
# COMMERCE & MANAGEMENT

HILAL AHMAD

**E-BOOK CODE- H-47856**

APPROVED

**HILAL AHMAD**

# SECOND EDITION

**STAY CONNECTED WITH MY YouTube CHANNEL**

**https://www.youtube.com/channel/UCeej8Zas0XJ-PgMaUdfIstA**

https://www.facebook.com/ahmadhilal850

**HILAL AHMAD (B.COM/ /M.COM/PGDBA)**

**EMAIL-AHMADHILAL850@GMAIL.COM**

**SUBSCRIBE MY YOUTUBE CHANNEL FOR LATEST UPDATES-**
**https://www.youtube.com/channel/UCeej8Zas0XJ-PgMaUdfIstA**

**NOTE- IF ANY MISTAKE OR OMMISSION WILL BE FIND IN THE E-BOOK PLEASE CONTACT OR E-MAIL ME.**

***OBSTACLES ARE THOSE FRIGHTFUL THINGS YOU SEE WHEN YOU TAKE YOUR EYES OFF YOUR GOAL.***

**- HENRY FORD**

**NOTE- BOOK IS FREE OF COST,IF ANYONE CHARGES U PLZ CONTACT ME**

# CONTENTS



HILAL AHMAD

# UNIT-1

# STATISTICS

## STATISTICS some important points:

- F distribution is coined by George W Snedewr in Honour of Sir Ronald a fisher.
- Chi square (non- parametric test) concept given by Karl Pearson.
- Concept of normal distribution is given by De Mouire and person involved in this are Laplace, gauss and W J Yoden.
- Concept of regression is given by Sir Francis Galton in 1877.
- Concept of T- distribution is given by WS Gooset.
- Data which are collected for the first time are primary data.
- Data is only quantitative.
- Secondary data are second hand data which are in the form of published & unpublished.
- Category of secondary data are also called paper source.
- Median and mode are positional average.
- Athematic mean, geometric, harmonic & weighted average mean are mathematical average.
- ∑ known as capital sigma.
- Property of arithmetic mean-: 1) Sum of all observations of the given set of observations from their arithmetic mean is zero. 2) Combined mean= n1x1 + n2x2/n1+n2 3) the sum of square of the deviations of the given set of observations is minimum when taken from the arithmetic mean. 4) Mean is affected by both change of scale and change of origin. 5) AM>GM>HM (AM- arithmetic mean, GM- geometric mean, HM- harmonic mean) 6) Mode = 3median – 2mean 7) One dimensional 1d diagram are those which have only length. Examples are line diagram, multiple bar diagram, compound or cluster bar diagram, sub divided bar diagram are also called component bar diagram, percentage bar diagram, deviational bar diagram.
- Two dimensional diagram are those in which both length and breadth are present 2D. Examples are histogram, area diagrams, rectangles, square, circles and pie diagram.
- Ogive curve and frequency polygon are also 2d diagrams.
- Ogive represent cumulative frequency and histogram frequency distribution and frequency polygon means many angled diagrams.
- 3D, three dimensional diagrams are those cubes, sphere, cylinders and cuboid.
- Numerical characteristics of population are parameters and sample are sample statistics/ estimators.
- Random sampling method is also called probability sampling method.
- Non random sampling method is also called non-probability sampling method.

- Random sampling methodsare

1) Simple random samplingmethod
2) Stratified random samplingmethod
3) Systematic sampling method
4) Cluster sampling method
5) Multistage sampling

- Non random sampling methods are

1) Convenience sampling or chunk or incidental sampling

2) Judgment sampling

3) Purposive sampling

4) Quota sampling

5) Snow ball sampling

- The larger the sample the more accurate will be the research.
- Increasing the sample size decreases the sample error.
- Sample size N = 100
- Principles of sampling-

