

**Paper 1 – Fundamentals of Economics  
and Management**

# Answer to MTP\_Foundation\_Syllabus 2016\_June 2018\_Set 2

## 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 (50 marks)

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

[20 × 1 = 20]

1. \_\_\_\_\_ is the father of Economics.  
**(a) Adam Smith**  
(b) L. Robbins  
(c) J. R. Hicks  
(d) A. Marshall
2. Economic theory assumes that the goal of firms is to maximize  
(a) Sales  
(b) Total revenue  
**(c) Profit**  
(d) Price
3. \_\_\_\_\_ is a gift of nature  
**(a) Land**  
(b) Labour  
(c) Capital  
(d) Organisation
4. Certificate of deposits are issued by the banks to \_\_\_\_\_.  
(a) individual  
(b) companies  
(c) P.S.U.s  
**(d) all the above**
5. Generally commercial bills are prepared for the period of \_\_\_\_\_ days.  
**(a) 90**  
(b) 180  
(c) 360  
(d) 365
6. \_\_\_\_\_ cost is also known as alternative cost  
**(a) Opportunity**  
(b) Real  
(c) Actual  
(d) Money

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7. Quantity theory of money was explained by  
(a) Fisher  
(b) Keynes  
(c) Crowther  
(d) Samuelson
8. 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.
9. EXIM Bank is authorized to raise loan from \_\_\_\_\_.  
(a) Reserve Bank of India  
(b) **Government of India**  
(c) International Market  
(d) Trading activities
10. Income minus Savings is equal to  
(a) **Consumption**  
(b) Investment  
(c) Production  
(d) Demand
11. When the price of complementary products falls, the demand of the other product will  
(a) Fall  
(b) **Increases**  
(c) Remain stable  
(d) Drops by 25%
12. Cross elasticity of unrelated products will be  
(a) Infinite  
(b) **Zero**  
(c) >1  
(d) <1
13. Change in cost of production of the concerned goods causes.  
(a) The demand curve to shift  
(b) **The supply curve to shift**  
(c) Increase in quantity demanded  
(d) Decrease in quantity supplied

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14. A goods can be considered inferior goods in economics if increase in disposal income of the consumer causes
- (a) An increase in demand
  - (b) No change in demand
  - (c) Decrease in demand**
  - (d) Less than proportionate change in demand
15. Which is the apex bank for agriculture credit in India?
- (a) RBI
  - (b) SIDBI
  - (c) NABARD**
  - (d) IDBI
16. Bonds and Government Securities refer to \_\_\_\_\_ money.
- (a) Near**
  - (b) Call
  - (c) Optional
  - (d) None of the above
17. 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
18. Variable factor means those factors of production
- (a) Which can be only charged in the long run
  - (b) Which can be changed in the short run**
  - (c) Which can be never be changed
  - (d) Any of the above
19. Money market is controlled by
- (a) Government
  - (b) RBI**
  - (c) SBI
  - (d) All the above
20. Financial markets are classified into Money market and \_\_\_\_\_
- (a) Bullion market
  - (b) Capital market**
  - (c) Stock market
  - (d) National market

### II. Match the following

[5 x 1 = 5]

	Column 'A'		Column 'B'
1	Commercial Paper	A	Adam Smith
2	Central Bank	B	Money market
3	Wealth of Nation	C	Demand Curve
4	Fiscal policy	D	Credit Control
5	Contraction of demand	E	Public Debt

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Answer:

	Column 'A'		Column 'B'
1	Commercial Paper	B	Money market
2	Central Bank	D	Credit Control
3	Wealth of Nation	A	Adam Smith
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5	Contraction of demand	C	Demand Curve

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

[5 x 1 = 5]

1. Production function explains the relationship between input and output.
2. The supply curve in case of land is parallel to X-axis
3. There is an inverse relationship between income and demand.
4. Indian Railways is an example of perfect competition.
5. Average product is at its maximum, when AP = MP.

Answer:

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

IV. Answer any two of the following

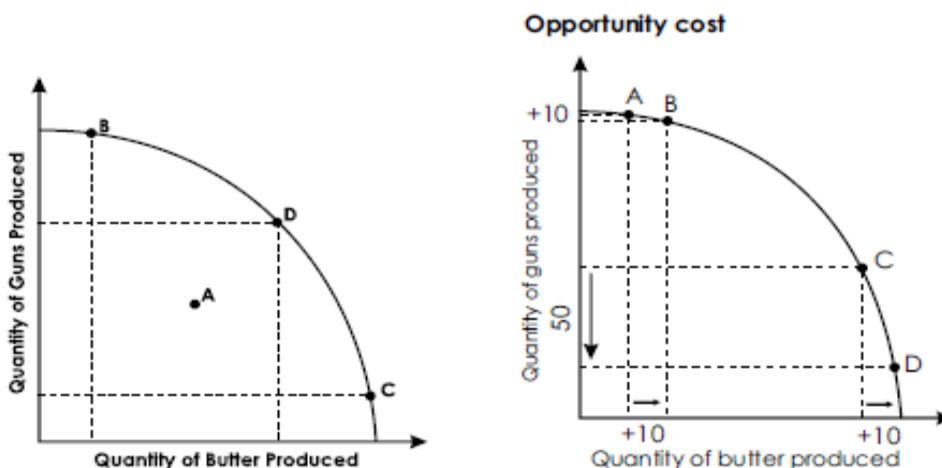
[4x5 = 20]

1. Explain about production possibility curve (PPC)

Answer:

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.

