

Paper 1 - Fundamentals of Economics and Management

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Full Marks :100

Time allowed: 3 hours

The figures in the margin on the right side indicate full marks.

This question paper has two sections.

Both the sections are to be answered subject to instructions given against each.

Section A

1. Choose the correct answer from the given four alternatives: [20 ×1 = 20]

1. Who was the father of Economics
(a) Marshall
(b) Adam Smith
(c) Robbins
(d) Keynes
2. Micro Economics theory deals with.
(a) Economy as a whole
(b) Individual units
(c) Economic growth
(d) all the above
3. _____tells us the rate of change in demand.
(a) Elasticity of demand
(b) Consumption analysis
(c) Demand analysis
(d) Consumer surplus
4. Point elasticity was propounded by
(a) Adam Smith
(b) Marshall
(c) Robbins
(d) Keynes
5. The average_____and output will have inverse functional relationship.
(a) fixed cost
(b) variable cost
(c) total cost
(d) marginal cost
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. Select the quantitative credit control method from the following alternatives:
- (a) Moral suasion
- (b) **Open market operations**
- (c) Rationing of credit
- (d) Licensing of branches
10. Which of these will have highly inelastic supply
- (a) **Perishable goods**
- (b) Consumer durables goods
- (c) Item of elite class consumption
- (d) All the three
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. 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% profits on capital employed
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
- (d) Single buyer
15. What is the maximum point of TP?
- (a) **When AP become zero**
- (b) When MP become zero
- (c) At the intersecting point of AP & MP
- (d) None of these
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**

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(d) Increase in wealth

17. FERA has been replaced by _____
 (a) FINA
(b) FEMA
 (c) FENA
 (d) MRTP
18. _____ is a qualitative credit control instrument used by the Central Bank.
 (a) Bank Rate Policy
(b) Moral Suasion
 (c) Open Market Operations
 (d) CCR
19. Financial markets are classified into Money Market and _____.
 (a) Bullion Market
(b) Capital Market
 (c) Stock Market
 (d) National Market
20. Which of these is near money?
 (a) Bills of exchange
 (b) Savings Bond
 (c) Gilt edged securities
(d) All of these

II. Match the following

[5×1=5]

	Column 'A'		Column 'B'
1.	Commercial Banks	A	Factor of production
2.	Durable Goods	B	Average Cost
3.	Labour	C	Acceptance of Deposits
4.	Creation of Utility	D	Inelastic Demand
5.	AFC + AVC	E	Production

Answer:

	Column 'A'		Column 'B'
1.	Commercial Banks	C	Acceptance of Deposits
2.	Durable Goods	D	Inelastic Demand
3.	Labour	A	Factor of Production
4.	Creation of Utility	E	Production
5.	AFC + AVC	B	Average Cost

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

[5 × 1 = 5]

1. In perfect market $AR > MR$
2. When TP is maximum, then AP is zero
3. Perfectly Elastic Demand Curve is parallel to 'X' axis.
4. According to Fisher – Money is demanded for Transaction purpose.

5. Collateral loans are given by Commercial Banks without security.

Answer:

1. False;
2. False;
3. True;
4. True;
5. False.

IV. Answer any four of the following questions.

[4 × 5 = 20]

1. State the determinants of demand.

5

Answer:

Determinants of demand:

The demand for any commodity is depend upon so many factors. These factors are called determinants of demand. They are:

1. **Price of the goods:** The demand for any commodity firstly depends upon its price. When the price rises demand decreases, when the prices falls demand increases.
2. **Prices of the substitute goods:** The demand for any commodity not only depends upon its price but also the prices of its substitute goods. For example, tea and coffee. Here the demand for tea depends upon price of the coffee.
3. **Prices of the complementary goods:** The demand for a commodity also depends upon the price of its complementary goods. For example, car and petrol. Here demand for petrol depends upon price of the car.
4. **Income of the consumer:** The income of the consumer also influences the demand for a commodity. When the income rises people purchase the more quantity of goods. When the income falls they purchase less quantity of goods.
5. **Tastes and preferences of the consumer:** The tastes and preference of the consumer can also determine the demand for a commodity. When the tastes are changed, the demand for goods also changed.
6. **Population:** When the population is increased, the demand for goods also increases. When the population decreases demand also decreases.
7. **Climate:** The climatic conditions also can influence the demand. In hot climatic conditions cool drinks are demanded. In rainy season umbrellas are demanded.

