

Paper 1- Fundamentals of Economics and Management

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Full Marks : 100

Time allowed: 3 hours

Section – A

Part A

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

- (i) If PPF is linear it implies
 - (a) Constant opportunity cost
 - (b) Diminishing apart cost
 - (c) Increasing opportunity cost
 - (d) None

- (ii) Which of the following steps relates only to deductive method in economics?
 - (a) Testing of Hypothesis
 - (b) Collection of data
 - (c) Classification of data
 - (d) Perception of the problem

- (iii) Cobb-Douglas production function is applicable on:
 - (a) Individual firm
 - (b) Whole of manufacturing
 - (c) Both of the above
 - (d) None of the above

- (iv) _____ is a systematic record of all the economics transactions between one country and rest of the world :
 - (a) Balance of trade
 - (b) Balance of transactions
 - (c) Budget
 - (d) Balance of payments

- (v) Production Possibility Curve(PPC) is also known as:
 - (a) Indifference curve
 - (b) Supply curve
 - (c) Transformation curve
 - (d) Demand curve

- (vi) A monopolist firm always decides the price which is _____ then competitive firms price.
 - (a) Higher
 - (b) Lower
 - (c) Equal
 - (d) None of the above

- (vii) What do we call peaks and troughs collectively in business cycle?
(a) Equilibrium points
(b) Turning points
(c) Real business cycle events
(d) Volatility
- (viii) Which factors determine price _____?
(a) Utility and scarcity
(b) Cost of production
(c) Transferability
(d) All the above
- (ix) Soft lending is also known as _____.
(a) Recession
(b) Economic slowdown
(c) Revival
(d) None of these
- (x) Macro economics is also called _____ economics.
(a) Applied
(b) Aggregate
(c) Experimental
(d) None of the above
- (xi) Scarcity is a situation in which _____.
(a) Wants exceeds the resources available to satisfy them.
(b) Something is being wasted
(c) People are poor
(d) None of the above
- (xii) Economic problem arises when:
(a) Wants are unlimited
(b) Resources are limited
(c) Alternative uses of resources
(d) All of the above
- (xiii) Elasticity between two points:
(a) Point elasticity
(b) Arc elasticity
(c) Cross elasticity
(d) None
- (xiv) Goods that exhibit direct price-demand relationship are called:
(a) Giffen goods
(b) Complementary goods
(c) Substitute goods
(d) None of the above

- (xv) At the point of inflexion, the marginal product is:
(a) Increasing
(b) Decreasing
(c) Maximum
(d) Negative
- (xvi) Which of the following is a commercial bank in India ?
(a) Axis
(b) IFCI
(c) IBRD
(d) SEBI
- (xvii) Which of the following is money proper?
(a) Bonds
(b) Government securities
(c) Time deposits
(d) Currency notes and demand deposits.
- (xviii) When supply curve moves to right, it means
(a) Supply increases
(b) Supply decreases
(c) Supply remain constant
(d) None of the above
- (xix) Price leadership is a form of -
(a) Monopolistic competition
(b) Monopoly
(c) Non-collusive oligopoly
(d) Perfect competition
- (xx) Under monopoly, the degree of control over price is:
(a) None
(b) Some
(c) Very considerable
(d) None of the above

Answer:

- (i) a
(ii) a
(iii) b
(iv) d
(v) c
(vi) a
(vii) b
(viii) d

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- (ix) b
- (x) b
- (xi) a
- (xii) d
- (xiii) b
- (xiv) a
- (xv) c
- (xvi) a
- (xvii) d
- (xviii) a
- (xix) b
- (xx) c

(b) Match the following:

[5×1=5]

	Column 'A'		Column 'B'
1.	Wealth of nations	A.	J.H. Keynes
2.	Substitution effect	B.	Economic cost
3.	Macro economics	C.	Selling costs
4.	Normal profit	D.	Demand curve
5.	Advertisements	E.	Adam smith

Answer :

- 1. (E)
- 2. (D)
- 3. (A)
- 4. (B)
- 5. (C)

(c) State whether the following statements are True (or) False.

[5×1=5]

- (i) The demand for monopoly product is less elastic.
- (ii) There is a direct relationship between price level and value of money.
- (iii) The main object of IFCI is to make low and short term credit to the industrial units.
- (iv) Money Market is controlled and regulated by RBI.
- (v) Marginal Cost is not equal to Marginal Revenue.

Answer :

- (i) True.
- (ii) False.
- (iii) False
- (iv) True.
- (v) False.

