

Paper 1 - Fundamentals of Economics and Management

Answer to MTP_Foundation_Syllabus 2012_Jun 2017_Set 1

Paper 1 - Fundamentals of Economics and Management

Full Marks :100

Time allowed: 3 hours

PART A (Fundamentals of Economics)

I. Choose the correct answer from the given four alternatives: [10 x 1 = 10]

1. Who was the father of Economics
 - (a) Marshall
 - (b) **Adam smith**
 - (c) Robbins
 - (d) Keynes

2. Ceteris paribus means
 - (a) Demand constant
 - (b) supply constant
 - (c) **other thing being constant**
 - (d) none

3. In the long run a firm in perfect competition earns
 - (a) **Normal profit only**
 - (b) Abnormal profit
 - (c) Average profit of past five years
 - (d) 12.33% profit on capital employed

4. A firm faces the shut down situation when
 - (a) **Price is less than average variable cost**
 - (b) Price is more than the average variable cost
 - (c) Price is equal to fixed cost
 - (d) Price is more than the average fixed cost

5. Which shows the functional relationship between consumption and income
 - (a) Income function
 - (b) **consumption function**
 - (c) Saving function
 - (d) None

6. Real GDP is measured in _____ prices
 - (a) Current year
 - (b) **Base year**
 - (c) 1980
 - (d) 2000

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7. CRR means

- (a) Cumulative rate of return
- (b) Current rate of return
- (c) **Cash Reserve Ratio**
- (d) Current rate of Rupee

8. Nationalization of Banks took place in

- (a) **July 1969**
- (b) February 1977
- (c) January 1960
- (d) April 1989

9. Disguised unemployment is mainly found in

- (a) Urban areas
- (b) **Rural areas**
- (c) Small scale sector
- (d) Highly qualified work force

10. Which of these is/are the features of an underdeveloped economy?

- (a) Greater inequalities
- (b) High incidence of unemployment
- (c) Orthodox means of production
- (d) **All the three**

II. Fill in the blanks:

[5 x 1 = 5]

1. In deductive method the logic proceed from **General** to **Particular**
2. Supply curve in the case of labour is **Backward Bending**
3. When the $AC=MC$ then the average cost is **Minimum**
4. According to fisher theory money is demanded for **Transaction** purpose
5. Credit creation is the function of **Commercial** banks.

III. Match the following

[5 x 1 = 5]

Column 'A'		Column 'B'	
1.	Bank Rate	A	Savings
2.	Interdependence	B	Manila
3.	MPC	C	RBI
4.	Liquidity Preference	D	Keynes
5.	ADB	E	Oligopoly

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Answer:

Column 'A'		Column 'B'	
1.	Bank Rate	C	RBI
2.	Interdependence	E	Oligopoly
3.	MPC	A	Savings
4.	Liquidity Preference	D	Keynes
5.	ADB	B	Manila

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

[5 x 1 = 5]

1. Tramways is an example of perfect market.
False
2. Income method is also called value added method.
False
3. There is a direct relationship between price level and value of money.
False
4. Welfare of the people depends upon the distribution of national income.
True
5. The insurance sector allowing foreign direct investment.
True

V. Give the answer in one sentence for any five from the following:

[5×1=5]

1. **Marginal Utility:**

It is the additional utility obtained by the consumer by the consumption of additional unit of a thing or one more unit of a thing. The change in the total utility is also called marginal utility.

$$MU_n = \frac{\Delta TU}{\Delta q} \text{ (or) } MU_n = TU_n - TU_{n-1}$$

2. **Demand Forecasting:**

The success of the business firm depends upon the successful demand forecasting. Estimation of future demand for product at present is called demand forecasting.

3. **Deficit Finance:**

When the governments make the borrowings from the RBI or issue the new currency to fill the gap of the budget deficit, it is said to be deficit finance.

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4. Bank Rate:

The rate of interest charged by RBI from the commercial banks for the money lending [long-term] is called bank rate.