1) Law of statistical regularity

2) Principle of inertia of large number

3) Principles of persistence of small numbers

4) Principle of validity

5) Principle of optimization

- Type 1 error by rejecting a true null hypothesis and it is also known as producer error, alpha or level of significance.
- Type 2 error by accepting the false null hypothesis also called consumer error (1- βJ beta, power function of test or power curve, power of test.
- Standard error (SE) is standard deviation of the distribution of the sample mean. S.E = σ/√Ŷ
- In a normal distribution curve, since the curve is a bell shaped & symmetrical i.e. mean=median=mode
- Total area under normal probability curve is 1 (.5 + .5)
- Since curve is symmetrical co efficient of kurtosis is 3 mesocratic.
- Range of distribution is ∞to ∞ but practically it is 60σ.
- Point of inflexion is x= +- μσ
- Leptokurtic <3, platokurtic>, mesocratic =3.
- Area μ+-1σ= 68.27%, μ+-2σ= 95.45%, μ+- 3σ= 99.73%
- Z (standard normal distribution) = x-μ/σ
- Concept of binomial distribution is given by James Bernoulli
- Concept of Poisson distribution is given by Simeon Poisson. In this the value of mean and variance is (0,0)
- Standard deviation is also known as root mean square deviation.
- Standard deviation is affected by change of scale & independent of change of origin.
- Positively skewed= mean>median>mode.
- Negatively skewed= mode>median>mean.
- Balance pattern= mean=median=mode.
- Skewness means lack of symmetry or asymmetrical distribution.
- Concept of co efficient of Skewness given by Karl Pearson.
- Confidence interval 95%= 1.96, 99%= 2.56/2.58
- Z test is also called standard normal variable test, standard normal deviate test, approximation test, large scale test.
- Conditions to be applied in z test is- 1)

N> 30

2) N≤30 (Standard deviation of population mean is given)

- One tailed test is also known as direction test or right tailed test. F test and chi square test is one tailed test.

- Two tailed test is called left tailed test as direction is not mention.
- Conditions to apply t test-

1) N≤30 standard deviation of sample mean is given.

2) To check the difference in mean.

- T test is also called t distribution & student t test, exact test, small test.
- Conditions to accept & reject hypothesis-:

1) Table value> calculated value= accept

2) Table value< calculated value= reject

- Chi square is a non- parametric test
- Chi square lies from 0 to ∞
- Conditions to apply chi square test:-

1) Population mean & sample mean is not given in the question.

2) Degree of freedom (df-1) as df starts from t test.

- Chi square test is also known as:-

1) Goodness of fit accumulation

2) Contingency table

3) Quantitative variables

4) Co efficient of association

- Degree of freedom = (row-1) (column -1)
- F test in which value of numerator is always greater than denominator.
- Conditions to apply f test:-

1) Population mean, sample mean & standard deviation is not given in the question.
2) It will talk about two mean. 3) Its value lies between 0 to ∞

- Concept of correlation is given by Karl Pearson.
- Correlation denotes from R and its values lies between -1 to 1
- Spearman correlation given by Edward spearman.
- Edward spearman denotes correlation from p (rho)
- P= 1- 6∑d2/n(n2-1)
- If tied rank the formula will be p= 1-6∑d2/n (n2-1) + m (m2-1)/12
- Karl Pearson correlation formula is cov (xy)/σx.σy.
- Correlation is independent of both change of scale & origin.
- Regression is affected by change of scale & independent of change of origin.
- R2 is coefficient of determination.
- Coefficient values lies between 0 to 1.
- R2= bxy* byx
- Regression shows a causual effect i.e. cause & effect relationships.
- Parametric test: - z test, t test, f test.
- Non parametric test or distribution free test: - sign test, median test, Mann Whitney u test, run test, k.s test, chi square test.
- Paired t test is used in management training, special coaching’s, product
- vity of crop before & after.
- Paired t test is also known as bivariate normal distribution.
- Nominal scale=mode used, ordinal scale= mode & median, interval & ratio scale = mean, median, mode.

- Kendall coefficient – In 1955 rank correlation co-efficient evaluate the degree of similarity between two sets of ranks given to a same set of objects, non-parametric test.
- Friedman test= 0 to 1.

