

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) The economic analysis expects the consumer to behave in a manner which is:
 - (a) Rational
 - (b) Irrational
 - (c) Emotional
 - (d) Indifferent

- (ii) Price theory is an important constituent of _____ economics.
 - (a) Micro
 - (b) Macro
 - (c) Developmental
 - (d) Welfare

- (iii) Normal goods have:
 - (a) Zero income elasticity
 - (b) Negative income elasticity
 - (c) Fluctuating income elasticity
 - (d) Positive income elasticity

- (iv) The exception top law of demand are:
 - (a) Veblen goods
 - (b) Giffen goods
 - (c) Both (a) & (b)
 - (d) None

- (v) Which of the following cost curves is never 'U' shaped?
 - (a) Average cost curve
 - (b) Marginal cost curve
 - (c) Average variable cost curve
 - (d) Average fixed cost curve

- (vi) Quantity demand is a:
 - (a) Stock concept
 - (b) Flow concept
 - (c) Both (a) & (b)
 - (d) None of the above

- (vii) Under perfect competition a firm is the _____
- (a) Price maker and not Price taker
 - (b) Price taker and not Price maker
 - (c) Neither price maker nor price taker
 - (d) None of the above
- (viii) Banks not only accepts deposits but also _____ savings
- (a) Distribute
 - (b) Mobilise
 - (c) Convert
 - (d) None of the above
- (ix) Commercial banks suffer from:
- (a) Regional imbalance
 - (b) Increasing overdues
 - (c) Lower inefficiency
 - (d) All of the above
- (x) Direct cost is also known as:
- (a) Indirect cost
 - (b) Traceable cost
 - (c) Opportunity cost
 - (d) Accounting cost
- (xi) Which of the following is a part of micro economics?
- (a) Factor pricing
 - (b) National income
 - (c) Balance of payment
 - (d) None
- (xii) Which of the following is a macro concept
- (a) Study of firms
 - (b) Income of individual
 - (c) Study of particulars firms
 - (d) Net national product
- (xiii) Larger production of goods would lead to higher production in future.
- (a) Consumer goods
 - (b) Capital goods
 - (c) Agricultural goods
 - (d) Public goods
- (xiv) Which of these would cause a rightward shift of the PPC curve?
- (a) Improvement in technology
 - (b) Greater capital formation
 - (c) Increase in population
 - (d) All of the above

- (xv) Purchasing power of money falls when
- (a) Price level increases
 - (b) Income level decreases
 - (c) Price level decreases
 - (d) Money supply falls
- (xvi) Agricultural goods markets depict characteristics close to
- (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic competition
- (xvii) Identify the fixed cost from the following:
- (a) Labour cost
 - (b) Electricity bill
 - (c) Salary of watchman
 - (d) Cost of raw material
- (xviii) The change in the total product resulting from a change in a variable input is
- (a) Average cost
 - (b) Average product
 - (c) Marginal cost
 - (d) Marginal cost
 - (e) Marginal product
- (xix) A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:
- (a) Zero
 - (b) Infinite
 - (c) Equal to one
 - (d) Greater than zero but less than one
- (xx) If the price of orange juice increases, the demand for apple juice will_____.
- (a) Increase
 - (b) Decrease
 - (c) Remain the same
 - (d) Become negative

Answer-

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

Answer to MTP_Foundation_Syllabus 2016_June 2020_Set 2

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

(b) Match the following:

[5×1=5]

| | Column 'A' | | Column 'B' |
|----|----------------|----|------------------|
| 1. | Fixed factory | A. | Income demand |
| 2. | Land | B. | Inelastic demand |
| 3. | Superior goods | C. | Public debt |
| 4. | Durable goods | D. | Fixed factor |
| 5. | Fiscal policy | E. | Short period |

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) According to Cambridge equation if 'k' is more the value of money should increase.
- (ii) According to Keynes the rate of interest cannot decide the value of money.
- (iii) RBI issues the one rupee notes and coming.
- (iv) Bank is said to be dealer in debt.
- (v) R.B.I introduced the certificates of deposits in June 1998.

