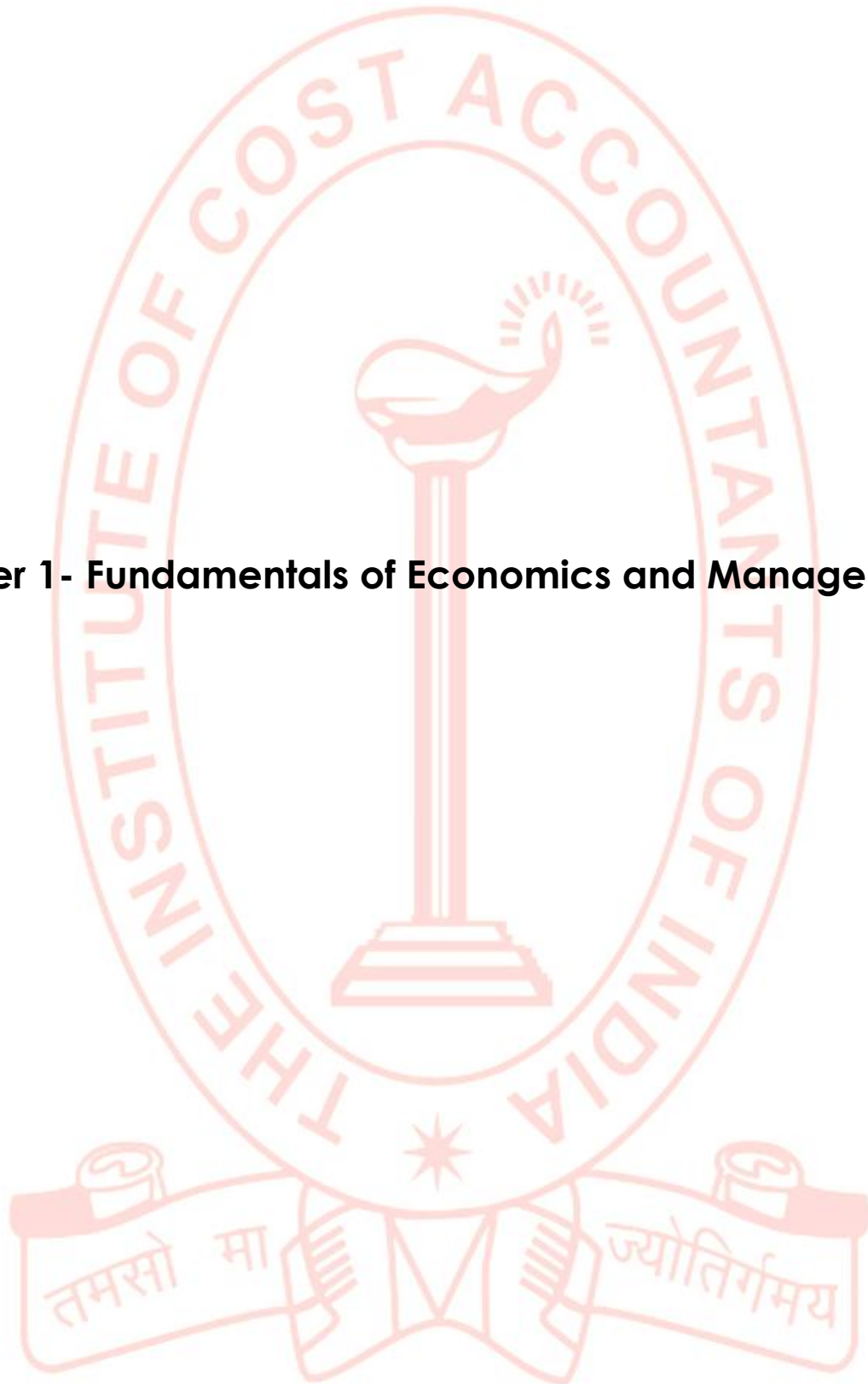


Paper 1- Fundamentals of Economics and Management



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]

1. The capital that is consumed by an economy or a firm in the production process is known by:
 - A. Capital loss
 - B. Production cost
 - C. Dead-weight loss
 - D. Depreciation
2. Who propounded the opportunity cost theory of International trade?
 - A. Ricardo
 - B. Marshall
 - C. Heckscher & Ohlin
 - D. Haberler
3. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
 - A. Increase
 - B. Decrease
 - C. Remain the same
 - D. Become zero
4. Which is the first order condition for the profit of a firm be maximum?
 - A. $AC=MR$
 - B. $MC=MR$
 - C. $MR=AR$
 - D. $AC=AR$
5. Which of the following is one of the assumptions of perfect competition?
 - A. Few buyers and few sellers
 - B. Many buyers and few sellers
 - C. Many buyers and many sellers
 - D. All sellers and buyers are honest