Production Possibility Curve



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## 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 a 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 a possible combination. But if the economy is working below the PPC curve that indicates the unused resources 'or' unemployment.

## 2. State the functions of Money.

### Answer:

Money plays a significant role in the modern economic life of the human beings. Money has many important functions to perform. These functions may be classified as follows:

#### 1. Primary functions:

The primary functions of money are really the technical and important functions of money. They are of two types:

##### (a) Medium of Exchange:

Money serves as a medium of exchange. Money facilitates exchange of commodities without double coincidence of wants. Any commodity can be exchanged for money. People can exchange goods and services through the medium of money.

##### (b) Measure of Value:

The value of each commodity is expressed in the units of money. We call it the price. In view of this function of money, the values of different commodities can be compared and the ratios between the prices of different commodities can be determined easily.

#### 2. Secondary functions:

Money has the following secondary functions:

##### (a) Store of value:

The value of commodities and services can be stored in the form of money. Certain commodities are perishable. If they are exchanged for money before they perish, their value can be preserved in the form of money.

##### (b) Standard of deferred payments:

Money serves as a standard of deferred payments. In the modern economies most of the business transactions take place on the basis of credit. An individual consumer or a business man may now purchase a commodity and pay for it in future. Similarly one can borrow a certain amount of money now and repay it in future.

##### (c) Transfer of money:

Money can be transferred from one person to another at any time and at any place.

#### 3. Contingent functions:

Besides the primary and secondary functions, money has certain contingent functions also. They may be stated as follows:

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### **(a) Measurements and distribution of national income.**

Nations income of a country can be measured in money by aggregating the value of all commodities. Similarly national income can be distributed to different factors of production by making payments to them in money.

### **(b) Money equalizes marginal utilities/productivities:**

The consumers can equalize the marginal utilities of different commodities purchased by them with the help of money. They can thus maximize their satisfaction. Similarly the firms can also equalize the marginal productivities of different factors of production and maximize their profits.

### **(c) Basis of credit:**

Credit is created by banks from out of the primary deposits of money. The supply of credit in an economy is dependent on the supply of nominal money. It is not possible to create credit if there is no reserve money.

### **(d) Liquidity:**

Money is the most important liquid asset. In terms of liquidity it is superior to all other assets. Money is cent percent liquid.

### **3. What should be the essentials of a sound banking system?**

#### **Answer:**

Essential of 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. Explain about NABARD**

#### **Answer:**

#### **National Bank Agriculture and Rural Development (NABARD)-1982**

It was established in July 1982 on the basis of the recommendations' of CRAFI CARD.

1. It is the apex body in the agricultural credit
2. It taking over the functions of agriculture credit department of RBI and Agriculture re-finance development corporation (ARDC).

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3. It provides all sources of refinance to the cooperatives, commercial banks and regional rural banks (RRB)

It also promoting the research in agriculture and rural development.

### 5. State the features of Monopoly market.

**Answer:**

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. Differentiate between returns to a variable factor and returns to scale.

**Answer:**

**Differentiate between returns to a variable factor and returns to scale:**

	Returns to a Variable Factor	Returns to Scale
1	Operates in the short run or it is related to short- run production-function.	Operates in the long-run or it is related to long- run production-function.
2	Only the quantities of a variable varied.	All factor-inputs are varied in the same factor are proportion.
3	There is change in the factor proportion.	There is no change in factor ratio.
4	No change in the scale of production. Because here all the factor-inputs are not changed.	There is change in the scale of production because here all the factor-inputs are varied in the same



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## Part B (50 marks)

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

[20 × 1 = 20]