PART B

Answer any four questions out of six questions.

[4×5=20]

2. Explain about the Production Possibility Curve.

[5]

Answer:

Production Possibility Curve (PPC): The PPC is also called production possibility frontier, production possibility boundary and production transformation curve. The PPC curve shows the various combinations of two commodities that can be produced by an economy with the given resources and given technology.

Main points:

1. The PPC curve always slopes downwards from left to right. Because when the production of one commodity is increased the production of another commodity will be foregone.
2. It is concave to the origin because MRT goes on increasing.
3. The slope of the PPC at any given point is called Marginal rate of transformation (MRT). The slope defines the rate at which production of one good can be redirected into production of other. It is also called opportunity cost.

Note:

- If the PPC curve is straight line, the opportunity cost is constant.
- All the combinations which lie on the PPC curve are possible combinations.
- The points beyond the PPC curve are impossible combinations.
- Shift of the PPC curve is nothing but economic growth.
- Any point which lies below the PPC curve is possible combination. But if the economy is working below the PPC curve that indicates the unused resources 'or' unemployment.

3. Describe the types of elasticity of supply.

[5]

Answer:

Types of elasticity of Supply: There are five types of elasticity of Supply

1. Perfectly elastic Supply ($E_s = \infty$)
 2. Perfectly Inelastic Supply ($E_s = 0$)
 3. Relatively elastic Supply ($E_s > 1$)
 4. Relatively Inelastic Supply ($E_s < 1$)
 5. Unitary elastic Supply ($E_s = 1$)
1. Perfectly elastic Supply ($E_s = \infty$): When the price is constant if there is a change in Supply it is said to be perfectly elastic Supply. It means the Supply may be increase 'or' decrease without change in price. Here the value of EP is infinity. The Supply curve in this case parallel to OX axis

2. Perfectly Inelastic Supply ($E_s = 0$): When the price is changed if there is no change in the Supply. It is said to be perfectly inelastic Supply. It means the price may be increase 'or' decrease but the Supply is constant Here the value of $E_s = 0$. The Supply curve in this case parallel to OY axis.
3. Relatively elastic Supply ($E_s > 1$): If the proportionate change in Supply is more than proportionate change in the price. It is said to be relatively elastic Supply. It means a little change in the price leads to more change in Supply. Here the value of E_s is greater than one the Supply curve in the case upwards from left to right.
4. Relatively Inelastic Supply ($E_s < 1$): If the proportionate change in Supply is less than proportionate change in the price. It is said to be relatively inelastic Supply. It means a more change in the price leads to less change in Supply. Here the value of E_s is less than one. The Supply curve in this case also slopes up wards from left to right.\
5. Unitary elastic Supply: If the proportionate change in the supply is equal to the proportionate change in the price. It is said to be unitary elastic supply. It means the change in the supply and change in price is same. Here the value of E_s is 1. Unitary elastic supply curve also slopes downwards from left to right.

4. Describe entrepreneur and its functions.

[5]

Answer:

Entrepreneur:

The person who organizes the production is called an entrepreneur. He is considered as a separate factor because he performs specific functions different from those of other factors. Now-a-days an entrepreneur is not considered as a separate factor but as special types of human labourer. Whenever the ownership and the management are one and the same entrepreneur has to perform certain specific functions.

Functions of the entrepreneur:

1. Entrepreneur initiates the business: Entrepreneur has to initiate the business by mobilizing other factors. All the primary work to start the business will be undertaken by him.
2. Decision making: Major decisions like the kind of good to be produced, size of the unit, quantity of output, price, marketing etc. have to be made by him.
3. Choosing the technology: Choosing suitable technology, combining factors in right proportion to maximize output at minimum cost are the other functions of organizer.
4. Innovation: He must be dynamic to introduce new methods, techniques, products etc.
5. Pay the rewards of factors: As entrepreneur he has to pay the rewards to other factors. He has to bear the responsibility either for profit or loss in production.

5. State the features of monopolistic competition market.

[5]

Answer:

The main features are:

1. A considerable number of producers: A commodity is produced by a considerable number of producers. Since there are more number of producers no one controls the output in the market. Competition will be high among the producers.
2. Product differentiation: The commodity of each producer will be different from that of other producers. The difference may be due to material used, colour design, smell, packaging, trademark etc. Because of this each product will have specific identification in the market.
3. Entry and exit: Firms are allowed to enter into production and leave the market. When profits are high new firms will join. In case of losses inefficient firms will leave.
4. Selling costs: An important feature of this market is every firm makes expenditure to sell more output. Advertisement through newspapers, journals, electronic media, sales representatives, exhibitions, free sampling help to promote the sales. Lot of expenditure is made on these items under this market.
5. Imperfect knowledge: Buyers will have an imperfect knowledge about commodities. Sometimes products may be the same but consumers think that a particular good is superior than another. Due to the advertisements and other devices consumers purchase the commodities.