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. State whether the Economics is Science or Art.

[5]

Answer:

Meaning of Science:

The term science implies:-

1. A systematic body of knowledge which traces the relationship between cause and effect.
2. Observation of certain facts, systematic collection and classification and analysis of facts.
3. Making generalization on the basis of relevant facts and formulating laws or theories there by.
4. Subjecting in the theories to the test of real world observations.
5. Like the physics chemistry and botany economics also satisfy the above four characteristics.

Economics is regard as science.

Economics as an Art:

Keynes defines Art as 'a system of rules for the attainment of a given end". The object of Art is to formulate rules to be used for the formulation of policies.

Difference between science and Art:

1. Science is theoretical but art is practical.
2. A science teaches us "to know", an Art teacher us "to do".
3. Economics as a science in methodology and Art in its application.
4. Economics is both science and Art.

3. Explain the determinants of supply.

[5]

Answer:

The supply of any commodity is depending upon some factors. They are called determinants of the supply. They are:

1. **Price of the goods:** Price of the goods is main determinant of supply. Producers supply more goods if the prices are high. They supply the fewer goods when the prices are low.
2. **Goals of the firm:** Firms may try to work on various goals for e.g. Profit maximization, sales maximization, employment maximization. If the objective is to maximize profit, then higher the profit from the sale of a commodity, the higher will be the quantity supplied by the firm and vice-versa.
3. **Inputs Prices:** The producers supply more when the inputs prices are low, that is at lower costs of production. At higher input price rises they supply less.

4. **Technology:** New Technology generally helps to save inputs and reduces costs and time to produce the output. An improved technology enhances the supply of the goods.
5. **Government Policies:** Government policy of taxes and subsidies on goods brings about changes in supply, higher taxes on goods discourage producers and their supply will be less. On the other subsidies from government encourage producers to supply more.
6. **Expectation about future prices:** If the producers expect an increase in the price of a commodity, then they will supply less at the present price and hoard the stock in order to sell it at a higher price in the near future. This will be opposite in case if they anticipate fall in future price (e.g. Fruit seller).

4. What are the types of the internal economies?

[5]

Answer:

Internal Economies: When a firm expands its size of business (or) increases its output, it gets 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:

1. **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.
2. **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.
3. **Managerial economies:** Highly talented managers of specialized skills will be employed by large firms. It helps to makes better decisions in the production.
4. **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.
5. **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 enables them to borrow at reasonable rate of interest. They also raise capital by attracting investors.

5. What are the pricing strategies under oligopoly market?

[5]

Answer:

Pricing Strategies:

- **Cost-plus pricing:** Cost-plus pricing is the simplest pricing method. The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price.
- **Limit pricing:** A limit price is the price set by a monopolist to discourage economic entry in to a market. The limit price is often lower than the average cost of production of just low enough to make entering not profitable.

- Penetration pricing: Setting the price low in order to attract customers and gain market share. The price will be raised later once this market share is gained.
- Price discrimination: Setting a different price for the same product in different segments to the market. For example, this can be for different classes, such as ages, or for different opening times.
- Psychological pricing: Pricing designed to have a positive psychological impact. For example, selling a product at ₹ 3.95 or ₹ 3.99, rather than ₹4.000.
- Dynamic pricing: A flexible pricing mechanism made possible by advances in information technology, and employed mostly by internet based companies.

6. State functions of Money Market.

[5]

Answer:

Functions of Money Market:

1. It links lenders and borrowers of short-term funds. It is purely a market for short term funds or financial assets.
2. It provides working capital requirements of industry, trade and agriculture.
3. It provides financial assets with high a degree of liquidity- call money, treasury bills, commercial bills etc.
4. It helps trade and commerce by developing a bill market, and acceptance market.
5. It enables the Government to raise short-term loans with Treasury bill market.
6. It is controlled and regulated by RBI.
7. It makes the monetary policy effective.
8. It provides opportunities for lending the surplus funds of individuals, banks and other institutions.
9. It helps the central bank in maintaining stability of the value of the currency unit.