2. Explain "Return to Scale".

5

Answer:

It shows the relationship between inputs and outputs in the long period. The change in the quantity of the factors is called scale. Change in the output is called returns. So law of returns to scale explains changes in the output due to changes in the inputs in the long period.

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Explanation of the law:

According to this law when all inputs are increased in same proportions when the output is not increased in the same proportion. The changes in the output are classified in to three stages. They are

- Increasing returns to scale
- Constant returns to scale
- Diminishing returns to scale

Scale of production	Inputs (Land + Labour)	Total productivity	Marginal productivity
A	1+2	4	4
B	2+4	10	6
C	3+6	18	8
D	4+8	28	10
E	5+10	38	10
F	6+12	48	10
G	7+14	56	8
H	8+16	62	6
I	9+16	66	4

In the above table all inputs are changed in equal quantities or scale is changed. Changes in output can be observed from total and marginal returns output changes are clearer from the marginal returns. In the beginning when inputs are doubled marginal returns are more than doubled. Such a change in output is called increasing returns. But in the third and fourth combinations output has increased in the same proportion. Hence, there are constant returns later similar change in inputs are giving diminishing returns.

3. What do you understand by the term 'Labour'? State its features.

5

Answer:

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 factors of production.

Features of Labour: Labour as a factor of production possesses certain peculiar features:

- 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.
- Labour is perishable:** If a worker does not find work on a particular day, the labour is lost for the day. Like other factors of production, labour cannot be preserved.
- 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.
- 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.
- Differ in efficiency of labour:** Some labourers have more efficiency and some labourers have less efficiency.

4. Enumerates the features of monopoly.

5

Answer:

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

Features of Monopoly:

The monopoly market has the following features:

1. **Single firm:** A single firm produces the commodity in the market there is only one seller or one producer or one firm
2. **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.
3. **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.
4. **Firm and Industry are same:** As there is one firm in monopoly market there is no difference between firm and industry.
5. **Price marker:** In this market the producer can determine the price of the commodity so the producer in the market is said to be price maker.
6. **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.
7. **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.
8. **Maximum profits:** The main aim of monopoly is to earn to get the maximum profits.

5. Explain the function of Commercial Bank.

5

Answer:

Commercial Banks play a very prominent role in the financial system of an economy. They perform a variety of functions as discussed below:

1. **Acceptance of deposits:** One of the primary functions of a commercial bank is to accept deposits from the public.
2. **Payment of loans and advances:** Another primary function if the commercial bank is to give loans and advances to different sections of the public like traders, industrialists, farmers, artisans etc.
3. **Creation of credit:** the commercial banks create credit. This is a unique function of commercial banks. Credit is created from out of the primary deposits of money the customers received from the public. Part of the total amount of these deposits is given as loans and advances to its customers.
4. **Agency functions:** Commercial banks perform certain agency functions also:
 - (a) Collection of cheques, drafts, bills of exchange etc. of their customers from other banks.
 - (b) Collection of dividends and interest from business and industrial firms.

5. **General Utility Functions:** Besides the above agency functions, the commercial banks provide certain general utility services to their customers.
- (a) Provide locker facility for the safe custody of the silver, gold ornaments, important and valuable documents.
 - (b) Transfer money of the customers from one bank to the other by way of demand drafts, mail transfer.

6. Explain the measures to improve the Indian Money Market.

5

Answer:

Measures to Improve Indian money market: In view of the various defects in the Indian money market, the following suggestions have been made for its proper development:

- (i) The activities of the indigenous banks should be brought under the effective control of the Reserve Bank of India.
- (ii) Hundies used in the money market should be standardized and written in the uniform manner in order to develop and all-India money market.
- (iii) Banking facilities should be expanded especially in the unbanked and neglected areas.
- (iv) Discounting and rediscounting facilities should be expanded in a big way to develop the bill market in the country.
- (v) For raising the efficiency of the money market, the number of the clearing houses in the country should be increased and their working improved.
- (vi) Adequate and less costly remittance facilities should be provided to the businessmen to increase the mobility of capital.
- (vii) Variations in the interest rates should be reduced.

