

Paper 1 – Fundamentals of Economics and Management

Paper 1 – Fundamentals of Economics and Management

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 : (Fundamentals of Economics)

- (I) Choose the correct answer from the given four alternatives: [1×20=20]
- (i) Income minus savings is equal to
 - (a) Consumption
 - (b) Production
 - (c) Investment
 - (d) Demand

 - (ii) The supply function of product 'x' is given as, $S_x = 5p_x + 3$. Where p_x stands for price. The quantity supplied corresponding to price 2 will be _____
 - (a) 10
 - (b) 13
 - (c) 16
 - (d) 18

 - (iii) Law of variable proportion is developed by
 - (a) Alfred Marshall
 - (b) Adam Smith
 - (c) Robbins
 - (d) Jacob

 - (iv) Money market deals with _____.
 - (a) Short term credit
 - (b) Long term credit
 - (c) Both a & b
 - (d) None of the above

 - (v) Certificate of deposits are issued by the banks to _____.
 - (a) Individual
 - (b) Companies
 - (c) P.S.U.s
 - (d) All of the above

 - (vi) Generally commercial bills are prepared for the period of _____ days
 - (a) 90
 - (b) 180
 - (c) 360
 - (d) 365

 - (vii) Economics of scale are divided into _____ types.
 - (a) 2
 - (b) 3
 - (c) 4
 - (d) 5

MTP_Foundation_Syllabus-2016_December2018_Set -2

- (viii) Bonds and Government Securities refer to _____ money.
- (a) Near
 - (b) Call
 - (c) Optional
 - (d) None of the above
- (ix) _____ was established as the Apex Bank for industrial credit
- (a) IDBI
 - (b) ICICI
 - (c) EXIM Bank
 - (d) NABARD
- (x) Which of these affects the demand for money?
- (a) Real Income
 - (b) Price level
 - (c) Rate of Interest
 - (d) All of the above
- (xi) Which of the following function does money serve when used to measure the prices of different goods and services?
- (a) Store of value
 - (b) Medium of exchange
 - (c) Standard of value
 - (d) Display of power
- (xii) Repo transactions means
- (a) Sale of securities by the holder to the investor with the agreement to purchase them at a predetermined rate and date.
 - (b) Sale of securities by the holder to the investor with the agreement to resell them at a pre-determined rate and date.
 - (c) Sale and purchase of securities by the holder to the investor with the agreement to purchase them at the prevailing rate and date.
 - (d) Sale of securities by the holder to the investor to the investor with the agreement to purchase them at market driven rate.
- (xiii) A firm that makes profit in excess of normal profit is earning _____.
- (a) Economic Profit
 - (b) Costing Profit
 - (c) Real Profit
 - (d) Super normal profit
- (xiv) Human wants are
- (a) limited
 - (b) unlimited
 - (c) undefined
 - (d) none
- (xv) Which of these will have highly inelastic supply
- (a) Perishable goods
 - (b) Consumer durables
 - (c) Luxury goods
 - (d) All of these
- (xvi) What is the maximum point of TP
- (a) When AP becomes zero
 - (b) When MP becomes zero
 - (c) At the intersecting point of AP & MP
 - (d) None of these

MTP_Foundation_Syllabus-2016_December2018_Set -2

- (xvii) Identify the correct statement.
- (a) AP is at its maximum when $MP=AP$
 - (b) Laws of increasing returns to scale relates to the effect of changes in factor proportion.
 - (c) Economies of scale arise only because indivisibilities of factor proportions
 - (d) All the statements are correct
- (xviii) In the long run a firm in perfect competition earns
- (a) Normal profit only
 - (b) Abnormal profit
 - (c) Average profit
 - (d) 8.33% of capital employed
- (xix) Variable factor means those factors of production
- (a) Which can be only changed in the long run
 - (b) Which can be changed in the short run
 - (c) Which can never be changed
 - (d) Any of the above
- (xx) The _____ states that bad money drives good money out of circulation
- (a) Law of Demand
 - (b) Law of Supply
 - (c) Gresham's Law
 - (d) Demand Schedule

Answer:

(I)

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
	b		a	d	a		a		c
(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)	(xix)	(xx)
b	a	d	b	a	b	a	a	b	c

(II) Match the terms in Column I with the relevant terms in Column II

[1×5=5]