## TOPIC WISE POINTS

- Statistics is a body of methods of obtaining and analyzing data in order to base decisions on them.
- Statistics refers either to quantitative information or to a method of dealing with quantitative information.
- All statistics are numerical statements of facts but all numerical statements of facts are not statistics.
- Statistics is both arts & science.

## MEASURES OF CENTRAL TENDENCY

- Average is defined as an attempt to find one single figure to describe whole figure.
- Average is frequently referred to as a measure of central tendency.
- Measures of central value are also popularly known as measures of central tendency because its value lies between two extreme values.
- Types of average-:

1) Arithmetic mean – simple mean & weighted mean

2) Median

3) Mode

4) Geometric mean

5) Harmonic mean

- Arithmetic mean- Its value is obtained by adding together all the items and by dividing this total by the number of items.
- AM= X1+X2+X3…..XN/N or∑x/n
- For correcting incorrect value of arithmetic mean is – from incorrect ∑x deduct wrong items and add correct items and then divide the correct with nth observation .
- The use of median and mode would be better in open end distributions because of the difficulty of ascertaining lower limit & upper limit in open end distributions it is suggested that in such distributions arithmetic mean should not be used.
- Mathematical properties of Arithmetic mean-

1) The sum of the deviations of the items from the arithmetic means is always zero.

2) Mean is characterized as a point of balance i.e. the sum of the positive deviations from it is equal to the sum of the negative deviations from it.

3) The sum of the squared deviations of the items from arithmetic mean is minimum that is less than the sum of the squared deviations of the items from any other value.

4) Combined mean= x1+x2+x3….xn/n1+n2

5) Mean is affected by both change of scale and change of origin. As if a constant value k is multiply in a series then effect on mean is (mk) and if the constant value is subtracted in a series (m-k)

- Median & mode is positional average
- Arithmetic mean, harmonic mean, geometric mean and weighted average mean is a mathematical average.
- Uses of mean in index number and in standardized birth & death rate.

## MEDIAN

- The middle value in the distributions
- It is just the 50th percentile value below which 50% of the values in the sample fall.
- Median is called the positional average
- If N is odd then median is an actual value with the remainders of the series in two equal parts on either side of it. If N is even the median is a derived figure, half the sum of the two middle values
- Odd= middle value
- Even = n+1/2th
- Mathematical property of median is-

1) The sum of the deviations of the items from median, ignoring signs is the least.

- Uses of median- in open end distributions, it is more satisfactory measure of the central tendency than the mean.
- Most appropriate average dealing with qualitative data.
- Quartiles= 4 equal parts, deciles= 10 equal parts, percentiles= 100 equal parts.
- Median can be determined by graphic method also by ogives.

## MODE

- The mode or the modal value is that value in a series of observation which occurs with the greatest frequency.
- The mode is often said to be the value which occurs most often that is with the highest frequency.
- Mode is the value which has the greatest frequency density in its immediate neighborhood. For this reason mode is also called the most typical or fashionable value of distributions.
- For determining mode count the number of times the various values repeat themselves & the value occurring the maximum number of times is the modal value.
- When there are two or more values having the same maximum frequency one cannot say which is the modal value & hence mode is said to be ill defined. Such a series is also known as bimodal or multimodal.
- Where mode is ill defined its value may be ascertained by the formula based upon relationship between mean, median, mode, Mode= 3median-2mean. This measure is called the empirical mode.
- We can locate mode graphically using histogram and frequency polygon.
- Mode is used in open end distributions/ qualitative phenomenon 7
- Mode is the most meaning measure of central tendency in case of highly skewed or non-normal distribution, as it provides the best indication of the maximum concern.
- Relationship among mean, median and mode is, Mode= 3median- 2mean.

## GEOMETRIC MEAN

- It is defined as the nth root of the product of n items or values.
- Properties of geometric mean are –

1) The product of the values of series will remain unchanged when the value of geometric mean is substituted for each individual value.