5. Density of population

Density of population indicates the number of the people living per square kilometer. The density of population in India is 412 per sq.km. In USA it is 34 and in China it is 143.

6. Marginal revenue.

It is the additional revenue obtained by the firm (or) producer by the selling of additional unit of a thing (or) one more unit of a thing. The change in the total revenue is also called marginal revenue.

$$MR_n = \frac{\Delta TR}{\Delta Q} \text{ (or) } MR_n = TR_n - TR_{n-1}$$

7. Monopoly

The word Monopoly is derived from two words 'Mono' and 'Poly'. Mono means Single and Poly means seller. Where there is a only one seller or one producer or one firm it is said to be monopoly market.

8. RBI

RBI or Reserve Bank of India is the regulatory bank in India. It may be defined as an institution charged with the responsibility of managing the expansion and contraction of the volume of money supply for general Economic Welfare. The Central Bank is the apex institution in the banking and financial structure of the country.

VI. Answer any one of the following

[1×10= 10]

1. Define National Income and explain the methods of measurement of National Income and State any five problems involved in the calculation of National Income.

Answer:

National income is the total market value of all goods and services produced in a country during a given a period of time.

Definitions:

According to Pigou, "National Income is that part of the objective income of the community including of course income derived from abroad which can be measured in money".

"The Labour & Capital of a country acting upon its natural resources produce annually a certain net aggregate of commodities material and immaterial including services of all kinds. This is the true net annual income or revenue of a country" -Marshall

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Methods of Calculating National Income:

There are three methods of measuring national income—

- (i) Output method.
- (ii) Income method.
- (iii) Expenditure method.

(i) Output method:

It is also known as inventory method or commodity service method. In this method we find the market value of all final goods and services produced in a country during a given period of time. The entire output of final goods and services are multiplied by their respective market prices to find out the gross national product.

$NI = [P_1Q_1 + P_2Q_2 + \dots + P_nQ_n] - \text{Depreciation} - \text{Indirect Taxes} + \text{Net Income from abroad.}$

Where;

NI = National Income

P = Price of the goods or service.

Q = Quantity of goods or service produced

1,2,..... n are the various goods and services produced.

The values of raw material, intermediary goods etc, should not be included. Only final goods should be taken into account.

Here we find out the value added in the different sectors like Agriculture, Government Professionals, industry and Service Sectors. Hence it is also called "Value Added Method".

(ii) Income Method:

In this method the incomes earned by all factors of production are aggregated to arrive at the national income of a country. The four factors of production receive incomes in the form of wages, rent, interest and profits. This is also national incomes at factor cost.

$NI = W + I + R + P + \text{Net Income from abroad.}$

Where,

NI = National Income

W = Wages

I = Interest

R = Rent

P = Profits

This method gives us National Income according to distributive shares. (The most important income share is that of labour).

(iii) Expenditure Method:

In this method we add the personal consumption expenditure of households, Expenditure of the firms, Government purchase of goods and services, net exports plus net income from abroad.

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$$NI = EH + EF + EG + \text{Net Exports} + \text{Net Income from abroad}$$

Here National Income = Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net Exports + Net income from abroad.

Care should be taken to include spending or expenditure made on final goods and services only.

Difficulties in Estimating the National Income:

There are so many difficulties in estimating the National Income. They are classified in to two categories. They are -

1. Conceptual difficulties
2. Statistical difficulties

1. Conceptual Difficulties

- (a) No practicable methods exists for inclusion of some items in National income (NI), Such as _ services for which no remuneration is paid, goods that are marketed sold at a price but are used for self - consumption etc.
- (b) It is not always possible to make a clear distinction between primary, intermediate and final goods.
- (c) The price that should be chosen to determine the money value of national product is a difficult question.
- (d) Debate regarding inclusion of income of foreign companies in National income estimates since, al large part of such income is remitted out of the country.

