of the good 'y' which has become relatively cheaper. This is called substitution effect. So the demand curve slopes downward.

#### **(c) Income effect:**

The income effect tells that the real income of the consumer rises due to the fall in the price level. So they purchase more and more goods when the price falls. This is said to be the income effect.

#### **(d) New buyers:**

When the price of a commodity decreases the new consumers are attracted to that commodity because when the price level falls it becomes cheaper good than before. So the demand will rise with the price falls.

#### **(e) Old buyers:**

When the price of anything decreases the old buyers purchase more goods than before. So the demand will be increased. That is why, the demand curve slopes downward from left to right.

### **3. Labour**

In the ordinary usage, labour stands for only physical labour. In economics, labour means physical as well as mental services engaged in production to earn income. Classical economists and Karl Marx have considered labour as the sole factor of production.

#### **Features of Labour:**

Labour as a factor of production possesses certain peculiar features:

##### **(a) Labour is inseparable:**

Labour is inseparable from labourer but in the case of other factors i.e. land and capital are separable from land lord and capitalist.

**(b) Labour is perishable:**

If a worker does not find work on a particular day, the labour is lost for that day. Like other factors of production, labour cannot be preserved.

**(c) Supply of labour:**

Labourers offer more labour at lower wages. When wages rise beyond a certain level they prefer to enjoy leisure and supply less labour. It is observed that supply curve of labour is backward bending at higher wages.

**(d) Weak-bargaining power:**

Labour has less bargaining power as it is a perishable thing. In the same way the trade unions are not strengthened so they cannot fight for better wages.

**(e) Differ in efficiency of labour:**

Some labourers have more efficiency and some labourers have less efficiency.

**4. Internal diseconomies:**

Internal diseconomies are those disadvantages which are internal to the firm and accrue to the firm when it over expands its scale of production. The main internal diseconomies of scale are as follows:-

**(a) Management diseconomies**

These diseconomies occur primarily because of increasing managerial difficulties with too large a scale of operations. It becomes difficult for the top management to exercise control and to bring about proper coordination.

**(b) Technical diseconomies**

If a firm frequently changes its technologies and uses new technologies and new machines, it may increase its costs. After a certain limit, the large size or volume of the plant and machinery may also prove disadvantageous.

**(c) Risk bearing diseconomies**

The business cannot be expanded indefinitely because of the principle of increasing risk. The risk of the firm increases because of reduction in demand, change in fashion and introduction of new substitutes in the market.

**(d) Marketing diseconomies**

A large firm is forced to spend more on bringing and storing of raw materials and selling of finished goods in the distant markets.

**(e) Financial diseconomies**

A large firm has to borrow a large amount of money even at a higher rate of interest. It imposes a burden on the financial position of the firm.

**5. Features of Perfect Competitive Market:**

The perfect competition market has the following features.

**(a) Large number of sellers and buyers:**

There will be a large number of sellers and buyers for a good in this market. It means the output of a buyer or a seller is a small part of the total output. A single producer or seller cannot change the price by his actions. None of them is large enough to influence the price. Therefore a seller takes the price decided by the market. The producer is a price taker.

**(b) Homogeneous Commodities:**

Products in this market are similar in every aspect. A consumer gets the same good whenever he purchases. As a result there will be one price all over the market.

**(c) Free entry and exit:**

Any firm can enter into the production as per its desire. Finally it can leave the production at any time. This helps new firms to enter into business when conditions are favourable. As long as a firm earns super normal profits, it usually stays in competition. But when the firm ends up with losses, it would leave the market.

**(d) Mobility of factors of production:**

Factors of production will move from one production to another easily. This is also useful for free entry and exit of firms factors (land, labour, capital) move to the production activities where they get higher incomes.

**(e) Absence of transport cost:**

Under perfect market transport costs should not be added in the price. If transport costs are added the goods are available at the fewer prices at the near markets and they are available at the higher prices at distant markets. Existing of two prices for the same thing in different parts is against for perfect market. So transport cost should not be added.