- (1) "Leadership is the ability of a manager to induce subordinates to work with confidence and zeal" –
- (a) Haimann
  - (b) Koontz and O'Donnell**
  - (c) Davis
  - (d) Rensis Likert
- (2) T-group training is also known as
- (a) Classroom Training
  - (b) Apprenticeship Training
  - (c) Internship Training
  - (d) Sensitivity Training**
- (3) Carrot and Stick approach to motivation is adopted under which system?
- (a) Exploitative Autocratic
  - (b) Benevolent Autocratic**
  - (c) Consultative
  - (d) Democratic
- (4) Span of Management is also known as
- (a) Span of Control**
  - (b) Span of Supervision
  - (c) Span of authority
  - (d) All of the above
- (5) A thirsty person may use body language by lifting the thumb to face in order to communicate that he needs a glass of drinking water. This process is called:
- (a) Medium
  - (b) Encoding**
  - (c) Decoding
  - (d) Feedback
- (6) \_\_\_\_\_ 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
- (7) Who contends that "Training is an act of increasing the knowledge and skill of an employee for doing a particular job"?
- (a) Edwin Flippo**
  - (b) Michael J. Jucius
  - (c) O. Jeff Harris
  - (d) Andrew Carnegie

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- (8) "Control is any process that guides activity toward some predetermined goal" – by
- (a) Anthony
  - (b) O' Doneel
  - (c) **Haynes and Massie**
  - (d) Hicks and Gullet
- (9) MBO is a concept introduced by
- (a) Henri Fayol
  - (b) F.W. Taylor
  - (c) **Peter Drucker**
  - (d) George Terry
- (10) \_\_\_\_\_ was developed by du pont and Remington Rand Companies to help the process of scheduling maintenance of chemical plants.
- (a) **CPM**
  - (b) PERT
  - (c) MBO
  - (d) MBE
- (11) \_\_\_\_\_ decisions are repetitive and routine.
- (a) Organisational Decisions
  - (b) Non-routine Decisions
  - (c) **Programmed Decisions**
  - (d) Non - Programmed Decisions
- (12) Who avoids power and relinquishes the leadership position?
- (a) Autocratic Leader
  - (b) Democratic Leader
  - (c) **Free rein Leader**
  - (d) All of the above
- (13) Managers are reluctant to delegate authority due to the \_\_\_\_\_ reason.
- (a) Lack of confidence in his subordinates
  - (b) Fear of losing his importance
  - (c) Their likelihood to dominate the whole show
  - (d) **All of the above.**
- (14) Delegation takes place between
- (a) **Superior and subordinate**
  - (b) Peers
  - (c) Subordinates and peers
  - (d) All of the above
- (15) Span of control is based on the theory of relationship propounded by \_\_\_\_\_.
- (a) **Graicunas**
  - (b) George Terry
  - (c) Barnard
  - (d) Simon
- (16) \_\_\_\_\_ involves the selection of language in which the message is to be given.
- (a) Medium
  - (b) Decoding
  - (c) **Encoding**
  - (d) Feedback
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(17) Tendency of people to interpret the same message in different ways may act as a \_\_\_\_\_ barrier.

- (a) **Semantic**
- (b) Emotional
- (c) Language
- (d) Time

(18) Filtering means \_\_\_\_\_

- (a) **Hiding some messages**
- (b) Disclose the information
- (c) Sending message
- (d) None of the above

(19) \_\_\_\_\_ implies diffusion of authority throughout the organization.

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

(20) \_\_\_\_\_ refers to assigning rank and responsibility.

- (a) Training
- (b) Development
- (c) **Placement**
- (d) Education

### II. Match the following

[5 x 1 = 5]

	Column 'A'		Column 'B'
1	Encoding	A	Esteem Needs
2	Sensitivity Training	B	German Sociologist
3	Self Confidence	C	T – Group Training
4	Max Weber	D	Selection of language
5	Espirit de corps	E	Team work

Answer:

	Column 'A'		Column 'B'
1	Encoding	D	Selection of language
2	Sensitivity Training	C	T – Group Training
3	Self Confidence	A	Esteem Needs
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III. State whether the following statement is True (or) False.

[5 x 1 = 5]

1. A superior is always responsible to his subordinate.
2. Maintenance factors are also known as Hygiene factors.
3. Work is natural like rest or play according to Theory X.
4. The final step in decision making process is selection of an alternative.
5. Programmed decisions are of routine and repetitive nature which is to be dealt with according to specific procedure.

**Answer:**

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

IV. Answer any four of the following questions

[4×5= 20]

## 1. Importance of Staffing

**Answer:**

Staffing is a vital function of management more importantly because:

1. It facilitates discovery of competent and qualified people to take up various positions the organisation;
2. It enhances productivity by placing right people on the right jobs;
3. It helps in estimating the staffing requirements of the organisation in future (through manpower planning);
4. It prepares the personnel to occupy the top positions within the organisation.
5. It helps development of people through the programmes of training and development;
6. It helps the organisation to make the best use of existing workforce;
7. It ensures adequate and equitable remuneration of workforce.
8. It results in high employee morale and job satisfaction by placing the right people on right jobs;
9. It makes the top management aware of the requirements of manpower arising from transfer, promotion, turnover, retirement, death etc. of the present employees.

