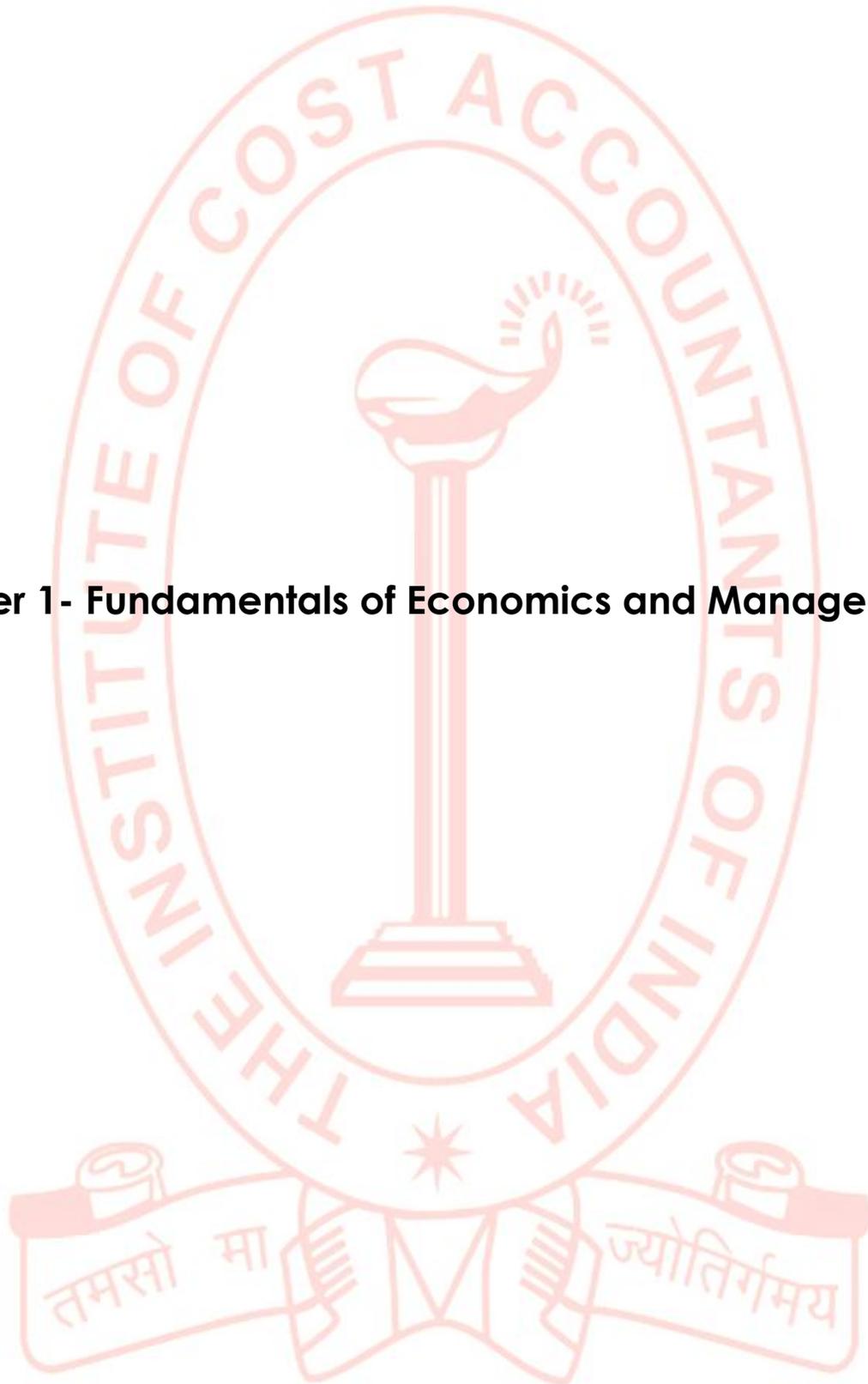


**Paper 1- Fundamentals of Economics and Management**



# MTP\_ Foundation\_Syllabus 2016\_June 2019\_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 : (Fundamentals of Economics)