**(f) Perfect knowledge of market:**

Buyers and sellers in this market will have a clear knowledge about market conditions. So that there will be one price throughout the market. Because of perfect knowledge, sales and purchases of commodities take place as one price.

**6. Fisher's quantity theory of money is criticised on the following grounds:**

- (a) Fisher's equation is abstract and mathematical truism. It does not explain the process by which M affects P.
- (b) It is presumed that entire M is used up in buying T instantly. It is unreal. No one spends all money the moment he earns it.
- (c) The concept full employment is myth. There is natural rate of unemployment in every country.
- (d) Even with full employment, a country can rise national output by bringing those factors which are not available within economy from abroad.
- (e) It is presumed that money is used for transactions only. Hence the theory is often referred to as cash transaction theory. This ignores the other roles of money.

**Section B**

I. Choose the correct answer from the given four alternatives:

[20 × 1 = 20]

1. Feedback may be
  - (a) Direct
  - (b) Indirect
  - (c) **Either 'a' or 'b'**
  - (d) None of the above
  
2. Formal communication is always
  - (a) **Written**
  - (b) Oral
  - (c) Both 'a' and 'b'
  - (d) None of the above
  
3. The message to be transmitted through verbal medium may be
  - (a) Orders
  - (b) Instructions
  - (c) Reports
  - (d) **All of the above**
  
4. Which one is not a barrier to communication?
  - (a) Filtering
  - (b) Emotions
  - (c) **Message**
  - (d) Language
  
5. The process of communication starts with \_\_\_\_\_
  - (a) Supervisor
  - (b) **Sender**
  - (c) Receiver
  - (d) Medium
  
6. Which one of the following is the principle of direction?
  - (a) Harmony of objectives
  - (b) Unity of command
  - (c) Follow-up
  - (d) **All of the above**
  
7. \_\_\_\_\_ is aimed at maintaining harmony among employees and groups in an organisation
  - (a) **Direction**
  - (b) Supervision
  - (c) Planning
  - (d) Control

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8. T-group training is also known as
- (a) Classroom training
  - (b) Apprenticeship Training
  - (c) Internship training
  - (d) **Sensitivity training**
9. \_\_\_\_\_ is concerned with providing the organization with the right number of people, at the right place and at the right time so that the organization would be able to achieve its goals effectively.
- (a) Recruitment
  - (b) **Staffing**
  - (c) Selection
  - (d) Development
10. \_\_\_\_\_ refers to the introduction of a person to the job and the organization.
- (a) **Induction**
  - (b) Introduction
  - (c) Orientation
  - (d) Placement
11. \_\_\_\_\_ skills are related to the problem identification and prescribing appropriate solution.
- (a) **Decision making skills**
  - (b) Interpersonal skills
  - (c) Operative skills
  - (d) All of the above
12. CPC
- (a) Critical path control
  - (b) **Critical point control**
  - (c) Critical point complaint
  - (d) Critical point complex
13. Control function is closely connected to \_\_\_\_\_
- (a) **Planning**
  - (b) Organising
  - (c) Coordination
  - (d) All of the above
14. The first step in the organizing process is \_\_\_\_\_
- (a) Division of work
  - (b) Grouping of work
  - (c) **Identifying the work**
  - (d) Establishing formal reporting relationships
15. Post control is also known as \_\_\_\_\_

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- (a) **Feedback control**  
(b) Concurrent Control  
(c) Pre-control  
(d) Fast forward control
16. \_\_\_\_\_ is the primary force within the organization which tends to lead it towards achievement of goals.  
(a) Decentralisation  
(b) **Management**  
(c) Centralisation  
(d) Delegation of authority
17. Assignment of duties is meaningless unless adequate authority is given to \_\_\_\_\_.  
(a) **Subordinates**  
(b) Peers  
(c) Superiors  
(d) All of the above
18. \_\_\_\_\_ represents the numerical limit of subordinates to be supervised and controlled by a single supervisor.  
(a) Unity of command  
(b) Unity of objectives  
(c) **Span of control**  
(d) Scalar Chain
19. The sequential set of steps in decision making is  
(a) Identification – Evaluation – Developing – Selection – Implementation  
(b) Identification –Developing – Evaluation – Implementation – Selection  
(c) **Identification –Developing – Evaluation – Selection – Implementation**  
(d) None of the above
20. Tactical decisions are also known as  
(a) **Operational Decisions**  
(b) Programmed decision  
(c) Non-programmed decision  
(d) Strategic Decision