Column A	Column B
(1) Principles of Economics	(A) Keynes
(2) Central Bank	(B) Marshall
(3) Micro Economics	(C) Movement of DD' curve
(4) Price Discrimination	(D) Credit Control
(5) Contraction of demand	(E) Monopoly

Answer:

(II) Match the terms in Column I with the relevant terms in Column II

[1×5=5]

Column A	Column B
(1) Principles of Economics	(B) Marshall
(2) Central Bank	(D) Credit Control
(3) Micro Economics	(A) Keynes
(4) Price Discrimination	(E) Monopoly
(5) Contraction of demand	(C) Movement of DD' curve

MTP_Foundation_Syllabus-2016_December2018_Set -2

(III) State whether the following statements are True/False?

[1×5=5]

- (i) The price demand curve slopes downward from left to right ()
- (ii) The supply curve in case of land is parallel to X-axis ()
- (iii) There is an inverse relationship between income and demand ()
- (iv) Railways is an example of perfect market ()
- (v) When $MC = MR$ the firm will get maximum profits ()

Answer:

(III)

(i)	(ii)	(iii)	(iv)	(v)
T	F	F	F	T

(IV) Answer any four of the following questions.

[4×5=20]

- (1) What are the exceptions to the laws of demand?
- (2) Analyse the causes of increasing returns.
- (3) What should be the essentials of a sound banking system?
- (4) Define the following:
 - (a) Relatively elastic demand
 - (b) Relatively inelastic demand
- (5) What are the features of Monopoly?
- (6) Explain the functions of money.

Answer:

(IV) (1) **Exceptions to the laws of demand:**

The following are the exceptions to the laws of demand:

(i) Giffen Paradox (Necessary goods):

In the case of necessary goods the law of demand cannot be operated. This is observed by British economist, the Sir Robert Giffen. He observed in London the law paid workers purchases more of bread when its price rises. That's why, this situation is known as Giffen Paradox.

(ii) Speculation: Some times the price of a commodity might be increasing and it is expected to increase still further. The consumer will buy more of the commodity at the higher price than they did at the lower price. It is contrary to law of demand.

(iii) Conspicuous: These are certain goods which are purchases to project the status and prestige of the consumer. For e.g.: expensive cars, diamond jewellery, etc. such goods will be purchased more at a higher price and less at a lower price.

(iv) Shares or Speculative market: It is found that people buy shares of that company whose price is rising on the anticipation that the price will rise further. On the other hand, they buy less shares in case the prices are falling as they expect a further fall in price so such shares. Here the law of demand fails to apply.

(v) **Bandwagon effect:** Here the consumer demand of a commodity is affected by the taste and preference of the social class to which he belongs to. If playing golf is fashionable among corporate executive, then as the price of golf accessories rises, the business man may increase the demand for such goods to project his position in the society.

(vi) **Illusion:** Sometimes, consumers develop a false idea that high priced goods will have a better quality instead of a low priced good. If the price of such a good falls, they feel that its quality also deteriorates and they do not buy, which is contrary to the law of demand.

(2) Cause for increasing returns:

1. Specialization (or) Division of labour
2. Indivisible factors.
3. Dimensional economics
4. Volume discounts etc.,

(3) Essentials of a sound Banking System: A sound banking system promotes all round economic development of an economy. A good bank must have the following features:-

(a) Adequate Liquidity: A bank must keep sufficient cash in hand to meet the claim of depositors, otherwise they would be insolvent. A bank failure not only affects depositors but banks also. People would not more keep funds with banker. It ensures safety of a bank. Unless a bank is safe it cannot render its social services.

(b) Expansion of banking: Banking facilities should spread throughout the economy. It must also cover all sections of people in need of funds and all productive activities. The less-developed regions should get more banking facilities than others. Thus, diffusion of banking offices is essential.

(c) Investment and loan policies: A sound banking system must have a sound investment policy whereby it can optimize the twin goals of liquidity and profitability. If loan and investments are wrong, a bank suffers loss or face liquidity shortage. A prudent banker should carefully determine the composition and character of its loans and advances so as to optimize earning without endangering safety and solvency.

(d) Human factor: The soundness of a bank depends much on the quality of banker. Banking being a practical affair, rigid application of bank laws are not always fruitful. Much depends on the discretion of men piloting the ship. Sound banking thus, depends more on banking personnel than on banking laws.