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

1. The horizontal demand curve parallel to x-axis implies that the elasticity of demand is:
  - a. Zero
  - b. Infinite
  - c. Equal to one
  - d. Greater than zero but less than infinity
2. The supply of a good refers to:
  - a. Stock available for sale
  - b. Total stock in the warehouse
  - c. Actual Production of the good
  - d. Quantity of the good offered for sale at a particular price per unit of time
3. In the short run, when the output of a firm increases, its average fixed cost:
  - a. Remains constant
  - b. Decreases
  - c. Increases
  - d. First decreases and then rises
4. In which of the following market structure is the degree of control over the price of its product by a firm very large?
  - a. Imperfect competition
  - b. Perfect competition
  - c. Monopoly
  - d. In A and B both
5. Demand for a commodity refers to:
  - a. Need for the commodity
  - b. Desire for the commodity
  - c. Amount of the commodity demanded at a particular price and at a particular time

- d. Quantity demanded of that commodity
6. Income elasticity of demand is defined as the responsiveness of:
- Quantity demanded to a change in income
  - Quantity demanded to a change in price
  - Price to a change in income
  - Income to a change in quantity demanded
7. Which one of the following bodies finalizes the Five Year Plan Proposals?
- Planning Commission
  - Union Cabinet
  - National Development Council
  - Ministry of Planning
8. In Economics, production means:
- Farming
  - Creating Utility
  - Making
  - Manufacturing
9. In Economics the 'Utility' and 'Usefulness' have
- Same meaning
  - Different meaning
  - Opposite meaning
  - None of the above
10. Who among the following is not a classical economist?
- John Maynard Keynes
  - Thomas Malthus
  - John Stuart Mill
  - David Ricardo
11. With which form of economy is the term 'Laissez-faire' associated?
- Command economy
  - Mixed economy
  - Socialist economy
  - Capitalist economy
12. Why is the law of diminishing marginal returns true?
- specialization and division of labour
  - spreading the average fixed cost
  - limited capital

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- d. all factors being variable in the long-run
13. Skills that can be transferred to other employers are called:
- general skills
  - specific skills
  - non-pecuniary skills
  - all of the above
14. Fiscal policy in India is formulated by
- The Reserve Bank of India
  - The Planning Commission
  - The Finance Ministry
  - The Securities and Exchange board of India
15. Full convertibility of a rupee means
- Purchase of foreign exchange for rupees freely
  - Payment for imports in terms of rupees
  - Repayment of loans in terms of rupees
  - Determination of rate of exchange between rupee and foreign currencies freely by the market forces of demand and supply
16. National income ignores
- Sales of a firm
  - Salary of employees
  - Exports of the IT sector
  - Sale of land
17. Which one among the following is not true for Special Economic Zones?
- No licence is required for import
  - Manufacturing and service activities are allowed
  - No permission for subcontracting
  - No routine examination of cargo for export/import by customs authorities
18. The terms "Micro Economics" and "Macro Economics" were coined by
- Alfred Marshall
  - Ragner Nurkse
  - Ragner Frisch
  - J.M. Keynes
19. Gross Domestic Product is defined as the value of all
- Goods produced in an economy in a year
  - Goods and services produced in an economy in a year
  - Final goods produced in an economy in a year
  - Final goods and services produced in an economy in a year

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20. National income is generated from
- any money making activity
  - any laborious activity
  - any profit-making activity
  - any productive activity

Answer:

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

(II) Match the following:

[1×5=5]

	Column I		Column II
1.	Commercial Bank	(A)	Exim Bank
2.	Credit creation	(B)	1982
3.	UTI	(C)	Commercial bank
4.	Foreign trade	(D)	Discounting bills
5.	EXIM Bank	(E)	Small investment

Answer:

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

(III) True or False:

[1×5=5]

- The firm under perfect market earns normal profits in short.
- Bank is said to be dealer in debt.
- Fixed deposits are followed by business people.
- CRR cannot control the credit creation.
- Profit is the main motto of central Bank.

Answer:

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

(IV) Answer any four of the following questions:

[4x5=20]

1. State whether Economics is positive science or normative science.
2. Who can be called an Entrepreneur and what are the functions of an Entrepreneur?
3. What do you mean by Monopoly Market? State in brief the features of Monopoly Market.
4. State with examples about Price determination.
5. What do you mean by the term 'Labour'? State the features of Labour.