6. Price and demand are positively correlated in case of
 - A. Normal goods
 - B. Comforts
 - C. Giffen goods
 - D. Luxuries

7. When price elasticity of demand for normal goods is calculated, the value is always:
 - A. Positive
 - B. Negative
 - C. Constant
 - D. Greater than 1

8. Income elasticity of demand for normal goods is always:
 - A. 1
 - B. Negative
 - C. More than 1
 - D. Positive

9. In monopoly, the relationship between average and marginal revenue curves is as follows:
 - A. AR curve lies above the MR curve
 - B. AR curve coincides with the MR curve
 - C. AR curve lies below the MR curve
 - D. AR curve is parallel to the MR curve

10. The following is the cost of a clothing manufacturer. State which among them will you consider as fixed cost?
 - A. Cost of cloth
 - B. Piece wages paid to workers
 - C. Depreciation on machines owing to time
 - D. Cost of electricity for running machines

11. Positive income elasticity implies that as income rises, demand for the commodity:
 - A. Rises
 - B. Falls
 - C. Remains unchanged
 - D. Becomes Zero

12. Which of the following is not a feature of perfect competition?
 - A. Large number of buyers and sellers
 - B. Small number of buyers and sellers
 - C. Free entry and exit
 - D. Goods is homogeneous

13. The most efficient scale of production of a firm is where:

- A. LAC is minimum
- B. SAC is minimum
- C. LMC is minimum
- D. SMC is minimum

14. Economic problems arise because:

- A. Wants are unlimited
- B. Resources are scarce
- C. Scarce resources have alternative uses
- D. All of the above

15. Profits:

- A. Are lower in the long run than in the short run
- B. Can be negative
- C. Are less in perfect competition than in monopoly
- D. All of the above

16. When Marginal Utility is zero, Total Utility is:

- A. Minimum
- B. Maximum
- C. Law of return
- D. None of the above

17. Which of the following is not an input?

- A. Labour
- B. Entrepreneurship
- C. Natural resources
- D. Production

18. When marginal is negative, it must be true that:

- A. The average is negative
- B. The average is decreasing
- C. The total is negative
- D. The total is decreasing

19. Economic Development of a country requires:

- A. Skilled labour
- B. Diplomacy
- C. Abundant natural resources
- D. 'A' and 'C' both

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20. Profits are:

- A. Residual payment
- B. Pre-determined
- C. Fixed contract
- D. Always higher than wages

Answer:

1.	D	6.	C	11.	A	16.	B
2.	D	7.	B	12.	B	17.	D
3.	A	8.	D	13.	A	18.	D
4.	B	9.	A	14.	D	19.	D
5.	C	10.	C	15.	D	20.	A

(II) Match the following:

[1×5=5]

	Column I		Column II
1.	Proportional demand curve	(A)	Advertisements
2.	Interdependence	(B)	Long period
3.	Homogeneous product	(C)	Perfect market
4.	Selling costs	(D)	Monopolistic completion market
5.	AR=MR=P=MC	(E)	oligopoly

Answer:

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

(III) True or False:

[1×5=5]

- 1. In ordinary language demand means desire.
- 2. Comfort goods have more elastic demand.
- 3. If there is more increase in demand and less income in supply, then quantity and price rises.
- 4. Sugar cane is an example of monopolistic completion.
- 5. Kinky demand curve is the feature of monopoly.

Answer:

1. T 2. F 3. T 4. F 5. F

(IV) Answer any four of the following questions:

[4x5=20]

1. State the determinants of Elasticity of Supply.
2. What is money and state its constituents?
3. Explain the difference between Returns to a variable factor and Returns to Scale.
4. What do you mean by Capital and what are the functions of Capital?
5. What do you mean by Oligopoly Market? State in brief the features of Oligopoly Market.

Answer:

1. Determine of elasticity of supply:-
 - i. Nature of the commodity
If the good is durable the elasticity of supply will be more [$ES > 1$], the perishable goods have less elastic [$EP < 1$].
 - ii. Time factor
In the long period the elasticity of supply will be more [$ES > 1$] in the short period the elasticity of supply will be less [$ES < 1$].
 - iii. Availability of facilities
If they are more facilities [$ES > 1$] (or) [$ES < 1$].
 - iv. Cost of production
If the cost of production is more the elasticity of supply will be less, if the cost of production is less [$ES > 1$].
 - v. Nature of inputs
If the inputs are available in the market there is a more elastic supply otherwise less elastic supply.
 - vi. Risk taking
If the entrepreneur takes the risks the elasticity of supply will be more otherwise less.
2. Money:
Anything which is wide accepted in exchange of goods or in settling debts is regard as money. Once upon a time Barter system was prevailed.
 - i. When some commodities used as a medium of exchange by customs. It is called customary money. For example: The use of cowries in ancient India as a medium of exchange.