6. Define Money and Explain its functions.

[5]

Answer:

Money was invented to overcome the difficulties of the barter system. Several economists defined money in several ways:

1. Robertson: Robertson defined money as "anything which is widely accepted in payments for goods or in discharge of other kinds of business obligations".
2. Seligman: According to Seligman's definition, "Money is one that possesses general acceptability".
3. Walker: According to Walker, "Money is what money does".

Functions of Money:

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

7. What are the functions of central bank?

[5]

Answer:

A Central Bank has the following functions:

1. 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.
2. 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.
3. 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.
4. Lender of last resort: The Central Bank serves a 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.
5. 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.

Section – B

PART A

8. Answer all the questions :

(a) Choose the correct answer:

[20×1=20]

(i) Which of the following is not a function of managers?

- (a) Designing
- (b) Organizing
- (c) Leading
- (d) Planning

(ii) Which of the following is not a part of staffing?

- (a) Publicity

- (b) Recruitment
 - (c) Selection
 - (d) Training
- (iii) **Espirit de corps means_____.**
- (a) union is strength.
 - (b) service is our motto.
 - (c) buyer beware.
 - (d) product is our strength.
- (iv) **Break even analysis is which type of control technique.**
- (a) inventory control
 - (b) operating control
 - (c) financial control
 - (d) time event network analysis
- (v) **Grapevine is associated with:**
- (a) Formal communication.
 - (b) Informal communication.
 - (c) Horizontal communication.
 - (d) Vertical communication.
- (vi) **Preventive control is also known as**
- (a) Post control
 - (b) Pre-control
 - (c) Concurrent control
 - (d) Steering control
- (vii) **Filtering means**
- (a) Hiding some meaning
 - (b) Disclose the information
 - (c) Sending the message
 - (d) None of the above
- (viii) **The decision taken by lower level management is a _____.**
- (a) Programmed decision
 - (b) Non-programmed decision
 - (c) Major decision
 - (d) Minor decision
- (ix) **The selection of best alternative from many alternatives is known as_____.**
- (a) Selection
 - (b) Decision-making
 - (c) Organizing
 - (d) Budgeting
- (x) **According to Maslow, self-actualization needs is a _____.**
- (a) high level needs.

- (b) medium level needs.
 - (c) lower level needs.
 - (d) psychological needs.
- (xi) Motivation available at the time of performance of work is_____.
- (a) negative motivation.
 - (b) positive motivation.
 - (c) extrinsic motivation.
 - (d) intrinsic motivation.
- (xii) Responsibility may be defined in terms of
- (a) Functions
 - (b) Targets
 - (c) Goals
 - (d) All of the above
- (xiii) ____ is a technique of management.
- (a) Delegation
 - (b) Decentralisation
 - (c) Centralisation
 - (d) All of the above
- (xiv) Authority should _____ with responsibility.
- (a) Commensurate
 - (b) Parity
 - (c) More than
 - (d) None of the above
- (xv) A manager has to exhibit the style of leadership depending on the
- (a) Performance
 - (b) Time
 - (c) Situation
 - (d) Period
- (xvi) Effective communication is always
- (a) Receiver oriented
 - (b) Sender oriented
 - (c) Message oriented
 - (d) None of the above
- (xvii) T-group training is also known as
- (a) Classroom Training
 - (b) Apprenticeship Training
 - (c) Internship Training
 - (d) Sensitivity Training
- (xviii) Pre-control is also known as

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- (a) Feedback control
- (b) Concurrent control
- (c) Post-control
- (d) feed forward control

(xix) Controlling is:

- (a) the last function of management
- (b) the first function of management
- (c) the third function of management
- (d) none of the above

(xx) Which of the following is not an element of directing?

- (a) Motivation
- (b) Communication
- (c) Planning
- (d) Supervision

Answer:

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

(b) Match the following:

[5×1=5]

	Column 'A'		Column 'B'
1.	Motive	A.	Introduction of a person to a job
2.	Unity of command	B.	Social need
3.	Encoding	C.	One superior and one subordinate

4.	Induction	D.	Urge to do something
5.	Need for Acceptance	E.	Selection of language

Answer :

1. (D)
2. (C)
3. (E)
4. (A)
5. (B)

(c) State whether the following statements are True (or) False.