Answer:

**1. Economics as a positive science:**

- i. The positive science explains "what it is" but not "what ought to be"
- ii. It explains about the things as they are
- iii. It does not deal with value judgments.
- iv. According to Lionel Robbins economics is a Positive science.

**Economics as a Normative Science:**

- i. A normative science explains what ought to be and what not ought to be.
- ii. It does relates to value judgments
- iii. It deals with good & bad (or) right and wrong.
- iv. According to Alfred Marshall economics is a normative science.
- v. Economics is both positive and normative science

2. 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:**

**i. Entrepreneur initiate 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.

**ii. 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.

**iii. Choosing the technology:**

Choosing suitable technology, combining factors in right proportion to maximize output at minimum cost are the other functions of organizer.

**iv. Innovation:**

He must be dynamic to introduce new methods, techniques, products etc.

**v. 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.

**3. Monopoly Market:**

The word Monopoly is derived from two words 'Mono' and 'Poly'. Mono means Single and Poly means seller. Where there is an only one seller or one producer or one firm it is said to be monopoly market. The single seller supply the commodities to the entire market the product supplied by the monopolist is not have close substitutes. They are some many restrictions for other produces to enter into the market as a result monopoly has no competition in the market.

**Features of Monopoly:**

The monopoly market has the following features:

**i. Single firm:**

A single firm produces the commodity in the market there is only one seller or one producer or one firm.

**ii. 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.

**iii. 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.

**iv. Firm and Industry are same:**

As there is one firm in monopoly market there is no difference between firm and industry.

**v. 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.

**vi. 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.

**vii. 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.

**viii. Maximum profits:**

The main aim of monopoly is to earn to get the maximum profits.

**4. Price determination:**

In a perfect situation price is decided by the market. Market brings about a balance between the commodities that come for sale and those demanded by consumers. It means the forces of supply and demand determine the price of the good. Equilibrium price is established at the point where the supply and demand are equal. A table helps us to understand and the changes in supply, demand and equilibrium price.

Price	Quantity demanded	Quantity supplied
1	50	10
2	40	20
3	30	30
4	20	40
5	10	50

The above table shows the demand and supply schedule of good. Changes in price are always causing a change in supply and demand. As price increases there is a fall in the quantity demanded. It means price and quantity demanded have negative relation. But rise in prices has increased the supply of goods. The relation between price and supply of goods is positive. Every time a change in price is causing some change in the supply as well as demand. At one price ₹ 3 it can be observed that quantity supplied and demanded are equal.

**5. Labour**

In the ordinary usage, labour stands for only physical labour. In economics, labour means physical as well as mental services engaged in production to earn income. Classical economists and Karl Marx have considered labour as the sole factor of production.

**Features of Labour:**

Labour as a factor of production possesses certain peculiar features:

**i. Labour is inseparable:**

Labour is inseparable from labourer but in the case of other factors i.e. land and capital are separable from land lord and capitalist.

**ii. Labour is perishable:**

If a worker does not find work on a particular day, the labour is lost for that day. Like other factors of production, labour cannot be preserved.

**iii. Supply of labour:**

Labourers offer more labour at lower wages. When wages rise beyond a certain level they prefer to enjoy leisure and supply less labour. It is observed that supply curve of labour is backward bending at higher wages.

**iv. Weak-bargaining power:**

Labour has less bargaining power as it is a perishable thing. In the same way the trade unions are not strengthened so they cannot fight for better wages.

**v. Differ in efficiency of labour:**

Some labourers have more efficiency and some labourers have less efficiency.