Section B

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

[20 × 1 = 20]

1. In which approach, the task of planning is entrusted to a select team of managers.
 - (a) Top down approach
 - (b) Bottom up approach
 - (c) Either 'a' or 'b'
 - (d) **Team approach**
2. Formal communication is always
 - (a) **Written**
 - (b) Oral
 - (c) Both 'a' and 'b'
 - (d) None of the above
3. _____ serve as bridges between activities and outcomes
 - (a) Policies
 - (b) Methods
 - (c) **Procedures**
 - (d) Rules
4. Which one is not a barrier to communication?
 - (a) Filtering
 - (b) Emotions

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- (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
8. _____ is the right to act and extract obedience from others
(a) Power
(b) **Authority**
(c) Responsibility
(d) None of the above
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. Delegation may be
(a) **Specific or general**
(b) Written or implied
(c) Formal or informal
(d) All of the above
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. Authority and _____ should be co-extensive.
(a) Power
(b) **Responsibility**
(c) Accountability
(d) Command
13. Control function is closely connected to _____
(a) **Planning**

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- (b) Organising
(c) Coordination
(d) All of the above
14. Decentralisation suffers from the following limitation
(a) Relief to top executive
(b) **Expensive**
(c) Quick decision
(d) Executive development
15. Post control is also known as _____
(a) **Feedback control**
(b) Concurrent Control
(c) Pre-control
(d) Fast forward control
16. Strategic decisions are made at which level.
(a) Middle level
(b) Lower level
(c) Top Level
(d) **At all levels**
17. Assignment of duties is meaningless unless adequate authority is given to _____.
(a) **Subordinates**
(b) Peers
(c) Superiors
(d) All of the above
18. A decision to launch a new production plant is
(a) Programmed decision
(b) **Non-routine decision**
(c) Personal decision
(d) Organisational decision
19. Tactical decisions are also known as
(a) **Operational Decisions**
(b) Programmed decision
(c) Non-programmed decision
(d) Strategic Decision
20. The message to be transmitted through verbal medium may be
(a) Orders
(b) Instructions
(c) Reports
(d) **All of the above**

II. Match the following

[5×1=5]

	Column 'A'		Column 'B'
1.	Theory X	A	Social needs
2.	Theory Y	B	Management by exception
3.	Maslow's Model	C	Self direction and Self control
4.	Control by exception	D	Standing Plans

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5.	Strategies	E	Inherent dislike for work
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Answer:

	Column 'A'		Column 'B'
1.	Theory X	E	Inherent dislike for work
2.	Theory Y	C	Self direction and Self control
3.	Maslow's Model	A	Social needs
4.	Control by exception	B	Management by exception
5.	Strategies	D	Standing Plans

III. True False:

[5 × 1 = 5]

1. Apprenticeship training is best example for off the job training.
2. Work is natural like rest or play according to theory Y.
3. Authority means ability to do something.
4. Responsibility flows downwards.
5. A superior is always responsible to his subordinate.

Answer:

1. False;
2. True;
3. False;
4. False;
5. False.

IV. Answer any four of the following questions.

[4 × 5 = 20]

1. State the distinction between delegation and decentralization.

5

Answer:

Distinction between Delegation and Decentralisation:

Decentralisation is much more than delegation. Delegation means transfer of authority from one individual to another. But decentralisation implies diffusion of authority throughout the organisation. The main points of distinction between delegation and decentralisation are presented as follows:

- (i) Delegation is the process of devolution of authority whereas decentralisation is the end result which is achieved when delegation is systematically repeated up to the lowest level.
- (ii) Delegation can take place from one individual (superior) to another (subordinate) and be a complete process. But decentralisation is completed only when the fullest possible delegation is made at all levels of organisation.

- (iii) In delegation control rests entirely with the superior. But in decentralisation the top management exercises only overall control and delegates the authority for day today control to the departmental managers.
- (iv) Delegation is a must for management as subordinates must be given sufficient authority to perform their duties. But decentralisation is optional in the sense that top management may or may not disperse authority.
- (v) Delegation is a technique of management used to get things done through others. However, decentralisation is both a philosophy of management and a technique.

2. Write a note on 'Span of Management'

5

Answer:

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. Discuss any five principles of control.

5

Answer:

Principles of Control (Describe any five)

The following principles of control summaries the substantive parts of the above discussion on the controlling function.