Constituents of Money Supply:

 - a. Rupee notes and coins
 - b. Credit cards
 - c. Traveler cheques

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3. The main differences between returns to a variable factor and returns to scale are as indicated below:

Returns to a Variable Factor	Returns to Scale
1. Operates in the short run or it is related to short-run production-function.	1. Operates in the long-run or it is related to long-run production-function.
2. Only the quantities of a variable varied.	2. All factor-inputs are varied in the same factor are proportion.
3. There is change in the factor-proportion. Suppose on 1 acre land 1 labour is employed, then the land labour ratio is 1 : 1. Now if we add one more unit of labour on the 1 acre land, then land-labour ratio would become 1 : 2.	3. There is no change in factor-ratio. For instance, if a firm is employing 1 unit of labour and 2 units of capital, then the labour-capital ratio is 1 : 2. Now if the firm increases its scale of operation and employed 2 units of labour and 4 units of capital, the labour-capital ratio still remains the same as 1 : 2.
4. No change in the scale of production. Because here all the factor-inputs are not changed.	4. There is change in the scale of production because here all the factor-inputs are varied in the same proportion.

4. **Capital:**

In the ordinary sense capital means money for an individual or a firm. Money is a form of capital when it is used to purchase machinery, tools, raw materials etc. Ultimately it is these man made goods i.e. Machinery, tools etc. that help in the production of goods. These are vital in raising productivity in different sectors.

Functions of capital:

Capital performs certain important functions in production.

a. Capital supplies tools and machines:

Capital supplies tools and machines that assist the labourers in working efficiently and producing more output. A labourer backed by better tools and machines will be more efficient in production.

b. Improves productivity of labourer:

Capital improves per capita productivity of labourer. This in turn increases the overall production.

c. Capital supplies raw materials:

Capital supplies raw materials, supply of raw material on continuous basis is required in production.

d. Generate more employment:

Additional tools and machines generate more employment to people. However in the modern production labour replacing machines reduce employment opportunities.

e. Provides transport facilities:

Capital in the form of roadways, railways, ships help to transport raw material to the site of the production and finished goods to the market.

f. Payments of factor:

Capital in the form of money is useful for the payment of advance wages to the labourers. Even before the goods are sold in the market.

5. A market with a small number of producers is called oligopoly. The product may be homogeneous or there may be differences. Since producers are a few each firm produces a large portion of the output. It is a market with competition among the few. This market exists in automobiles, electrical and cigarettes etc.

i. Less number of firms:

The numbers of producers are a few that is around five in this market. Each one produces a large part of the total output. He can control the output in the market. A firm can change the price by supplying either more or less.

ii. Interdependence:

In the oligopoly market the decisions of every producer affect other producers. This is due to less number of producers in the market. A change in the decisions of a producer (output or price) makes the other producers to change their decisions.

iii. Selling costs:

Sometimes commodities are produced with small differences. Then each firm makes a huge expenditure on advertisements. It is in the oligopoly that we can see the highest expenditure on selling costs.

iv. Uncertainty:

It will be difficult to guess what kind of demand curve will be there for a firm. Every time when a producer changes his decision, other producers will also change their decision. Therefore, it is not possible to expect price, output conditions to be the same in this market.

v. Rigid price:

In this market firms will not change the price, they follow a rigid price. A firm cannot increase price because other firms will not raise their prices. The firm that increases the price will be put to loss. If one firm reduces its price others will also do the same. Therefore, all the firms will follow a price without making any changes in it. Hence it is called rigid prices.