[5×1=5]

- (i) Brain storming is one of the participative techniques.**
- (ii) Maintenance factors are also known as hygiene factors.**
- (iii) Authority can be visible from organizational chart.**
- (iv) Responsibility flows downward.**
- (v) Planning is costly because it requires money, time and information.**

Answer:

- (i) False
- (ii) True
- (iii) True
- (iv) False
- (v) True

PART B

Answer any four questions out of six questions:

[4×5=20]

9. Discuss Management as an Art.

[5]

Answer:

Art signifies the application of knowledge and personal skills to bring about desired results. Art has the following features:

1. **Practical Knowledge:** Every art requires practical knowledge therefore learning of theory is not sufficient. It is very important to know practical application of theoretical principles. E.g. A manager can never be successful just by obtaining degree or diploma in management; he must have also known how to apply various principles in real situations, by functioning as a manager.

2. **Personal Skill:** Although theoretical base may be same for every artist, but each one has his own style and approach towards his job. That is why the level of success and quality of performance differs from one person to another. E.g. Every manager has his own way of managing things based on his knowledge, experience and personality, that is why some managers are known as good managers (like Aditya Birla, Rahul Bajaj) whereas others as bad.
3. **Creativity:** Every artist has an element of creativity in line. That is why he aims at producing something that has never existed before which requires combination of intelligence & imagination. Management is also creative in nature like any other art. It combines human and non-human resources in a useful way so as to achieve desired results. It tries to produce sweet music by combining chords in an efficient manner.
4. **Perfection through practice:** Practice makes a man perfect. Every artist becomes more and more proficient through constant practice. Similarly managers learn through an art of trial and error initially but application of management principles over the years makes them perfect in the job of managing.
5. **Goal-Oriented:** Every art is result oriented as it seeks to achieve concrete results. In the same manner, management is also directed towards accomplishment of pre-determined goals. Managers use various resources like men, money, material, machinery & methods to help in the growth of an organization.

10. What are the steps of staffing process?

[5]

Answer:

Staffing process involves the following steps:

- (i) **Manpower Planning** – Also known as human resource planning, the manpower planning is “a process of determining and assuring that the organisation will have an adequate number of qualified persons, available at the proper times, performing jobs which meet the needs of the entire enterprise and which provide satisfaction for the individuals involved” (Dale S. Beach). Manpower planning consists of the following steps:- (a) Determination of the organisational objectives; (b) Determination of the skills and expertise required to achieve the organisational objectives; (c) Estimating the additional human resource requirements in the light of the organisation's current human resources; (d) Development of action plans to meet the anticipated human resource needs. The main points in human resource planning are: current assessment, future assessment of the human resource needs and the development of future programme as well as career development.
- (ii) **Recruitment** – Recruitment involves seeking and attracting a pool of people from which qualified candidates for job vacancies can be selected. Development and maintenance of adequate manpower resources is the main task of recruitment. According to Dale Yoder, recruitment is “the process of discovering the sources of manpower to meet the requirements of staffing schedule and to employ effective

measures for attracting the manpower in adequate numbers to facilitate effective selection of an efficient working force".

- (iii) Selection – It is probably the most critical step in the staffing process as it involves choosing candidates who best meet the qualifications and requirements of the job.
- (iv) Training – It is the process of increasing the knowledge and skills of an employee for doing a particular job. The objective of training is to achieve a change in the behaviour of those trained.
- (v) Placement & Induction – Placement refers to assigning rank and responsibility to an individual, identifying him with a particular job. If the person adjusts to the job and continues to perform per expectations, it means that the candidate is properly placed. However, if the candidate is seen to have problems in adjusting himself to the job, the supervisor must find out whether the person is properly placed as per the latter's aptitude and potential.

11. Describe the characteristics of Authority.

[5]

Answer:

The main characteristics of authority are as follows:

1. The authority given to a position is legal and legitimate. It is supported by tradition, law or standards of authenticity. Authority is formal.
2. The authority (right) enjoyed by a position is not unlimited. The extent and limits of authority of a position are defined in advance. The position holder is expected to use his authority as per rules, regulations, policies and norms of the organization.
3. Authority is a relationship between two individuals – one superior and the other subordinate. The superior frames and transmits decisions with the expectation that the subordinates will accept them. The subordinate executes such decisions and his conduct is determined by them.
4. Authority is used to achieve organizational goals. The basic purpose behind the use of authority is to influence the behavior of the subordinates in terms of doing right things at right time so that organizational objectives are achieved. A person with authority influences the behavior of others that might otherwise not take place.
5. Actions and behaviours of his subordinates. It provides the basis for getting things done. Authority is also the means of coordination in an organization. Lines of authority serve to link and integrate the various parts of the organization to achieve common goals.