(4) (a) Relatively Elastic Demand (example Luxury goods) If the proportionate change in demand is more than proportionate change in the price. It is said to be relatively elastic demand. It means a little change in the price leads to more change in demand. Here the value of EP is greater than one the demand curve in the case slopes downward from left to right.

(b) Relatively Inelastic Demand (example Necessary goods)

If the proportionate change in demand is less than proportionate change in the price. It is said to be relatively inelastic demand. It means a more change in the price leads to less change in demand. Here the value of EP is less than one. The demand curve in this case slopes down wards from left to right. But is steeper than relatively elastic demand.

(5) 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 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.

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.

(6) Money has many important functions to perform. These functions may be classified as follows:

1. Primary Functions.

(a) Medium of Exchange.

(b) Measure of Value.

2. Secondary functions

(a) Store of value.

(b) Standard of deferred payments.

(c) Transfer of money.

3. Contingent functions.

(a) Measurement and distribution of national income.

(b) Money equalizes marginal utilities/productivities.

(c) Basis of credit.

(d) Liquidity

MTP_Foundation_Syllabus-2016_December2018_Set -2

Section – B : (Management)

- (I) Choose the correct answer from the given four alternatives: [1×20=20]
- (i) _____ without corresponding controls are apt to hollow hopes
(a) Planning
(b) Organising
(c) Staffing
(d) Directing
- (ii) The first step in control process is
(a) Measurement of actual performance
(b) Establishment of standards
(c) Judging the action
(d) Comparison of actual with standards
- (iii) _____ skill are related to the maintenance of successful relationship between peers and subordinates.
(a) Decision making
(b) Operative
(c) Inter-personal
(d) All of the above
- (iv) When an individual learns several different jobs within a work unit or department it is known as
(a) Coaching
(b) Vestibule training
(c) Apprenticeship training
(d) Job rotation
- (v) _____ is vital for determining personnel needs of the organisation in future.
(a) Recruitment
(b) Staffing
(c) Man-power planning
(d) Development
- (vi) _____ refers to assigning rank and responsibility
(a) Training
(b) Development
(c) Education
(d) Placement
- (vii) Manpower planning is also known as _____
(a) Human Resource Accounting
(b) Human Resource Planning
(c) Manpower Management
(d) All of the above
- (viii) _____ is the process which involves growth of an employee
(a) Training
(b) Development
(c) Education
(d) All of the above
- (ix) Determination of the job to which an accepted candidate is to be assigned and his assignment to that job is called _____
(a) Placement
(b) Orientation
(c) Induction
(d) None of the above

MTP_Foundation_Syllabus-2016_December2018_Set -2

- (x) According to Likert, which system of management is ideal system?
(a) System 1
(b) System 2
(c) System 3
(d) System 4
- (xi) Goal incongruence may lead to _____
(a) Ineffectiveness
(b) Inefficiency
(c) Both 'a' & 'b'
(d) Either 'a' or 'b'
- (xii) _____ involves the selection of language in which the message is to be given.
(a) Medium
(b) Decoding
(c) Encoding
(d) Feedback
- (xiii) Tendency of people to interpret the same message in different ways may act as a _____ barrier.
(a) Semantic
(b) Emotional
(c) Language
(d) Time
- (xiv) _____ emphasized that harmony of objectives is crucial to the success of direction.
(a) F.W. Taylor
(b) Henry Fayol
(c) Peter Drucker
(d) William Terry
- (xv) According to Mary Parker Follet which one is not the principle for achieving effective coordination?
(a) Continuity
(b) Early beginning
(c) Self-coordination
(d) Management Audit
- (xvi) _____ is a philosophy of management.
(a) Delegation
(b) Decentralisation
(c) Centralisation
(d) All of the above
- (xvii) Carrot and stick approach to motivation is adopted under which system?
(a) Exploitative Autocratic
(b) Benevolent Autocratic
(c) Consultative
(d) Democratic
- (xviii) Which leadership style permits quick decision making?
(a) Democratic style
(b) Authoritarian style
(c) Free-reign
(d) All of the above

MTP_Foundation_Syllabus-2016_December2018_Set -2

(xix) _____ cannot be delegated

- (a) Authority
- (b) Responsibility
- (c) Questionability
- (d) Accountability

(xx) _____ implies diffusion of authority throughout the organization.