2) The sum of the deviations of the logarithms of the original observations above or below the logarithm of the geometric mean is equal. This also means that the value of the geometric mean is such as to balance the ratio deviations of the observations from it. Because of this property this measures of central value is especially adopted to average ratios, rates of change & logarithmically distributed series.

- Uses- to find average percentage increase in sales, production, population, in construction of index number.
- Geometric mean is not computed when there are both negative & positive values in a series or one more of the values is zero.

## HARMONIC MEAN

- The harmonic mean is based on the reciprocals of the numbers averaged, it is defined as the reciprocal of the arithmetic mean of the reciprocal of the individual observation.
- HM = N/(1/x1+1/x2+1/x3….1/xn)
- Uses–It is useful for computing the average rate of increase in profits of a concern or average speed at which a journey has been performed or the average price at which an article has been sold. The rate usually indicates the relation between two different types of measuring units that can be expressed reciprocally.
- Weighted harmonic mean=∑w/∑(w/x)
- Relationship among the averages- AM> GM>HM

## HYPOTHESIS TESTING

- A statistical hypothesis is some assumption or statement which may or may not be true, about a population or equivalently about the probability distribution characterizing the given population which we want to test on the basis of the evidence from a random sample.
- Null hypothesis is the hypothesis which is tested for possible rejection under the assumption that it is true. It is denoted by Ho.
- Alternative hypothesis is any hypothesis which is complementary to the null hypothesis. It is very important to explicitly state the alternative hypothesis is respect of any null hypothesis Ho, because the acceptance or rejection of Ho is meaningful only if it is being tested against a rival hypothesis.
- We make type 1 error by rejecting a true null hypothesis. It is also called producer error, level of significance, Alpha.
- We make type 2 error by accepting a false null hypothesis. It is also called consumer error, beta, and power function of test (1-β)

## Z- Test

- It is any statistical test for which the distribution of the test for which the distribution of the test statistics under the null hypothesis can be approximated by a normal distribution. Because of the central limit theorem, many tests statistics are approximately normally distributed for large sample.
- Z test is also known as standard normal variable test or standard normal deviate test.
- Conditions for applying z test- 1)

N>30

2) N≤30, standard deviation of population mean is given.

- Z= mean - μ/σ/√n. or μ/σ/ S.E (standard error).
- Conditions for acceptance and rejection of null hypothesis:

1) If table value > calculated value, we accept the hypothesis.

2) If table value< calculated value, we reject the hypothesis

- 1.96 – 5% confidence interval
- Location tests are the most familiar z test.
- Z test is also known as standard normal test, approximate test, and large sample test.

## T- TEST

- T-test is any statistical hypothesis test in which the test statistics follows a student t distribution if the null hypothesis is supported. It can be used to determine if two sets of data are significantly different from each other & is most commonly applied when the statistics would follow a normal distribution if the value of a sampling term in the test statistics were known
- Welch's t test
- T test is given by W S Gooset 1908
- Impaired independent sample t test.
- Conditions for applying t-test are -:

1) N≤30 Standard deviation of mean is given.

2) To check the difference in mean.

- T test is also known as student t distribution, exact test or small sample test.
- Degree of freedom start from this test df= n-1

## CHI SQUARE TEST

- A chi square test also referred as to x2 test is any statistical hypothesis test in which the sampling distribution of the test Statistic is a chi

squared distribution when the null hypothesis is true.

- It is introduced by Karl Pearson.
- Value of x2 can never be negative.
- Pearson's chi square test also known as the chi square goodness of fit test & chi squared test for independence.
- Yates correction for continuity – to reduce the error in approximation frank yates suggested a correction for continuity that adjusts the formula for Pearson chi squared test by subtracting 0.5 from the difference between each observed value & its expected value in a 2*2 contingency table.
- Mean of chi square= v
- Variance of chi square = v2
- It is interested in dealing with more than two populations
- It enable us to test whether more than two population proportions are equal.
- The chi square test distribution is known by its only parameter numbers of degrees of freedom
- Df = ( row-1) ( column -1)
- It should be noted that the chi square test only tells us whether two principles of classification are significantly related or not but not measure of the degree or form of relationship.
- The arrangement of data according to attributes in cells are called a contingency table.
- Chi square is also known as:-

1) Goodness of fit accumulation

2) Contingency table

3) Quantitative variables

4) Co efficient of association.