7. What are the essential conditions of sound banking system?

[5]

Answer:

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** - 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

Answer to MTP_Foundation_Syllabus 2016_June 2020_Set 2

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.

Section – B

PART A

8. Answer all the questions :

(a) Choose the correct answer:

[20×1=20]

- (i) The term strategy has a ___ origin
- (a) Military
 - (b) Air force
 - (c) Navy
 - (d) None of the above
- (ii) Operational planning is also known as
- (a) Corporate
 - (b) Long range
 - (c) Short-range
 - (d) Strategic
- (iii) The problems in communication channels is known as_____.
- (a) organizational barriers.
 - (b) mechanical barriers.
 - (c) personal barriers.
 - (d) semantic barriers.
- (iv) Which of the following is not a non-monetary incentive?
- (a) Promotion
 - (b) Bonus
 - (c) Competition
 - (d) Stability of work
- (v) The leadership theory study leader's behaviour is:
- (a) Followers theory.
 - (b) Trait theory.
 - (c) Behavioural theory.
 - (d) Managerial grid.

- (vi) The process of co-ordination must begin in the early stages of
- (a) Control
 - (b) Planning
 - (c) Organising
 - (d) Staffing
- (vii) Presence of _____ subordination inevitably brings chaos and disorder.
- (a) Dual
 - (b) Single
 - (c) Both (a) and (b)
 - (d) None
- (viii) The decision taken by high level of management is _____.
- (a) Programmed decision
 - (b) Non-programmed decision
 - (c) Individual decision
 - (d) Non-economic decision
- (ix) A _____ organizational structure is the simplest form and has clear lines of authority and ease of decision making.
- (a) Horizontal
 - (b) Line
 - (c) Vertical
 - (d) Staff
- (x) Self-confidence, independence, achievements, knowledge, status, recognition and appreciation examples of _____.
- (a) safety needs.
 - (b) social needs.
 - (c) ego needs.
 - (d) self-actualization needs.
- (xi) Motivation based on force of fear is called _____.
- (a) negative motivation.
 - (b) positive motivation.
 - (c) extrinsic motivation.
 - (d) intrinsic motivation.
- (xii) Responsibility can be assigned to
- (a) Human beings
 - (b) Non-living objects
 - (c) Both (a) and (b)
 - (d) None of the above

- (xiii) ____ is a philosophy of management.
- (a) Delegation
 - (b) Decentralisation
 - (c) Centralisation
 - (d) All of the above
- (xiv) Authority and ____ should be co-extensive.
- (a) Power
 - (b) Responsibility
 - (c) Accountability
 - (d) Command
- (xv) The last, but not least important principle of direction is
- (a) Unity of command
 - (b) Follow up
 - (c) Direct supervision
 - (d) Appropriate Leadership Style
- (xvi) Feedback may be
- (a) Direct
 - (b) Indirect
 - (c) Either (a) or (b)
 - (d) Both (a) and (b)
- (xvii) Informal means of circulating the information is also called as
- (a) Grapevine
 - (b) Verbal
 - (c) Horizontal
 - (d) Written
- (xviii) ____ is vital for determining personnel needs of the organization in future.
- (a) Manpower Planning
 - (b) Recruitment
 - (c) Staffing
 - (d) None of the above
- (xix) Concurrent control is also known as
- (a) Post control
 - (b) Pre-control
 - (c) Real-Time control
 - (d) Feed Forward control
- (xx) Line organization is not suited for _____ type of organization.
- (a) large.
 - (b) small.
 - (c) medium.
 - (d) soft.