### Section – B : (Management)

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

1. Control function is closely connected to-----
  - (a) Planning
  - (b) Organising
  - (c) Co-ordination
  - (d) All of the above.
2. Which of the following is not a financial incentive?
  - (a) Pay
  - (b) Allowance
  - (c) Recognition
  - (d) Bonus
3. Oral communication include:
  - (a) Face-to-face talks
  - (b) Formal group discussions
  - (c) Grapevine
  - (d) All of the above
4. The process that involves introduction of a new employee to the enterprise is-----
  - (a) Orientation
  - (b) Placement
  - (c) Staffing
  - (d) None of the above

5. Break even analysis is also called as-----
- (a) Cost volume profit analysis
  - (b) Ratio analysis
  - (c) Financial analysis
  - (d) None of the above.
6. Concurrent control is also known as:
- (a) Post control
  - (b) Pre-control
  - (c) Real time control
  - (d) Feed Forward control
7. The first step in the organising process is-----
- (a) Division of work
  - (b) Grouping the work
  - (c) Identifying the work
  - (d) Establishing formal reporting relationships
8. 'Control by exception' is also known as-----
- (a) Management by objectives
  - (b) Management by exception
  - (c) Critical point control
  - (d) None of the above.
9. Delegation may be:
- (a) Specific or general
  - (b) Written or implied
  - (c) Formal or informal
  - (d) All of the above
10. Which activity enables the managers to distribute their work load to others:
- (a) Centralisation
  - (b) Decentralisation
  - (c) Delegation of authority
  - (d) None of the above
11. Which communication usually passes through written orders, reports and manuals?
- (a) Downward communication
  - (b) Upward communication
  - (c) Lateral communication
  - (d) All of the above.

12. The basic internal sources of recruitment are:
- (a) Transfers
  - (b) Promotions
  - (c) Dependents
  - (d) All of the above
13. T-group training is also known as-----
- (a) Classroom training
  - (b) Apprenticeship training
  - (c) Internship training
  - (d) Sensitivity training
14. External sources of recruitment include:
- (a) Employment exchanges
  - (b) Advertisements
  - (c) Employee walk-ins
  - (d) All of the above
15. Manpower planning is also known as-----
- (a) Human Resource Accounting
  - (b) Human Resource Management
  - (c) Human Resource Planning
  - (d) None of the above
16. Operational planning is also known as-----
- (a) Corporate
  - (b) Long range
  - (c) Short range
  - (d) Strategic
17. In which approach, top management takes the initiative in formulating major objectives, strategies, policies and derivative plans:
- (a) Top down approach
  - (b) Bottom up approach
  - (c) Composite approach
  - (d) Team approach.
18. Flexibility and pragmatism are two important pre-requisites of success of planning----
- (a) Strategic
  - (b) Operations
  - (c) Corporate
  - (d) Long range

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19. Which is the primary functions of management:

- (a) Planning
- (b) Organizing
- (c) Directing
- (d) Controlling

20. Which of the following are called standing plans?

- (a) Policies
- (b) Procedures
- (c) Rules
- (d) All of the above.

Answer:

1.	a	6.	c	11.	a	16.	c
2.	c	7.	c	12.	d	17.	a
3.	d	8.	b	13.	d	18.	b
4.	a	9.	d	14.	d	19.	a
5.	a	10.	c	15.	c	20.	d

(II) Match the following:

[1×5=5]

	Column I		Column II
1.	Motive	(A)	System 1 Managers
2.	Benevolent Autocratic	(B)	Urge to do something
3.	Exploitative Autocratic	(C)	Abraham H. Maslow
4.	Free-rein	(D)	System 2 Managers
5.	General Theory of Motivation	(E)	Laissez Fair Leadership

Answer:

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

(III) True or False:

[1×5=5]

1. Autocratic Leadership is also known as Democratic Leadership.
2. Maintenance factors are also known as Hygiene factors.
3. Work is natural like rest or play according to Theory X.
4. Authority means ability to do something.
5. Responsibility arises from a superior- subordinate relationship.

Answer:

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

(IV) Answer any four of the following questions:

[4x5=20]

1. State the steps in the process of Delegation. .
2. Explain the steps in planning process.
3. State the importance of staffing.
4. What do you mean by Manpower Planning, state in brief?
5. State in brief on Management Audit.