- Conditions for applying chi square test:-

1) Population & sample mean is not given in the question

2) It talks about degree of freedom

- Chi square= n.s2/σ2
- Chi square lies between 0 to ∞
- It is a non- parametric test.
- One tailed test- In this test direction is mentioned (< >), it is also known as right tailed test ( f test and chi square test is one tailed test)
- Two tailed test- In this direction is not mentioned (= ≠)it is also known as left tailed test.

## F TEST

- F test is mainly arise when the models have been shifted to the data using to least square.
- Coined by George W Snedewr in honour of Sir Ronald a fisher.
- (ANOVA) Analysis of variance
- F test never be in negative because of square and numerator is always greater than denominator.
- F test= s1 square/s2 square
- Df (n1-1) (n2-1)
- Conditions for applying f test is:-

1) Population mean, sample mean & standard deviation not given in the question.

2) Will talk about two sample mean

3) Lies 0 to ∞

4) It is one tailed test

## Paired t test

- Paired t test may be applied to verify the necessity of a costly management training for its sales personnel by recording the sales of the selected trainees before and after the management training or the validity of special coaching for a group of educationally backward students by verifying their progress before & after the coaching programme or the increase in productivity due to the application of a particular kind of fertilizer by recording the productivity of a crop before & after applying this particular fertilizers & so on.
- Paired t test is also known as bivariate normal distribution.

## PARAMETRIC TEST

- T test, f test, z test are called parametric test.
- Conditions of parametric tests are as follows: -

1) The population from which the samples have been withdrawn should be normally distributed this is known by the term assumptions of normality

2) The variables involved must have been measured in interval or ratio’s scale.

3) The observations must be independent the inclusions or exclusions of any case in the sample should not unduly affect the results of the study.

4) These populations must have the same variance or in special cases must have a known ratio of variance. This is called homoscedasticity i.e. equal variance.

However in many cases where these above conditions are not met, it is always advisable to make use of non -parametric test for comparing samples and to make inferences or to test the significance or trust worthiness of the computer statistics. In other words the use of non- parametric test is recommended in the following situations-

1) Where n is quit small

2) When assumptions like normality of the distributions of scores in the population are doubtful. It is the characteristics of non- parametric test which enables them to be called distribution free test.

3) When the measurement of data is available either in the form of ordinal or nominal scale.

- Non – parametric test are typically simpler & easier to be carried out, there use should be restricted to those situations in which the required conditions for using parametric test ate met.
- Non- parametric test are less powerful (less able to detect a true difference when it exists) than parametric test in the same situations.
- Non parametric tests are as follows:-

1) Sign test. 2) Median test. 3) Mann Whitney u test. 4) Run test. 5) Ks test. 6) Chi square test.

## MEASURES OF DISPERSION

- Dispersion is the measure of the variation of the items.

- A measure of dispersion or variation is one that measures the extent to which these are differences between individual observations & some central or average value. In measuring variation we shall be interested in the amount of the variation or its degree but not in the direction.
- It is important to measures the reliability.
- Methods of studying dispersion are as follows-:

1) The range

2) The interquartile range or the quartile deviation

3) The mean deviation or the average deviation 9

4) The standard deviation or the root square mean deviation

5) The Lorenz curve

- Range- It is the difference between the largest item and the smallest item. Range= highest- lowest
- Co efficient of range = highest- lowest/highest+ lowest
- Inter quartile range or quartile deviation- It represents the difference between the third quartile and the first quartile. Inter quartile range = Q3-Q1. Quartile deviation = Q3-Q1/2. Co efficient of quartile deviation= Q3-Q1/Q3+Q1
- Percentile range is also used as measure of dispersion. Percentile range= p90-p10. Semi percentile range = p90-p10/2
- Range and quartile deviation they do not show the scatterness around as average.
- Mean deviation- The mean deviation is also known as the average deviation. It is the average difference between the items in a distribution from the median or mean of that series. It is advantage in taking the deviations from median because the sum of the deviations of items from median is minimum when signs are ignored. The arithmetic mean is more frequently used in calculating the value of average deviations & this is the reason it is also called mean deviation. Mean deviation (MD) = ∑;(d)/n, d= (x-a), a= assumed, co efficient of mean deviation = MD/Median if taken from median and if taken from mean the MD/Mean. The greatest drawback of this method is that algebraic signs are ignored while taking the deviations of the items as it makes the method non-algebraic. It is especially effective in reports presented to the general public or to groups not familiar with statistical methods.
- Standard deviations- This concept was introduced by Karl Pearson in 1893. It is also known as root mean square deviations for the reason that it is the square root of the means of the squared deviations from the arithmetic mean. It is denoted by small Greek letter σ sigma.
- The standard deviations measures the absolute dispersion or variability of a distribution, the greater the amount of dispersion or variability the greater the standard deviation, for the greater will be the magnitude of the deviations of the values from their mean. A small SD means a high degree of uniformity of the observations as well as homogeneity of a series, a large standard deviation means just the opposite.
- Difference between Mean deviation and standard deviation-

1) Algebraic signs are ignored while calculating mean deviation whereas in the calculation of standard deviation signs are taken in to a/c.

2) Mean deviation can be computed either from median or mean but standard deviation is always computed from arithmetic mean because the sum of the squares of the deviations of items from arithmetic mean is least.

- Population standard deviation is denoted by σ whereas sample standard deviation is denoted by s.
- Standard deviation is affected by change of scale & independent of change of origin.
- Mathematical properties of standard deviations are as follows-

1) It is possible to compute combined mean of two or more than two groups, similarly we can also compute combined standard deviation of two or more group.

2) The standard deviation of the first n natural numbers obtained from σ= √1/12 (n2-1)

3) The sum of the squares of deviations of items in the series from their arithmetic mean is minimum. The sum of the squares of the deviations of items of any series from a value other than the arithmetic mean would always be greater this is the reason why standard deviation is always computed from the arithmetic mean.

4) For symmetrical distributions

Mean +- 1σ= 68.27%, mean +- 2σ= 95.45%, mean +- 3σ= 99.73%

5) In normal distribution there is a fixed relationships between the three most commonly used measures of dispersion. The Q.D is smallest, the MD next & SD is greatest. QD= 2/3σ, MD= 4/5σ so, QD> MD> SD

- Coefficient of variation- Relative measures of SD is known as coefficient of variation. This measures developed by Karl Pearson. Coefficient of variation is greater is said to be more variable or less consistent, less uniform, less stable or less homogenous. On the other hand the series for which coefficient of variation is less is said to be less variable or more consistent more uniform, more stable or more homogenous. It is denoted by C.V = σ/x*100.
- Variance= square of standard deviation σ2. Smaller the value of σ2 the lesser the variability or greater the uniformity in the population.

10

- Standard deviation is the best measure of variation.
- Correcting of incorrect value of SD= SD – wrong value+ right value then divide by number of observation.
- LORENZ CURVE- It is devised by max o Lorenz. It is a graphic method of studying dispersion. This curve was used by him for the first time to measure the distribution of wealth & income. The most common use of this curve is the study of the degree of inequality in the distribution of income & wealth between countries or between different periods of time. It is a cumulative percentage curve in which the percentage of items is combined with the percentage of other things as a wealth, profits & turnover.
- As it is a graphical method, in this there is a line OP which is known as line of equal distribution. The line OP will make an angle of 45%. For any given distribution the curve will never cross the line of equal distribution. It will always lie below OP unless the distribution is uniform in which case it will coincide with OP. The greater the variability the greater is the distance of the curve from OP. Thus a measure of variability of the distribution is provided by the distance of the curve of the cumulated percentages of the given distribution from the line of equal distribution.