### **II. Match the following**

**[5 × 1 = 5]**

	<b>Column 'A'</b>		<b>Column 'B'</b>
1.	External source	A	Rigid rules and regulations
2.	Strategies	B	Oral Communication
3.	Bureaucratic Management	C	Standing Plans
4.	Group Discussions	D	Investment Plans
5.	Controllable premises	E	Employment Exchange

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**Answer:**

	Column 'A'		Column 'B'
1.	External source	E	Employment Exchange
2.	Strategies	C	Standing Plans
3.	Bureaucratic Management	A	Rigid rules and regulations
4.	Group Discussions	B	Oral Communication
5.	Controllable premises	D	Investment Plans

**III. True False:**

**[5 × 1 = 5]**

1. The art of influencing others to direct their will, abilities and efforts to the achievements of goals is called leadership.  
**True**
2. Work is natural like rest or play according to theory X.  
**False**
3. Responsibility flows downwards.  
**False**
4. Division of work is necessary to enjoy the benefits of specialization.  
**True**
5. Apprenticeship training is best example for off the job training.  
**False**

**IV. Answer any four of the following questions.**

**[4 × 5 = 20]**

1. An analysis of the definitions of leadership brings out following characteristics of leadership:
  - (i) Leadership is a personal quality.
  - (ii) Leadership presupposes the existence of a group of followers. There can be no leadership without followers.
  - (iii) Leadership tries to influence the individuals to behave in a particular way. Successful leaders are able to influence the behaviour, attitudes and beliefs of the followers.
  - (iv) Leadership arises out of functioning for a common goal.
  - (v) Leadership is a continuous process of influencing behaviour.
  - (vi) Leadership is related to a particular situation at a given point of time under a specific set of circumstances. Thus, leadership style will be different under different circumstances.

### 2. Span of Management

Span of Management also known as span of control, span of supervision or span of authority represents the numerical limit of subordinates to be supervised and controlled by a single supervisor. It is an important principle of building a sound organization. The principle is based on the theory of relationships propounded by Graicunas – a French management consultant who analysed the superior – subordinate relationship based on a mathematical formula.

No. of direct relationships =  $n$

No. of cross relationships =  $n(n-1)$

No. of group relationships =  $n[2n - 1 - 1]$

Total No. of relationships =  $n[2n/2 + (n-1)]$

Where  $n$  represents the number of subordinates.

The concept of span of management is central to the classical organization theory. Proper span of management is considered a necessity for effective supervision, co-ordination and control. It is therefore critical to determine the ideal span. If the span of control is narrow, there will be more organizational levels which in turn may impede communication. If the span is widened, the supervisory load may become too heavy. Thus, sound organization structure required striking an optimum balance between organization levels, and supervisory work load.

### 3. Principles of direction:

The principles of direction can be summed up as under:—

- (i) **Harmony of objectives:** One very important principle of direction is to harmonise the objectives or goals of individuals with that of the enterprise. A manager should foster the sense of belonging to the organisation among individuals and groups and see that the members identify themselves with the organisation. Goal incongruence may lead to ineffectiveness and inefficiency.
- (ii) **Unity of command:** Another sound principle of direction is that the subordinates should receive orders from one and only one superior or boss. Presence of dual subordination inevitably brings chaos and disorder. For achieving efficiency, unity of direction should be strictly followed.
- (iii) **Direct Supervision:** When manager is directly involved in supervising the employees i.e. when he comes into personal contact with the employees, especially in the work-related areas, a sense of belonging gets developed in the minds of employees and this paves way for escalated morale and making sub-ordinate happy. Direct supervision also ensures quick feedback of necessary information; the manager would get first hand information from the employees through face-to-face communication.
- (iv) **Appropriate leadership style:** Leadership is a process of influencing the employees in the work environment. A manager should exhibit appropriate leadership style to

direct the employees to achieve the organisational goals effectively. Leadership style is a function, of characteristics of leader, characteristics of subordinates, and the situation.