- (a) Delegation
- (b) Centralisation
- (c) Decentralisation
- (d) None of the above

Answer:

(I)

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
a	b	d	d	c	d	b	b	a	d
(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)	(xix)	(xx)
c	c	a	a	d	b	b	b	b	c

(II) Match the terms in Column I with the relevant terms in Column II

[1×5=5]

	Column A		Column B
1.	Internal source	A	Team work
2.	Time consuming	B	Transfer
3.	Strategies	C	Limitation of planning
4.	Esprite de corps	D	Increase in skills
5.	Training	E	Standing Plans

Answer:

(II) Match the terms in Column I with the relevant terms in Column II

[1×5=5]

	Column A		Column B
1.	Internal source	B	Transfer
2.	Time consuming	C	Limitation of planning
3.	Strategies	E	Standing Plans
4.	Esprite de corps	A	Team work
5.	Training	D	Increase in skills

(III) State whether the following statements are True/False?

[1×5=5]

1. Decoding is said to be the carrier of message. ()
2. The first step in the process of organizing is identifying the work. ()
3. Rule of thumb is to be replaced by rule of science to improve the standards of performance. ()
4. The distinction between maintenance factors and motivating factors are fixed. ()
5. Planning premises refer to the environment in which plans are to be implemented. ()

Answer:

(III)

(i)	(ii)	(iii)	(iv)	(v)
F	T	T	F	T

(IV) Answer any four of the following questions.

[4×5=20]

- (1) Write a note on leadership continuum.
- (2) What do you understand by Feedback control?
- (3) State the assumptions of Theory Y by Prof. Douglas McGregor.
- (4) As a Cost and Management Accountant what guidelines would you follow for effective decision making?
- (5) Discuss the importance of staffing.
- (6) State the conditions to be fulfilled for effective decentralization.

Answer:

(IV) (1) **Leadership Continuum:**

Tannenbaum and Schmidt have developed the concept of leadership continuum to highlight the range of possible leadership styles. At the left end of the continuum there is 'boss centered' (autocratic) leadership style while at the right end is the 'subordinate centered' (free-rein) - style. As one move from the left extreme to the right extreme, the degree of control goes down and the freedom of subordinates goes up.

- (i) Manager makes decision and announces it. It is an extreme form of autocratic leadership whereby the boss takes the decision and asks the subordinates to implement it.
- (ii) Manager sells the decision. In this style the boss alone takes the decision and persuades the subordinates to accept it.
- (iii) Manager presents ideas and invites questions. This style involves greater involvement of subordinates. The boss arrives at the decision and asks subordinates to express their views on it.
- (iv) Manager presents tentative decision subject to change. Herein the boss takes a tentative decision and modifies it in the light of views expressed by the subordinates.
- (v) Manager presents problems, gets suggestions and takes decision. In this case the boss takes the decision after hearing the suggestions from subordinates.
- (vi) Manager defines the limits and asks the group to make decision. Under this style of leadership the boss gives the freedom to subordinates to take decision subject to predetermined limits.
- (vii) Manager permits subordinates to function within the limits defined by him. This style involves full participation of subordinates. The boss defines overall limits. Subordinates are free to decide and act within these limits.

The continuum approach to leadership provides a wide range of leader behaviors. It identifies the behavioral alternatives available to a manager and highlights the dynamic nature of leadership.

(2) **Feedback Control**

In all physical and biological systems, some message is transmitted in the form of mechanical transfer of energy, a chemical reaction, or any other means which is known as 'cybernetics'. In social systems also, some information is sent back to exercise control. Any good managerial system controls itself by information feedback which discloses errors in accomplishing goals and initiates corrective action. Feed back is the process of adjusting future action based upon information about past performance. Though

feedback is 'after the fact' it is vital to the control process. Sometimes, input variables are immeasurable (e.g., the values an employee brings to the job) or are not detected at the feed forward control point. Feed back is necessary in any continuous activity as it enables to take corrective action which is essential for the accomplishment of goals of the system.

The concept of feedback is important to the development of an effective control in any organisation. This is also known as 'post control' which refers to gather information about completed activity, to evaluate information and to take corrective actions to improve similar activity in future.

In other words, it permits the manager to use information on past performance to bring future performance in line with planned objectives and standards. Post control helps in testing validity and appropriateness of standards. To make post-control more meaningful and effective, analysis of post-performance is required to be made as quickly as possible and control reports should have been submitted to the manager without loss of time.