## SKEWNESS, MOMENTS & KURTOSIS

- When a series is not symmetrical it is said to be asymmetrical or skewed.
- Skewness refers to the lack of symmetry.
- In a symmetrical distribution the value of mean, median & mode coincide. The spread of the frequencies is the same on the both sides of the center point of the curve. Mean= median= mode.
- A distribution which is not symmetrical is called a skewed distribution & such a distribution could either be positively skewed or negatively skewed.
- Symmetrical distribution= mean= median= mode
- Positive skewed distribution= mean> median> mode. (Skewed right)
- Negatively skewed distribution- mode> median>mean (skewed left)
- In a moderately symmetrical distributions the interval between the mean & the median is approximately 1/3rd of the interval between the mean & the mode. It is this relationship which provides means of measuring the degree of skewness.
- Dispersion is concerned with the amount of variation rather than with its direction. Skewness tell us about the direction of the variation or the departure from symmetry.
- Measures of Skewness are dependent upon the amount of dispersion.
- Skewness is presentif

1) Mean, median, Mode do not coincide.

2) When data are plotted on a graph they do not give the normal bell shaped.

3) The sum of positive deviations from median is not equal to the sum of the negative deviations.

4) Quartiles are not equidistant from the median.

5) Frequencies are not equally distributed at points of equal deviations from mode. Skewness is absent if above conclusions are present.

- **Measures of Skewness**- It tell us the direction & extent of asymmetry in a series. Absolute measure of skewness and relative measure of skewness.
- Skewness can be measured in absolute terms by taking the difference between mean & mode in same unit. Absolute Skewness= x-mode, x>mode= positive skewed , x< mode= negative skewed
- If the absolute differences were expressed in relation to some measure of the spread of values in their respective distributions the measures would be relative.
- Four important measures of relative skewness are as follows-

1) Karl Pearson coefficient of skewness

2) The bowley's coefficient of skewness

3) The Kelley's coefficient of skewness.

4) Measure of skewness based on moments

**1) Karl Pearson co efficient of skewness**- also known as Pearsonian coefficient. Developed by Karl Pearson. It is based upon the difference between mean & mode & is divided by standard deviation to give a relative measure. Skp=mean-mode/sd

- Mean= median= mode- coefficient of skewness is 0
- Mean> median> mode- positive coefficient of skewness
- Mean<median<mode – negative coefficient of skewness
- Moderately skewed distribution- mode= 3median-2mean

**2) Bowley's coefficient of skewness-** prepared by bowley's, it is based on quartiles, quartiles measures of skewness. Skb= q3+q1- 2median/q3-q1. Its value lies between -1 to 1. It is useful in open end distributions and extreme values. Bowley's measure values is limited between -1 and 1 while Pearson measures as no such limit.

**3) Kelley's coefficient of skewness**-It is based on the formula for measuring skewness that is based upon the 10th deciles & 90th percentiles. Percentiles SKk= p10+p90- 2median/p90-p10. Deciles skk= d1+d9-2median/d9-d1

## MOMENTS

- Moment is refers to the measure of force with respect to its tendency to provide rotation. The strength of tendency depends on the amount of force and the distance from the origin of the point at which the force is exerted.
- Moment= ∑fx/n , f= force, x= distance.

## KURTOSIS

- It is a Greek word means bulginess.
- It refers to the degree of flatness or Peakedness in the region about the mode of a frequency curve.
- If a curve is more peaked than a normal curve- leptokurtic
- If a curve is more flat topped than the normal curve- Platykurtic
- The normal curve-Mesokurtic
- The condition of Peakedness or flat Toppedness itself is known as kurtosis or excess.

## THEORETICAL DISTRIBUTIONS

## BINOMIAL DISTRIBUTIONS

- It is also known as Bernoulli distribution
- Developed by Jacob Bernoulli
- Binomial distribution is probably distribution expressing the probability of one set of dichotomous alternatives i.e. success or failure.