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Section – B : (Management)

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

1. Duty, Authority and Accountability are three fundamental components of:
 - (a) Delegation of authority
 - (b) Power
 - (c) Control
 - (d) Co-ordination
2. Assignment of duties is meaningless unless adequate authority is given to:
 - (a) Subordinates
 - (b) Peers
 - (c) Superiors
 - (d) All of the above
3. Subordinates may not like to accept delegation and shoulder responsibility due to the following:
 - (a) When they lack self-confidence
 - (b) When they are already overburdened with duties
 - (c) When adequate information, working facilities and resources are not available
 - (d) All of the above.
4. Transfer of authority from one individual to another is called as:
 - (a) Delegation
 - (b) Centralisation
 - (c) Decentralisation
 - (d) Communication
5. Leadership process is interplay of three elements:
 - (a) The Leader, the follower and the situation
 - (b) The Leader, the followers and the subordinates
 - (c) The Leader, the followers and the superiors
 - (d) None of the above.
6. According to Likert, ----- system of management is ideal system
 - (a) System 1
 - (b) System 2
 - (c) System 3
 - (d) System 4

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7. Which style is appropriate where subordinates have accepted the goals of the organization?
- (a) Free-rein Leadership
 - (b) Autocratic Leadership
 - (c) Participative Leadership
 - (d) None of the above
8. The theory -----implies use of 'Carrot and Stick' approach
- (a) Theory X
 - (b) Theory Y
 - (c) Maslow's need hierarchy Theory
 - (d) Herzberg's Two Factor Theory
9. The system that adopts a paternalistic approach towards the subordinates is:
- (a) Exploitative Autocratic
 - (b) Benevolent Autocratic
 - (c) Consultative
 - (d) Democratic
10. The term power is often considered as synonymous to-----
- (a) Responsibility
 - (b) Accountability
 - (c) Authority
 - (d) Control.
11. Responsibility may be defined in terms of:
- (a) Functions
 - (b) Targets
 - (c) Goals
 - (d) All of the above.
12. The premises over which a firm has no control are known as-----
- (a) Controllable premises
 - (b) Semi-controllable premises
 - (c) Uncontrollable premises
 - (d) None of the above.
13. The basic assumptions about the environment in which plans are expected to be implemented is known as:
- (a) Decision making
 - (b) Forecasting
 - (c) Planning premises
 - (d) None of the above.

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14. Which communication is the official message that is communicated by a manager by virtue of his position in the organization structure?
- (a) Formal communication
 - (b) Informal communication
 - (c) Grapevine communication
 - (d) Written communication
15. Effective communication is always:
- (a) Receiver oriented
 - (b) Sender oriented
 - (c) Message oriented
 - (d) None of the above
16. Which of the following methods are employed to make on-the-job training?
- (a) Coaching
 - (b) Job rotation
 - (c) Self-improvement programmes
 - (d) All of the above.
17. The task of ensuring that activities are producing the preset targets or goals is known as-----
- (a) Directing
 - (b) Control
 - (c) Coordination
 - (d) None
18. Vestibule training is considered as a part of-----
- (a) Off-the job training
 - (b) On-the-job training
 - (c) Both (a) and (b)
 - (d) None of the above.
19. The first step in control process is:
- (a) Measurement of actual performance
 - (b) Establishment of standards
 - (c) Taking corrective action
 - (d) Comparing the actual performance with standards.
20. CPC means:
- (a) Critical path control
 - (b) Critical point control
 - (c) Critical point complaint
 - (d) Critical point complex.

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Answer:

1.	A	6.	D	11.	D	16.	D
2.	A	7.	C	12.	C	17.	B
3.	D	8.	A	13.	C	18.	A
4.	A	9.	B	14.	A	19.	B
5.	A	10.	C	15.	A	20.	B

(II) Match the following:

[1×5=5]

	Column I		Column II
1.	Authority	(A)	Ability to do something.
2.	Non Financial Rewards	(B)	Example for Referent Power
3.	Teacher	(C)	Recognition and Status
4.	Mahatma Gandhi	(D)	Right to do something.
5.	Power	(E)	Example for Expert Power

Answer:

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

(III) True or False:

[1×5=5]

1. Brain Storming is one of the participative techniques.
2. Policy decisions are of vital importance and are taken by the Middle Management.
3. The final step in decision making process is selection of an alternative.
4. The term power is often considered as synonymous to Responsibility.
5. A superior is always responsible to his subordinate.

Answer:

1. F 2. F 3. F 4. F 5. F

(IV) Answer any four of the following questions:

[4×5=20]

1. Explain the importance of Motivation.
2. State the qualities of a successful leader.
3. Explain the differences between Delegation and Decentralisation.
4. State in brief about Management Information System (MIS).
5. State in brief on Planning Premises.