2. Statistical Difficulties:

- (a) Changes in the price level involve the use of Index numbers which have their inherent difficulties.
- (b) Official statistics are not always accurate as it is based on guess work and sample survey.
- (c) Methods of computing National Income are not the same in all countries.
- (d) The statistical data are often not available.

2. Explain the functions of Reserve Bank of India.

Answer:

Central Bank is the apex of the banking system in a country. It controls, regulates and supervises the activities of the banks and the country's banking system.

In our country the Central Bank was established in 1935 under private management. It was nationalized by the Government in 1949 and named as RBI (Reserve Bank of India).

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Objectives of the Reserve Bank:

The Central Bank functions with the objectives given below:

1. To maintain the internal value of currency.
2. To preserve the external value of currency.
3. To ensure price stability.
4. To promote financial institutions.
5. To promote economic development.

Functions of a Reserve Bank:

A Central Bank has the following functions:

(i) Note Issue:

The Central Bank alone is authorized to issue the currency notes in a country. It has the monopoly of note issue as no other bank is permitted to do so. It also enables the Central Bank to control the supply of money as per the requirements of the economy.

(ii) Banker to Government:

The Central Bank acts as a banker, agent and financial advisor to government in the following ways:

- (a) It maintains the accounts of the government funds.
- (b) It receives money and makes payments on behalf of the government.
- (c) It gives 'ways and means' advances to the government.
- (d) It issues new loans on behalf of the government.
- (e) It manages the public debt.
- (f) It undertakes foreign exchange transactions on behalf of the government.
- (g) It acts as the agent of the government in dealing with the international financial institutions like IMF and World Bank.
- (h) It advises the Government on all financial matters.

(iii) Banker's Bank:

The Central bank acts as a banker's bank in the following manner:

- (a) Every bank maintains a certain minimum of cash reserves with the Central Bank as a statutory obligation.
- (b) It serves as a lender of last resort. This helps the commercial banks to overcome the problems of liquidity and will be able to meet the demand for withdrawals even in times of financial stringency.
- (c) It acts as a clearing house for the commercial banks to settle their inter-bank accounts. This is possible because all commercial banks have account with the Central Bank in which the Central Bank keeps their cash balances.

(iv) Lender of last resort:

The Central Bank serves as lender of last resort not only to commercial banks but also to discount houses, and other credit institutions. They may approach the central bank when they face the problem of liquidity.

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(v) Controller of credit:

This is the most important function of the Central Bank. It controls the volume of credit in the economy through appropriate monetary policy. It takes steps to reduce the credit in case of inflation.

(vi) Custodian of foreign exchange reserves:

The Central bank maintains the reserves of foreign exchange and regulates their use. It has the responsibility to maintain the stability of the exchange rate of the native currency in terms of the foreign currency.

VII. Answer any two of the following

[2×5 = 10]

1. State the determinants of Elasticity of Demand.

Answer:

Determinants of Elasticity of Demand:

- (i) Nature of the commodity
- (ii) Availability of substitutes
- (iii) Variety of uses
- (iv) Possibility of postponement of consumption
- (v) Durable goods

(i) Nature of the commodity:

In the case of necessities the demand is less elastic (or) comparatively inelastic. For example rice, salt, pulses, matchbox etc. On the other hand the elasticity of demand for luxuries is more elastic. For example, TV, DVD players, Gold, Diamonds etc. Comfort goods have unitary elastic demand.

(ii) Availability of substitutes:

If a commodity has substitute goods, the elasticity for that commodity is more elastic. For example, lux soap and pears soap, ponds cream and Lakme cream.

(iii) Variety uses:

If the goods have several uses, the elasticity of demand for it is more elastic. For example, milk, coal, electricity etc.

(iv) Possibility of Postponement of consumption:

There are certain goods which can be postponed for purchase. In case of these goods, the demand is elastic. But in the case of life saving medicines the demand will be inelastic because we cannot postpone the purchase of such goods.