12. What are the measures to be taken for developing leadership ability of managers?

[5]

Answer:

The measures for developing leadership ability of managers are explained as follows:

- (a) Leadership training: Training programmes are offered to expose managers to several leadership situations and teach them how to tackle them. The Situations are partly simulated and partly real. The trainers create the situations wherein the managers undergoing leadership training are provided opportunities to diagnose problems, think of ways and means of tackling them which partly involve testing of various styles

of leadership against realities. Leadership training gives insights and experiences of managers on appropriate attitudes and behaviour which they have to adopt in tackling diverse situations, on how to gain initiative and command over a situation how to inspire and motivate people, that measures are necessary to inject discipline, cohesiveness and team work ethic in the group, and so on. The managers under training are to be given immediate feedback on their leadership performance.

- (b) Internal organisational exposure: Another measure to develop the leadership ability of managers is to expose them within the organisation itself to critical situations calling for application of leadership abilities. Managers may be put in charge of committees assigned with the task of project implementation, coordination and control. Managers may also be placed in situations concerning people's problems - for example, how to improve the lowered morale of a work group, how to resolve internal conflict, how to induce a sense of involvement of work groups in the organisation and so on.
- (c) Autonomy and accountability: Managers may be able to sharpen their leadership abilities under conditions of relative freedom. They should be allowed a large amount of freedom to evolve their own methods of tackling situations calling for critical leadership abilities. at the same time they should be provided with the required organisational support in the form of authority (position power), status, and top management support and so on. They should be given adequate discretion dispensing rewards and penalties to their subordinates, within the framework of certain norms and rules.
- (d) Opportunities for interaction: Managers should also have opportunities to interact with their subordinates in a more intense and continuous manner. This is partly a matter of availability to time. Many managers get themselves so extremely busy with their own work that they find little time to talk or listen to their subordinates, to guide them, to understand their viewpoints, to be supportive to them and to develop them.

13. Briefly explain the guidelines for effective decision making.

[5]

Answer:

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 decisions 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.

14. Describe the steps in communication process.

[5]

Answer:

The basic elements in the communication process are:

1. The Communicator or Sender – The process of communication starts with the communicator. In an organisation, communicators can be managers, non-managers, departments, the outside public, customers etc. Without communication, an organisation cannot function. The communicator has a message, or an idea or information to be communicated.
2. Encoding – The second important element in the communication process is encoding. Encoding involves the selection of language in which the message is to be given. The medium of expression may be speaking, writing, signaling, gesturing, physical contacting, handshake, hitting etc. Encoding should be done in such a way that the receiver may correctly understand the message communicated to him.
3. Message – The message is what a communicator is communicating. Without this, there is no communication. The message sent by the person should be stated in clear and unambiguous terms. Managers have several purposes of communicating viz. to have others understand their ideas, to understand the ideas of others, to gain the acceptance of their ideas, and finally to produce action.
4. Medium – The medium is said to be the carrier of message sent by a person to another. The medium may be face-to-face communication, telephone, group meetings, computers, memorandums, policy statements, production schedules, and sales forecasts. Sometimes, nonverbal media such as facial expressions, body language, tone of voice, gesturing etc., are also used. Thus, the transmission of message may be done orally, in writing, or by gesturing.
5. 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.
6. The receiver – A communicator has to communicate with some other person called, the receiver. While communicating, the person should carefully understand the receiver. The communicator should take into account the receiver, his decoding abilities, his understanding capacity of the message being transmitted. Effective communication is always receiver-oriented; not message oriented. The communicator should see that the receiver receives the message accurately and properly. If the receiver is unable to receive the message, the fault lies in the communicator, not the receiver. The communicator should send the message in that language which the receiver understands.

7. Feedback – Communication process includes feedback also. Feedback is an essential to see that no distortion between the intended message and received message exists.
8. Noise – It is a disturbance that tends to obstruct the smooth flow of communication and reduces the clarity of the message. It may be the result of poor network, inattention of the receiver etc.