Answer-

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

(b) Match the following:

[5×1=5]

| | Column 'A' | | Column 'B' |
|-----------|-------------------------------------|-----------|--|
| 1. | General theory of motivation | A. | Limitation of planning |
| 2. | Placement | B. | Survival needs |
| 3. | Medium | C. | Assigning rank and responsibility |
| 4. | Time consuming | D. | Abraham H. Maslow |
| 5. | Physiological needs | E. | Carrier of the message |

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) Policy decisions are of vital importance and are taken by the middle management.**
- (ii) Leadership continuum was developed by tannenbaum and Schmidt.**
- (iii) Responsibility arises from a superior-subordinate relationship.**
- (iv) Work is natural like rest or play according to theory X.**
- (v) Authority means the power to give orders and to ask for obedience.**

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. Explain the features of planning.

[5]

Answer:

Features of Planning

- (i) **Planning is a primary function of management:** When planning, the manager decides which of the alternatives should be followed, which policies, procedures, programmes, projects and so on would be set up.
- (ii) **Planning is goal oriented:** Planning is aimed at defining the organisational goals and design appropriate action plans in order to achieve these goals.
- (iii) **Planning is an intellectual process :** In the words of Theo Haimann, "Planning requires a mental predisposition to think before acting, to act in the light of facts rather than of guesses, and generally speaking to do things in an orderly way".
- (iv) **Planning is pervasive:** Planning is all pervasive and it embraces all segments and levels in the organisation.
- (v) **Planning is continuous function:** To keep the organization as a going concern, it is essential that planning must be done continuously.
- (vi) **Planning involves choice between alternatives:** Planning involves choice among alternatives courses of action. If there is only one course, objective, policy, programme or procedure, perhaps then there exists no need for planning.

10. Define Control. Explain the steps in Control Process.

[5]

Answer:

In the words of Anthony, control is "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisational objectives".

A control system follows the following sequence —

- (i) **Establishment of Standards:** The first step in control process is the establishment of standards or objectives or targets against which the actual performance is measured. Fred Lufthansa contends that "standards are used to control the

objectives, objectives are used to control goals, and goals are used to control purpose". Before setting standards, managers take necessary steps such as studying the work characteristics, setting the acceptable levels of goal performance etc. Further, a manager should see that standards are not rigid, rather they are rationally flexible.

- (ii) **Measurement of actual performance:** Another crucial step in controlling is the measurement of actual performance of employers. A manager has to measure the work against which appropriate standards are set. Measurement of performance is particularly difficult for less technical tasks.
- (iii) **Comparing the actual performance with standards:** The comparison may reveal some deviations from the standards established. In very rare occasions only actual performance matches perfectly with the standards. While comparing the actual performance with the standards, a manager should see that the deviation does not go beyond an acceptable range.
- (iv) **Taking corrective action:** If the actual result is far from the desired result (whether the deviation is positive or negative) corrective action- is called for. If there is a negative deviation an enquiry should be made as to why actual results were not meeting the standards. If there is positive deviation, it does not mean that the performance is very good. The positive deviation may be due to substandard being fixed. This too calls for corrective action. Standards should be revised. A manager has to assess the causes of deviation and take necessary rectification measures.

11. What are the disadvantages of decentralization?

[5]

Answer:

Decentralisation suffers from the following limitations:

1. **Expensive**– Decentralisation increases the administrative expenses. Each division or department has to be self-sufficient in terms of physical facilities and trained personnel. There may be duplication of functions and underutilization of facilities. Therefore, a decentralised set-up is better suited to large enterprises.
2. **Difficulty in co-ordination**– Under decentralisation, each department or division enjoys substantial autonomy. Therefore, coordination among the departments becomes more difficult.
3. **Lack of uniformity**– decentralisation may lead to inconsistencies when uniform procedures are not followed by various departments. Each department may formulate its own policies and procedures.
4. **Narrow product lines**– decentralisation requires that product lines should be broad enough to permit creation of autonomous units. Therefore, it is not suitable for small firms having narrow product lines. Similarly, decentralisation may not be possible when there is lack of competent managers at lower levels in the organisation.
5. **External constraints**– decentralisation may not be possible due to external factors like market uncertainties, trade union movement, government intervention, etc.