(v) Durable goods:

In case of durable goods the elasticity of demand will be less, but in case of perishable goods the elasticity of demand will be more.

2. What are the features of Monopoly?

Answer:

Monopoly Market:

The word Monopoly is derived from two words 'Mono' and 'Poly'. Mono means Single and Poly means seller. Where there is a only one seller or one producer or one firm it is said to be monopoly market. The single seller supplies the commodities to the entire market and the product supplied by the monopolist is not having a close substitutes. There are some restrictions for other producers to enter into the market. As a result monopoly has no competition in the market.

Features of Monopoly:

The monopoly market has the following features:

(i) Single firm:

A single firm produces the commodity in the market. There is only one seller or one producer or one firm.

(ii) No close substitutes:

The produce supplied by the monopolist will not have close substitutes in the market. A consumer will not find a substitutes commodity for the monopoly products.

(iii) Strong barriers to enter:

New firms cannot enter in the production due to the certain restrictions in market i.e. huge investment, lack of technology, patents etc. prevent the new firms to enter the market.

(iv) Firm and Industry are same:

As there is one firm in monopoly market there is no difference between firm and industry.

(v) Price maker:

In this market the producer can determine the price of the commodity so the producer in the market is said to be price maker.

(vi) Nature of AR & MR curves:

The average Revenue Curve (AR) and Marginal Revenue Curve (MR) both are slopes downwards from left to right because when a seller wants to sell the more of output he must reduce the price when the price is decreased both AR & MR are declining.

(vii) Price discrimination:

The monopolist can charge the different prices from the different customers for the same thing or services. The price is not uniform as in the perfect market competition.

(viii) Maximum profits:

The main aim of monopoly is to earn to get the maximum profits.

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3. State the differences between fixed costs and variable costs?

Answer:

Differences between Fixed costs and variable costs:

Fixed costs:

The costs which don't change with change of the output are called fixed costs. It means output may be increase (or) decrease but no change in these costs. When the output is stopped the producer must incurred this cost. Even the output is zero the fixed cost is positive. The fixed cost curve will be parallel to OX-axis.

Ex: expenditure on the land, building, salaries of permanent employees, interest payment, insurance premium etc.

Variable costs:

Costs which are changed with change of the output are called variable costs. It means when the output is increased these costs are also increased, when the output is decreased these costs are also decreased. When the output is zero these costs are also zero. The TVC curve will be sloped upwards from "left to right" and it is started from the origin.

Ex: Expenditure on raw material, power, fuel, wage of daily labourers etc.

Fixed costs	Variable costs
Fixed costs do not vary with quantity of output.	Variable costs vary with the quantity of output.
They are related with the fixed factors.	They are related with the variable factors.
They do not become zero. They remain same even when production is stopped.	They can become zero when production is stopped.
A firm can continue production when fixed costs are not recovered.	Production should at least recover the variable cost.

4. What are the Internal Economies?

Answer:

Internal Economies:

When a firm expands its size of business (or) increases its output, it get some advantages. They are called internal economies. These internal economies are related to a single firm and not related to all other firms in the industry.

Types of the internal economies:-

(a) Labour economies:

Division of labour and specialization are possible more in large-scale operations. Different types of workers can specialize and do the job for which they are more suited. As a result of this quality and speed of work both improve.

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(b) Technical economies:

A large firm will be able to install large capacity of machines in place of small sized machines. It also adopts latest technologies. These will give mechanical advantage over small firms and costs will be minimum.

(c) Managerial economies:

Highly talented managers of specialized skills will be employed by large firms. It helps to make better decisions in the production.

(d) Marketing economies:

Large scale purchase of raw materials and sale of finished goods gives the advantage of transport concessions to the firm. Advertisement costs will be less due to large output sales.

(e) Financial economies:

Large firms will be able to borrow credit easily. These firms will be able to offer securities and their goodwill in the market enable them to borrow at reasonable rate of interest. They also raise capital by attracting investors.