(3) Assumptions of Theory Y by Prof. Douglas McGregor.

The theory Y is based on the following assumptions:

- (i) The expenditure of physical and mental effort is as natural as play and rest. The average human being has no inherent dislike for work. Work, if meaningful, should be a source of satisfaction and it can be voluntarily performed.
- (ii) Man will exercise self-control and self-direction in the service of objectives to which he is committed. External control or threat of punishment is not the only means of motivating people to work and achieve organisational goals.
- (iii) Commitment to objectives is a result of the rewards associated with their achievement. The most significant of such reward, e.g. the satisfaction of ego and self development needs, can be the direct result of effort directed towards the organisational objectives. Once the people have selected their goal, they will pursue it even without close supervision and control.
- (iv) The average human being, under proper conditions, does not shun responsibility. He is ready not only to accept responsibility but also to seek it. Avoidance of responsibility, lack of ambition, etc. are consequences of experience rather than being inherent in human nature.
- (v) The capacity to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organisational problems is widely, not narrowly, distributed in the population.
- (vi) Under conditions of modern industrial life, the intellectual potentials of people are only partially utilised. In reality, people have unlimited potential.

(4) Guidelines for Effective Decision Making

One of the measures of effective management is the extent to which managers adopt effective decision making processes to make decisions. A decision making process and a decision is effective if it makes significant contribution to the achievement of managerial and organisational objectives at acceptable levels of costs and unsought consequences. Within this broad setting, we may identify the principles, guidelines or the ways and means of making the process effective, as follows:

1. Establishment of multiple decentralised centres of managerial decision making at appropriate organisational levels and delegation of adequate authority along with pinpointing of accountability for making decisions to managers at each centre.
2. Determination of appropriate decision-making work-load at each centre, so as to minimise the possibility of overloading at any centre.
3. Co-ordination of various decision making centres through communication and other means so as to ensure consistency and co-operation in making decisions

4. Establishment of expert advisory staff units to provide the needed intellectual and professional inputs for decision making.
5. Formulation and communication of organisational objectives, policies, decision rules and procedures to serve as guidelines to managers in their decision making function.
6. Design and installation of decision support systems which include information and control systems so as to provide logistic support to managers.

(5) Importance of staffing:

Undoubtedly, staffing is a vital function of management more importantly because:

- (i) It facilitates discovery of competent and qualified people to take up various positions the organisation;
- (ii) It enhances productivity by placing right people on the right jobs;
- (iii) It helps in estimating the staffing requirements of the organisation in future (through manpower planning);
- (iv) It prepares the personnel to occupy the top positions within the organisation.
- (v) It helps development of people through the programmes of training and development;
- (vi) It helps the organisation to make the best use of existing workforce;
- (vii) It ensures adequate and equitable remuneration of workforce.
- (viii) It results in high employee morale and job satisfaction by placing the right people on right jobs;
- (ix) It makes the top management aware of the requirements of manpower arising from transfer, promotion, turnover, retirement, death etc. of the present employees.

When the staffing function is performed effectively, the above payoffs would accrue to the organisation.

(6) Effective Decentralisation

Effective decentralisation requires fulfillment of the following conditions:

- (i) **Appropriate centralisation:** Decentralisation can be effective when there is a centralised authority for overall planning and control. The central authority ensures close coordination between various operating units. Without such a cementing force, the decentralised organisation may fall apart into pieces.
- (ii) **Development of managers:** Effective decentralisation requires a large number of highly competent managers who are capable of working independently. In order to develop such executives, top management must delegate authority and allow the subordinates to learn through experience in making decisions.
- (iii) **Open communication:** A sound communication system should be established to ensure continuous interaction between superiors and subordinates. Necessary feedback on operating results should be made available to superiors. Open communication system will enable managers to provide advice and guidance to subordinates.
- (iv) **Coordination:** Decentralisation tends to create rivalry and cooperating divisions. Departmental managers compete for scarce resources. Effective coordination is essential to prevent such disintegrating tendencies. Interdepartmental coordination helps to prevent the danger of fragmentation. Committees, liaison officers and other mechanisms of coordination may be used to ensure coordination.
- (v) **Adequate controls:** Effective decentralisation needs an appropriate control system that will distribute the resources, lay down standards of performance and exercise control to ensure that the various operating units are working in the desired direction.