12. Describe the characteristics of Leadership.

[5]

Answer:

An analysis of the definitions of leadership brings out following characteristics of leadership:

- (1) Leadership is a personal quality.
- (2) Leadership presupposes the existence of a group of followers. There can be no leadership without followers.
- (3) Leadership tries to influence the individuals to behave in a particular way. Successful leaders are able to influence the behaviour, attitudes and beliefs of the followers.
- (4) Leadership arises out of functioning for a common goal.
- (5) Leadership is a continuous process of influencing behaviour.
- (6) Leadership is related to a particular situation at a given point of time under a specific set of circumstances. Thus, leadership style will be different under different circumstances.

13. Explain the different types of decision.

[5]

Answer:

There are several types of decisions:

Routine and Strategic Decisions: tactical or routine decisions are made repetitively following certain established rules, procedures and policies. They neither, require collection of new data nor conferring with people. Thus they can be taken without much deliberation. They may be complicated but are always one dimensional. They do not require any special effort by the manager. Such decisions are generally taken by the managers at the middle and lower management level. Strategic or basic decisions, on the other hand, are more important and so they are taken generally by the top management and middle management. The higher the level of a manager, the more strategic decisions he is required to take. The strategic decisions relate to policy matters and so require a thorough fact finding and analysis of the possible alternatives. Finding the correct problem in such decisions assumes great importance. The managers are more serious about such decisions as they influence the decision making at the lower levels.

Programmed and Non-programmed Decisions: The programmed decisions are of routine and repetitive natures which are to be dealt with according to specific procedure. But the non-programmed decisions arise because of unstructured problems. There is no standard procedure for handling such problems. For example, if an employee absents himself from his work for a long time without any intimation the supervisor need not refer this matter to the chief executive. He can deal with such an employee according to the standard procedure which may include charge sheet, suspension, etc. But if a large number of employees absent themselves from work without any information such a problem cannot be dealt in routine manner. It has to be dealt with as an unstructured problem and the decision should be taken by the chief executive. Non-programmed decisions require thorough study of the problem and scientific analysis of the situational factors. There has to be adequate probing analysis of various alternatives before taking such decisions.

Policy and Operating Decisions: Policy decisions are of vital importance and are taken by the top management. They affect the entire enterprise. But operating decisions are taken by the lower management in order to put into action the policy decisions. For example, a bonus issue is a policy matter which is decided by the top management, but the calculations of bonus is an operating decision which is taken at the lower levels to execute the policy decisions.

Organisational and Personal Decisions: Organisational decisions are those which a manager takes in his official capacity. Such decisions can be delegated. But, personal decisions, which relate to the manager as an individual and not as a member of the organization, cannot be delegated.

Individual and Group Decisions: When a decision is taken by an individual in the organisation, it is known as individual decision. Such decisions are generally taken in small organisations and in those organisations where autocratic style of management prevails. Groups or collective decisions refer to the decisions which are taken by a group of organisational members, say Board of Directors or committee.

14. State the features of coordination.

[5]

Answer:

Features of Co-ordination:

- (i) Coordination is not a distinct function but the very essence of management. It is inherent in managerial job and embodied in all the functions of management.
- (ii) Coordination is the basic responsibility of management and it can be achieved through the managerial functions. No manager can evade or avoid this responsibility.
- (iii) Coordination does not arise spontaneously or by force. It is the result of conscious and concerted action by management. It cannot be left to chance.
- (iv) The heart of coordination is the unity of purpose which involves fixing the time and manner of performing various activities.
- (v) Coordination is a continuous or on-going process. It is also a dynamic process involving give and take.
- (vi) Coordination is required in group efforts, not in individual effort. It involves the orderly arrangement of group efforts. There is no need for coordination when an individual works in isolation without affecting anyone's functioning.