- (v) **Use of motivational techniques:** One of the principles of effective direction states that the manager should employ some motivational techniques such as pay, status, job enrichment, etc. so that the productivity and the quality of the commodity (or service) produced by the employee increases. Motivation leads to higher job satisfaction.
- (vi) **Follow up:** The last, but not least important, principle of direction is 'follow-up' because without such a follow up, it is quite likely that the subordinates just receive orders and do not follow them at all

#### 4. Importance of Communication

Communication is very important because it is a process by which the managerial functions of planning, organising, directing and controlling are accomplished. Without formal system of communication it is not possible for an organisation to exist. Secondly, communication is an activity to which the manager devotes an overwhelming proportion of his precious time. The importance of communication in organisations is summed up by Keith Davis in the following words: "Just as a man gets arteriosclerosis, a hardening of the arteries which impairs his efficiency, so an may organisation get info sclerosis, a hardening of the communication arteries, which produces similar impaired efficiency".

Communication is important because;

- In organisations, communication ties people and structure together.
- Communication is a bridge of meaning between two or more people.
- Communication involves understanding and acceptance of ideas to act in it.
- Effective communication is a substance of good management; communication is not a substitute for good management.

5. The term 'Management Audit' is defined as a systematic evaluation of the functioning, performance and effectiveness of management of an organisation. It is thus an independent appraisal of an organization's management by an outside firm.

A few major areas of management audit are as follows:

- (i) Formulation of organisational objectives, strategies, policies and programmes of action and the manner in which they are pursued, as also the extent of success achieved.
- (ii) Design and operation of organisational structures of roles, activities and relationships.
- (iii) The manner and efficiency with which resources and assets are mobilised, developed, allocated, utilised and safeguarded, including the human resources.
- (iv) Design and functioning of various systems and operations within the organisation.

- (v) The manner in which the management team anticipates and sizes up external environmental elements and designs appropriate adaptive strategies to cope with them.
- (vi) The internal organisational climate - to what extent it is conducive for co-operation, harmony, creativity, productivity and satisfaction.
- (vii) The quality of managerial decisions:: their soundness, timeliness and effectiveness.

**6. Maslow's need hierarchy theory is widely criticised for the following reasons:**

- (i) Needs are not the only determinant of behaviour. People seek objects and engage in behaviour that is in no way connected with the gratification of needs. There are other motivating factors like perceptions, expectations, experiences, etc.
- (ii) The theory gives an over simplification of human needs and motivation .Need recognition and fulfillment do not always follow the specific sequence of hierarchy suggested by Maslow, Need classification is somewhat artificial and arbitrary as human needs cannot be classified into neat watertight compartments. Therefore, the theory may not have universal validity.
- (iii) The hierarchy of needs is not always fixed. Different people may have different orders. For example, in case of creative people like singers, painters, etc., self-actualisation need may become a dominant motivating force even before the lower order needs are satisfied. Similarly, the need priorities of the same individual may change over time. As a result, a manager cannot keep up with a continuously revolving set of needs. Thus, Maslow's model presents a somewhat static picture of need structure. The theory does not recognise individual differences. Individuals differ in the relative intensity of their different needs.
- (iv) Maslow's theory is based on a relatively small sample. It is a clinically derived theory and its unit of analysis is the individual. That is why Maslow presented his model with apologies to those who insisted on conventional reliability, validity, sampling, etc.
- (v) There is no definite evidence that once a need is satisfied it loses its motivating force. It is also doubtful that satisfaction of one need automatically activates the next need in the hierarchy.
- (vi) Some persons will not aspire after their lower-order needs have been satisfied. Human behaviour is the outcome of several needs acting simultaneously.

The same need may not lead to the same response in all individuals. Similarly, one particular behavior may be the result of different needs. There is lack of direct cause and effect relationship between need and behaviour.