Answer:

### 1. Steps in the process of Delegation

The process of delegation involves the following steps:

- i. **Determination of results expected-** First of all, a manager has to define the results he wants to obtain from his subordinates for achievement of organizational objectives.
- ii. **Assignment of duties-** The manager then assigns specific duties or tasks to each subordinate. He must clearly define the function of each subordinate. While assigning duties and responsibilities, he must ensure that the subordinates understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates.
- iii. **Granting of authority-** Assignment of duties is meaningless unless adequate authority is given to subordinates. They cannot discharge their responsibilities without adequate authority. Enough authority must be granted so that subordinates can perform their duties. By granting authority, subordinates are permitted to use resources, to take decisions and to exercise discretion.
- iv. **Creating accountability for performance-** The subordinates to whom authority is delegated must be made answerable for the proper performance of assigned duties and for the exercise of the delegated authority. The extent of accountability depends upon the extent of delegation of authority and responsibility. A person cannot be held answerable for the acts not assigned to him by his superior. An information and control system is established to check and evaluate performance of the subordinates to whom authority is delegated.

Thus, duty, authority and accountability are three fundamental components of delegation. All the three phases of delegation are interdependent. 'These three inevitable attributes of delegation are like a three-legged stool each depends on the others to support the whole and no two can stand alone'.

### 2. Explain the steps in planning process.

**Steps in planning process:**

The process of planning consists of a series of interrelated steps which varies depending on the size and complexity of the organization. The basic steps involved in the process of planning are-

- i. **Analysis of opportunities-** Planning starts with analysis of opportunities in the external environment as well as within the organization. Goals can be set only when a proper scanning of the environment, that reveals the opportunities that exist.
  - ii. **Establishing Objectives-** The next step in planning process involves establishing objectives for the whole organization, and for the different departments. Organisational objectives provide direction to the major plans.
  - iii. **Determining planning Premises-** Planning premises refer to the environment in which the plans are to be implemented. The task of determining premises should only be continued to those aspects that are critical to the plan.
  - iv. **Identifying alternatives-** Different feasible alternatives need to be identified in order to achieve a particular objective, since there may be multifarious ways in which a particular goal can be accomplished.
  - v. **Evaluation of alternatives-** Alternatives need to be evaluated in the light of goals. Those are set, and objectives to be achieved considering the various constraints and uncertainties that exist.
  - vi. **Selection of the best alternative-** The choice of the best alternative, i.e. the selection of the most appropriate course of action. Sometimes two or more contingency plans are kept as a backup considering the unpredictability of the future.
  - vii. **Implementing the plan-** Implementation or execution entails putting the plan into action. Managers need to consider a series of important decisions during implementation of the actions stated in the plan.
  - viii. **Reviewing the Plan-** Reviewing the plan help managers to evaluate the effectiveness of the plan. A system of thorough review and scrutiny can help in detecting deviations from the set plans and remedial measures can be taken accordingly.
- 3. State the importance of staffing.**
- Undoubtedly, staffing is a vital function of management more importantly because:
- i. It facilitates discovery of competent and qualified people to take up various positions in the organization;
  - ii. It enhances productivity by placing right people on the right jobs;
  - iii. It helps in estimating the staffing requirements of the organization in future (through manpower planning);
  - iv. It prepares the personnel to occupy the top positions within the organizations.
  - v. It helps development of people through the programmes of training and development.
  - vi. It helps the organization to make the best use of workforce;
  - vii. It ensures adequate and equitable remuneration of workforce;
  - viii. It results in high employee morale and job satisfaction by placing the right people on right jobs;

- ix. It makes the top management aware of the requirements of manpower arising from transfer, promotion, turnover, retirement, death etc. of the present employees.

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

#### 4. What do you mean by Manpower Planning, state in brief.

**Manpower Planning** – Also known as human resource planning, the manpower planning is “a process of determining and assuring that the organization 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 organizational objectives;
- (b) Determination of the skills and expertise required to achieve the organizational 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 of the human resource needs and the development of future programme as well as career development.

#### 5. State in brief on Management Audit.

**Management Audit:** The term “Management Audit” is defined as a systematic evaluation of the functioning, performance and effectiveness of management of an organization. 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 organization 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 organizational 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 organizational structures of roles, activities and relationships.
- (3) The manner and efficiency with which resources and assets are mobilized, developed, allocated, utilized and safeguarded, including the human resources.
- (4) Design and functioning of various systems and operations within the organization.
- (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 organizational 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.