(f) Research and Development:

Improvements in technology efficient use of resources improvement in quality of products depend on research. Only large firms can afford to bear the expenditure on research.

(g) Economies Related to Transport and Storage costs:

Large firms are able to enjoy freight concession from railways and road transport. Because a large firm uses its own transport means and large vehicles, the per unit transport costs would fall. Similarly, a large firm can also have its own storage godowns and can save storage costs.

(h) Risk bearing economies:

Generally large firms diversify their production into different goods and services. Therefore, even if there is a loss in one item of good it can be covered by profit in other goods.

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PART B (Fundamentals of Management)

I. Choose the correct answer from the given four alternatives: [10×1 =10]

- Which is not one of Fayol's principles:
 - Authority and responsibility
 - Line of authority
 - Globalization**
 - Unity of command
- Which of the following is not a fundamental characteristics of Bureaucratic Management?
 - Specialisation of labour
 - Well defined hierarchy
 - Striving to be a 'first-class worker'**
 - Formal rules and regulations.
- According to Fayol's 14 principles of management, 'esprit de corps' refers to which of the following?
 - Being treated fairly and kindly.
 - Spirit of the corporation.
 - Team work and harmony.**
 - Spirit of work.
- What is the meaning of the acronym HRM?
 - Humane Resource Management.
 - Humanistic Resource Management.
 - Human Resource Management.**
 - Human Relations Management.
- The standard performances need to be adjusted after measuring with:
 - actual performances**
 - costs
 - time involved
 - external factors
- Theory _____ is based on positive assumptions about workers.
 - Z
 - X
 - Y**
 - C
- What does ERG stands for
 - Effective, readiness and growth
 - Expectancy, real and exist

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- (c) **Existence, relatedness and growth**
(d) Excellent relationship and growth.
8. Classification of groups into Natural groups, Family groups and organized groups according to
(a) Sayles
(b) **Mayo and Lombard**
(c) Dalton's
(d) None of the above
9. Propinquity means
(a) **Nearness**
(b) Farness
(c) Closeness
(d) All of the above
10. Which of the following is a stage in the conflict process?
(a) functional conflict
(b) dysfunctional conflict
(c) hindering conflict
(d) **incompatibility**

II. Fill in the blanks:

[5×1 = 5]

1. Father of Scientific Management is **F. W. Taylor**
2. **Delegation** means transfer of authority from one individual to another.
3. Span of Control is based on the theory of relationships propounded by **Graicunas**
4. Free Rein Leadership is also known as **Laissez –Fair Leadership**
5. **Conflict** happens because people have different beliefs, priorities and interests and sometimes those interests clash.

III. Match the following

[5×1 =5]

Column 'A'		Column 'B'	
1.	Henry Fayol	A	Prof Douglas Mc Gregor
2.	Encoding	B	Predicting the future events
3.	Supervision	C	Father of Modern Management
4.	Theory X and Theory Y	D	Selection of Language
5.	. Forecasting	E	Overseeing the subordinates at work

Answer:

Column 'A'		Column 'B'	
1.	Henry Fayol	C	Father of Modern Management
2.	Encoding	D	Selection of Language

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3.	Supervision	E	Overseeing the subordinates at work
4.	Theory X and Theory Y	A	Prof Douglas Mc Gregor
5.	Forecasting	B	Predicting the future events

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

[5×1 =5]

1. Recruitment sources are always external.

False

2. Planning is an intellectual process.

True

3. Authority is vested in a position.

True

4. The process of communication: Sender – Decoding– Transmission of Message – Receiver - Encoding – Feedback.

False

5. Management is a science as well as an art.

True

V. Define any Five of the following:

[5×1 =5]

1. Span of Control:

Span of management is also known as span of control, span of supervision. It represents the numerical limit of subordinates to be supervised and controlled by a single supervision. This principle is based on the theory of relationships propounded by Graicunas.

2. Planning:

Planning is defined as the activity by which managers analyze present conditions to determine ways of reaching a desired future stage. It embodies the skills of anticipation, influencing and controlling the nature and direction of change.