Answer:

1. Importance of Motivation

Motivation is one of the most crucial factors that determine the efficiency and effectiveness of an individual in organisation. All organisational facilities will remain useless unless people are motivated to utilize these facilities in a productive manner. Motivation is an integral part of management process and every manager must motivate his subordinates to create in them the will to work. High motivation provides the following advantages:

- i. Higher efficiency-** Motivation is an effective instrument in the hands of management to maximize efficiency of operations. A worker may be very competent but no activity can take place until the individual is willing to perform that activity. What employees do depends largely on how much and why they want to do. Motivated employees give greater performance than demotivated ones.
- ii. Optimum utilisation of resources-** Motivation inspires employees to make best possible use of different factors of production. They work wholeheartedly to apply their abilities and potential in minimizing waste and cost. The enterprise can make maximum use of its physical and financial resources.
- iii. Better industrial relations-** Increased labour productivity in turn results in higher wages for employees. Motivational schemes create integration of individual interests with organizational objectives. There arises a sense of belonging and mutual co-operation at all levels. Motivation will foster team spirit among workers. This will reduce labor unrest and create better relations between management and workers.
- iv. Easier selection-** An enterprise that offers abundant financial and non-financial incentives enjoys reputation in the labour market. Therefore, it can easily attract competent persons for filling various vacancies.
- v. Facilitates change-** High motivation helps to reduce resistance to change. An organisation has to incorporate changes to cope with environmental changes. Properly motivated employees accept, introduce and implement these changes keeping the organisation effective.

2. Qualities of a Successful Leader

A leader must possess certain exemplary qualities by virtue of which he may be able to lead and guide his subordinates.

From a holistic perspective, the qualities which are necessary for a successful leader can be started as follows:

- (i) Physical energy and stamina-** A leader should have a good personality, charming manners, and ability to work hard. A leader will be successful only when he acts with the group as a member and works hard. A leader can help a business enterprise to achieve its objectives or goals.

- (ii) **Intelligence-** Leaders should have somewhat higher intelligence than the average of their subordinates. They should possess the ability to think scientifically, analyse accurately and interpret clearly and concisely and problems faced by the group.
- (iii) **Vision and foresight-** A leader should exhibit his trait of looking forward. He must have foresight to see and feel the future. He should take into account the happenings which are about to occur in future. This will enable him to maintain his influence over his subordinates.
- (iv) **Initiative-** The main task of a leader is to initiate suitable sequence of actions in proper time. Hence, leaders must possess a strong, crucial motivation to keep accomplishing something.
- (v) **Self-confidence-** Self-confidence is essential to motivate the subordinates and boost up their morale. He should have confidence in himself whenever he takes any decision or initiates any cause of action. For this a leader should have conceptual clarity about the things, he is going to do. A confused leader may cause damage to the group or organization.
- (vi) **Open mindedness or Flexibility-** A leader should be flexible or open-minded, i.e., he should be ready to absorb new ideas as may be demanded by the situation. He should be prepared to accommodate other's view points and alter his decision, if need be.
- (vii) **Sense of Responsibility-** A leader should be prepared to shoulder the responsibility for the consequences of any steps he contemplates or takes. He should be aware of the duties and obligations associated with the position held by him.
- (viii) **Human relations-** A leader should possess the human relations attitude. He should be able to deal with people and secure their willing cooperation. He should try to develop social understanding with the people. He should try to achieve the voluntary cooperation of the subordinates.

3. Distinction between Delegation and Decentralisation

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

- i. Delegation is the process of devolution of authority whereas decentralization is the end result which is achieved when delegation is systematically repeated up to the lowest level.
- ii. Delegation can take place from one individual (superior) to another (subordinate) and be a complete process. But decentralisation is completed only when the fullest possible delegation is made at all levels of organisation.
- iii. In delegation control rests entirely with the superior. But in decentralization the top management exercise only overall control and delegates the authority for day today control to the departmental managers.

- iv. Delegation is a must for management as subordinates must be given sufficient authority to perform their duties. But decentralization is optional in the sense that top management may or may not disperse authority.
- v. Delegation is a technique of management used to get things done through others. However, decentralization is both a philosophy of management and a technique.
- 4. Management Information System (MIS):** 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 timelines 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 ongoing activity. Another role of MIS is to provide only that much information as called for by managers specifically for the purpose 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 of 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.
- 5. Planning premises** are basic assumptions about the environment in which plans are expected to be implemented. Certainly, planning has to take into account numerous uncertainties in its environment. Premises guide effectively planning. As pointed out by Harold Koontz, planning premises spell out the stage of the expected future event which is believed will exist when plans operate. They are the expected environment of plans. Planning premises are largely derived from forecasting. The effectiveness of planning to a great extent depends on how accurately the premises are developed from out of the forecasting data. Though it is not possible to predict accurately future environmental conditions, planning has necessarily to be based on certain assumptions about the environment. These assumptions are captured in the form of planning premises.
- Planning premises can be categorized into three heads-
- Internal and external premises
 - Controllable, semi-controllable and uncontrollable premises
 - Tangible and intangible premises