## 2. Merits of Off-the-Job Training

**Answer:**

1. This type of training gets employees away from their work environment to a place where their frustrations and bustle of work are eliminated. This more relaxed environment can help employees to absorb more information as they feel less under pressure to perform.
2. Can be a source to supply the latest information, current trends, skills and techniques for example current employment legislation or other company law and regulations, current computer software or computerized technologies or improved/innovative administrative procedures. These new skills can be brought back and utilized within the company.

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3. Experts in their field would cover these courses, and this would mean that training for staff members would be taught to a reasonable standard.
4. As the courses are held externally, our company would not have added costs incurred as a result of extra equipment or additional space.
5. Sending an employee on a course could help to make an employee feel more valued as they would feel as if they are receiving quality training.
6. As many courses or seminars invite employees from other companies to attend, this would allow employees to network and perhaps drum-up business.

### **3. Management Audit**

**Answer:**

The term 'Management Audit' is defined as a systematic evaluation of the functioning, performance and effectiveness of management of an organisation. It is thus an independent appraisal of an organization's management by an outside firm.

Depending on the preferences and perspectives of top management audit may cover all or some major facts of functioning of the organisation and its management. A few major areas which could be exposed to the search lights of management audit are listed as follows:

- (1) Formulation of organisational objectives, strategies, policies and programmes of action and the manner in which they are pursued, as also the extent of success achieved.
- (2) Design and operation of organisational structures of roles, activities and relationships.
- (3) The manner and efficiency with which resources and assets are mobilised, developed, allocated, utilised and safeguarded, including the human resources.
- (4) Design and functioning of various systems and operations within the organisation.
- (5) The manner in which the management team anticipates and sizes up external environmental elements and designs appropriate adaptive strategies to cope with them.
- (6) The internal organisational climate - to what extent it is conducive for co-operation, harmony, creativity, productivity and satisfaction.
- (7) The quality of managerial decisions: their soundness, timeliness and effectiveness.

### **4. Herzberg's Model**

**Answer:**

In the late fifties, Frederick Herzberg and his associates conducted interviews of 200 engineers and accountants in the Pittsburgh area of the United States. These persons were asked to relate elements of their jobs which made them happy or unhappy. An analysis of their answers re-veiled that feelings of unhappiness or dissatisfaction were related to the environment in which people were working. On the contrary, feelings of happiness or satisfaction were related to their jobs.

According to Herzberg, maintenance or hygiene factors are necessary to maintain a reasonable level of satisfaction among employees. These factors do not provide satisfaction to the employees but their absence will dissatisfy them. Therefore, these factors are called dissatisfiers. These are not intrinsic parts of a job but they are related to conditions under which a job is performed.

They are environmental factors (extrinsic to the job) and are given in the following table:

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Maintenance Factors	Motivating Factors
Company Policy and Administration	Achievement
Technical Supervision	Recognition
Inter-personal relationship with peers	Advancement
Inter-relationship with supervisors	Opportunity for growth
Inter-relationship with subordinates	Responsibility
Salary	Work itself
Job Security	
Working conditions status	

On the other hand, motivational factors are intrinsic parts of the job. Any increase in these factors will satisfy the employees and help to improve performance. But a decrease in these factors will not cause dissatisfaction.

Herzberg's theory has received a great deal of attention and it has become popular among managers. One striking conclusion of Herzberg's theory is that one cannot achieve higher performance simply by improving wages and working conditions. The conclusion should be an eye opener to managers who go on improving wages and fringe benefits with the hope of improving efficiency.

Herzberg stressed upon the job as an intrinsic motivating factor. The key to job satisfaction and high performance lies in job enrichment. Herzberg's two factor theory has made a significant contribution towards improving manager's basic understanding of human behaviour. His theory is simple and based on empirical data. It offers specific actions for managers to improve motivation and performance. This theory has exercised tremendous impact in stimulating thought, research and experimentation in the area of work motivation.

### 5. Guidelines for Effective Decision Making

#### 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 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.

### 6. Management information System (MIS)

**Answer:**

MIS can help managers in carrying out the planning, controlling and operational functions by gathering, storing and converting data into useful information.

MIS incorporates historical, current and projected information—quantitative or non-quantitative. It provides information in summary or detailed form as needed by managers. It provides information for all types of decision issues—strategic, administrative and operational. It enables managers to improve the quality and timeliness of their decisions in particular and to systematize even their day-to-day functioning in general. It adds to the alertness, awareness and intelligence of managers by supplying information in the form of progress and review reports on on-going activity. Another role of MIS is to provide only that much information as called for by managers specifically for purposes of decision making. This means that the question of information overload does not arise and that only optimum information is provided. The information is also updated on a continuous basis so as to make it more relevant. MIS avoids furnishing overlapping information as it will create confusion in the minds of managers. There is thus the desired degree of focus and selectivity in the information content.