3. Control:

Control refers to the task of ensuring, that activities are producing the preset targets or goals. It is aimed at monitoring the outcome of activities, reviewing feedback information about this outcome, and if necessary take corrective action.

4. Espirit de Corps:

It is one of the Fayol's fourteen principles of management. It means team work is essential for the success of an organization.

5. Democratic Leadership

A consultative of democratic leader takes decision in consultation and participation with the subordinates. He decentralizes authority and allows the subordinates to share his

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power. The leader does what the group wants and follows the minority opinion. A democratic leader provides freedom of thinking and expression. He listens to the suggestions, grievances and opinions of the subordinates.

6. Decoding

It involves interpretation of the message by the receiver. Interpretation of message largely depends on the perception, past experience and attitudes of the receiver.

7. Apathetic Groups

These groups possess consistently indifferent attitudes towards informal groups and are characterized by dispersed, lack of cohesiveness, internal disunity and conflict.

8. Meaning of Conflict

Conflict is inequitable whenever two or more people interact, whether in the work place or at home. Conflict can occur between two or more individuals, two or more groups, or an individual and a group. When dealing with conflict in an organization, it is important to remember to address the issue, not the people.

VI. Answer any four of the following questions.

[4×5=20]

1. Explain about the Neo Classical Theory of Organisation.

Answer:

The Neo Classical Theory of Organisation:

The Neo-classical organization theory is commonly identified with the human relations movement pioneered by Elton Mayo. The foundations of this theory were laid down by the Hawthorne.

Experiments conducted by Mayo and his associates. These experiments to revealed that informal organization and socio –psychological factors exercise much greater influence on human behavior than physiological variables. Therefore, Neo-classical theory is popularly known as 'Behavioral Theory of organisation' or 'Human relations Approach'.

The main propositions of Neo-classical theory are as follows.

- (i) The organization in general is a social system composed of several interacting parts.
- (ii) Within a formal organization there exists an informal organization. They two affect each other.
- (iii) Human beings are interdependent. Their behavior can be predicted in terms of social and psychological factors at work.
- (iv) Motivation is a complex process. Many socio –psychological factors operate to motivate people at work.
- (v) Human being do not always act rationally. They often behave irrationally in terms of the rewards they seek from the work.

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- (vi) A conflict between organizational and individual goals often exists. There is, therefore, a need to reconcile the goals of the individual with those of the organization.
- (vii) Team work is essential for efficient functioning of organizations. But this is not automatic and has to be achieved.

Neo-classical writers gave an organizational design which is a modification of classical structure in the following ways;

- (i) Flat Structure
- (ii) Decentralization
- (iii) Informal organization.

Weakness of Neo-classical theories:

- (i) Neo-classical theory cannot be applied to all situations. No particular structure will serve the purposes of all organizations.
- (ii) Neo-classical theory lacks a unified approach. It is simply a modification of the classical model.
- (iii) Many of the assumptions on which neo-classical theory is based are not true. For instance, the assumption that it is always possible to find out a solution that satisfies everybody is not true.

2. Explain the steps in the process of Delegation of authority.

Answer:

The steps in the process of Delegation of authority:

The process of delegation involves the following steps:

- (i) Determination of results expected:-
A manager has to define the results he wants to obtain from his subordinates for achievement of organizational objectives.
- (ii) Assignment of Duties: -
The manager then assigns specific duties or tasks to each subordinate. He must clearly define the function of each subordinate. While assigning duties and responsibilities, he must ensure that the subordinates understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates.
- (iii) Granting of Authority: -
Enough authority must be granted so that subordinates can perform their duties. By granting authority subordinates are permitted to use resources, to take decisions and to exercise discretion.

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(iv) Creating accountability for performance: -

The subordinates to whom authority is delegated must be made answerable for the proper performance of assigned duties and for the exercise of the delegated authority. The extent of accountability depends upon the extent of delegation of authority and responsibility.