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1. **Principles of assurance of objective:** The task of control is to ensure that plans succeed by detecting deviations from plans and furnishing a basis for taking action to correct potential or actual deviations.
2. **Principle of future-directed controls:** The more a control system is based on feed forward rather than simple feedback of information, the more managers have the opportunity to perceive undesirable deviations from plans before they occur and to take action in time to prevent them. Control, like planning, should ideally be forward-looking, because of time lags in the system of information feedback. Hence control should be directed towards the future by devising proper information, forecasting, early warning and rapid response mechanisms.
3. **Principle of control responsibility:** The primary responsibility for the exercise of control rests in the manager charged with performance of the particular plans involved. There is unity of planning and control in each managerial position.
4. **Principle of efficiency of controls:** Control techniques and approaches are efficient if they detect and illuminate the nature and causes of deviations from plans with a minimum of costs or other unsought consequences. The results of control should be worth their costs—both in monetary and human terms. The adverse human consequences of control have especially to be guarded against.
5. **Principle of direct control:** Higher the quality of every manager in a managerial system, they would ensure a high quality of managerial decision making and action behaviour.
6. **Principle of reflection of plans:** The more the plans are clear, complete and integrated, and the more the controls are designed to reflect such plans, the more effectively controls will serve the needs of managers. Clear, complete and integrated plans facilitate better control.
7. **Principle of organisational suitability:** The more that an organisational structure is clear, complete and integrated, and the more that controls are designed to reflect the place in the organization structure where responsibility for action lies, the more they will facilitate correction of deviations from plans. Responsibility for execution of plans and for correction of deviations must be pinpointed clearly in the organisational structure.
8. **Principle of individuality of controls:** The more that control techniques and information are understandable to individual managers who must utilise them for results, the more they will be actually used and the more they will result in effective control. Control techniques should be tailored to the personality and orientations of managers; at least they should be intelligible to them and within their power of understanding.
9. **Principle of standards:** Effective controls require objective, accurate and suitable standards. Measurement of performance by reference to standards should be verifiable, specific and simple. Standards should earn the respect of people who have to abide by them.

10. **Principle of critical point control:** Effective control requires attention to those factors critical to appraising performance against an individual plan. Managers should concentrate on salient features of performance in selective areas, picked up as of strategic importance.
11. **Principle of exception:** The more managers concentrate control efforts on exceptions, the more efficient will be the results of their control. This principle suggests that managers should concentrate on significant deviations, both positive and negative, from plans.
12. **Principle of flexibility of controls:** If controls are to remain effective, despite failure or unforeseen changes of plans, flexibility is required in their design. Since plans have to be flexible to order to be effective, control has also to be flexible.
13. **Principle of action:** Control is justified only if indicated or experienced deviations from plans are corrected through appropriate planning, organising, staffing and leading. The principle affirms the essential unity of management.

4. State some important external sources of recruitment.

5

Answer:

The important external sources of recruitment include —

1. **Employment exchanges** – Employment exchanges run by government are regarded as a potential source of recruitment especially for unskilled, semiskilled and skilled operative jobs.
2. **Advertisement** – Advertisement in newspapers or trade and professional journals is another popular source of recruitment. Especially for the senior positions to lower-middle level positions.
3. **Educational Institutions** – Recruitment through educational institutions is also known as campus recruitment.
4. **Employee walk-ins** – It is commonly found that some people send unsolicited applications to the organisations enjoying goodwill and reputation. Organisation, if they find necessary, can consider these applicants for the suitable positions.
5. **Employee referrals** – Some organisations prefer using employees as the source of recruitment. They maintain informal system of recruitment where word-of-mouth would do when compared to formal system of organisation.
6. **Miscellaneous** – Among other methods of recruitment, 'gate hiring' is the most popular one in which people are hired at the factory gate itself.

5. "Bureaucratic structures evolved from traditional structures". Comment.

5

Answer:

Bureaucratic structures evolved from traditional structures with the following changes:

1. Jurisdictional areas are clearly specified, activities are distributed as official duties (unlike traditional form where duties delegated by leader and changed at any time).
2. Organization follows hierarchical principle — subordinates follow orders or superiors, but have right of appeal (in contrast to more diffuse structure in traditional authority).
3. Abstract rules govern decisions and actions. Rules are stable, exhaustive, and can be learned. Decisions are recorded in permanent files (in traditional forms few explicit rules or written records).
4. Means of production or administration belong to office. Personal property separated from office property.
5. Officials are selected on basis of technical qualifications, appointed not elected, and compensated by salary.
6. Employment by the organization is a career. The official is a full-time employee and looks forward to a life-long career. After a trial period they get tenure of position and are protected from arbitrary dismissal.

6. What are the grounds on which Maslow's need hierarchy theory is criticized?

5

Answer:

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.

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- (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.
- (vii) 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.