3. Explain the difference between Authority and Power.

Answer:

Difference between Authority and Power:

Authority	Power
Right to do some thing	Ability to do some thing
Derived from organizational position	Derived from many sources personal, institutional.
Always flow downward can be delegated	Flows in all directions – cannot be delegated
Legitimate – resides in position.	May be illegitimate
Narrow term – one source or subset of power	Broad concept – can achieve results when authority fails.
Visible from organizational chart	Not visible from organizational chart

4. What are the qualities of a Successful Leader?

Answer:

The qualities of a successful leader:

(a) Physical energy and stamina: -

A leader should have a good personality, charming manners and ability to work hard. A leader will be successful only when he acts with the groups as a members and works hard.

(b) Intelligence: -

Leaders should have somewhat higher intelligence than the average of their subordinates. They should possess the ability to think scientifically analyse accurately and interpret clearly and concisely and problems faced by the group.

(c) Vision and foresight:-

A leader should exhibit his trait of looking forward. He must have foresight to see and feel the future.

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(d) Initiative: -

The main task of a leader is to initiate suitable sequence of acting in proper time. Hence leaders must possess a strong, crucial motivation to keep accomplishing something.

(e) Self – Confidence: -

Self –confidence is essential to motivate the subordinates and boost up their morale. He should have confidence in himself whenever he takes any decision or initiates any caused if action.

(f) Open mindedness or flexibility:

A leader should be flexible or open minded i. e. he should be ready to absorb new ideas as may be demanded by the situation.

(g) Sense of responsibility:-

A leader should be prepared to shoulder the responsibility for the consequences of any steps he contemplates or takes.

(h) Human relations: -

A leader should possess the human relations attitude. He should be able to deal with people and secure their willing co –operation.

5. Explain the reasons for Group Formation.

Answer:

The reasons for group Formation:

People seek to join groups since the groups give the members a stability and enhances their achievement capacity. The main reasons propelling individuals to join groups are:

(a) Have a sense of Security:

The group enables the person to reduce a sense of insecurity and have stronger feeling with few self –doubts and more resistant to threats when they are a part of the group.

(b) Have a status: -

The persons in a group can be easily recognized and a status is achieved by them.

(c) Develop Self-esteem: -

The groups can help a person develop a sense of “to–belong”. This provides with feeling, of self worth and develops confidence in its members.

(d) Affiliation: -

The group can fulfil social needs. People enjoy the regular interaction that comes with the group membership.

(e) Power:-

The power is derived on the strength of closeness of the group members with greater power achieved when in group than if a person is alone or individually.

(f) Goal achievement: -

The goal can be achieved more easily when a group effort is present as –united we stand, divided we fall

6. What are the ways of managing conflicts in organization?

Answer:

The ways of managing conflicts in organization:

(i) Positive Perspective

To accept conflict as a natural growth process that influence the company culture to view constitutes conflict positively. Conflict can be an asset to your small business if it is handled properly.

(ii) Grievance procedure: -

Creation of a formal grievance procedure for all employees. Let employees at all levels of the organization know that their voices will always be heard and respond promptly and reasonably to employees issues. This can prevent bad feelings from growing into resentment and bitterness.

(iii) Get to the cause:-

It is necessary to focused on deep –rooted causes rather than superficial effects when assessing conflicts. Parties to conflict claim to have issues with the behavior of co –worker or the outcome of company policies and work procedures, but this issues are likely being caused by something deeper.

(iv) Equal attention and importance: -

It is necessary to give all parties to a conflict an equal voice, regardless of their position, length of service or political influence. Conflict participants can become defensive, if they feel they are being marginalized or are going through a process leading to a pre-determined outcome.

(v) Resolution participation: -

Involvement of all parties, when drafting conflict resolutions is necessary. The theory of management by objectives (MBO) states that employees are generally more committed to goals that they have helped to create. The same holds true for conflict resolutions.