- The mean of Binomial distribution is np & standard deviation √npq (p= success, q= failure)
- Mean of binomial distribution = np
- Standard deviation of binomial distribution= √npq
- Variance of binomial distribution= npq

## POSSION DISTRIBUTION

- It is a discrete probability distribution & is very widely used in statistical work.
- Originated by Simeon Denis Poisson.
- It deals with counting the number of occurrence of a particular event in a specific time interval or region or space.
- Mean of poisson distribution = m
- Standard deviation of poisson distribution=√m or $\mu 2$= m
- Mean and variance is (o,o)

## NORMAL DISTRIBUTION

- The normal distribution also called the normal probability distribution happens to be most useful theoretical distribution for continuous variables.
- It was first discovered by De Moivre. It was also known to be Laplace, it has been credited to Karl gauss.
- The normal distribution is also known as Gaussian distribution (Gaussian law of error)
- Topography of Normal distribution is given by **W J YODEN** .
- The type of random variable which can take an infinite number of values is called a continuous random variable & the probability distribution of such a variable is called continuous probability distribution.
- Normal distribution is one of the versatile continuous probability distribution.
- Properties of Normal distribution are as follows-

1) The normal curve is symmetrical about the mean (Skewness=0). If the curve were folded along its vertical axis the two halves would coincide. The number of cases below the mean in a normal distribution is equal to the number of cases above the mean, which makes the mean and median coincide.

2) The height of normal curve is at its maximum at the mean. Hence the mean & mode of the normal distribution coincide. Thus mean, median & mode all are equal.

3) There is one maximum point of the normal curve which occurs at the mean. The height of the curve declines as we go in either direction from the mean. The curve approaches nearer and nearer to the base but it never touches it i.e. the curve is asymptotic to the base on either side. Hence its range is unlimited or infinite in both directions.

4) There is only one maximum point, the normal curve is unimodal i.e. it has only one mode.

5) The points of inflexion i.e. the point where the change in curvature occurs are x+-σ

6) The first and third quartiles are equidistant from the median.

7) The mean deviation is 4/5th or more precisely 0.7979 of the standard deviation.

8) Area under normal curve

- Mean +-1σ= 68.27%, Mean +-2σ= 95.45%, Mean +-3σ= 99.73%, 1.96σ= 95%, 2.5758σ= 99%
- Coefficient of skewness is 0
- Coefficient of kurtosis is 3 mesocratic.
- Since the mean= median= mode= µ the ordinate at x=µ divides the whole into two equal parts. Further since total area under normal probability curve is 1. The area to the right ordinate as well as to the left of ordinate at x=µ is 1 (0.5+0.5)
- No question of the curve lies below the x-axis since the probability can never be negative.
- The range of probability distribution is from -∞ to ∞ but practically 6σ.

- All odds moments of normal distribution is zero $\mu 2n+1=0$.
- Point of inflexion of the normal curve are at x=+-μσ, they are equidistant from mean at a distant of standard deviation.
- Standard normal distribution or standard normal variance z= x-μ/σ, x= sample mean, μ= population mean, σ= standard deviation.
- Properties of probability for a normal distribution are 1) Px=

1/√2πσ.e (-z)2/2

2) Mean and variance is (0,1) a normal curve with 0 mean & unit standard deviation is known as the standard normal curve.

## CORRELATION AND REGRESSION CORRELATION

- If two quantities vary in such a way that movement in one are accompanied by movements in the other, these quantities are correlated.
- The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables.
- Correlation analysis deals with the association between two or more variables.
- Correlation analysis attempts to determine the degree of relationship between variables.
- Correlation is an analysis of the covariation between two or more variables.
- Coefficient of correlation is one of the most widely used and also one of the most widely abused in the sense that the correlation measures nothing but the strength of linear relationship and that it does not necessarily imply a cause & effect relationships.
- Karl Pearson has given the concept of correlation
- Correlation denotes from "r"
- Correlation lies between -1 to 1
- Correlation analysis help in determining the degree of relationships between two or more variables it does not tell us anything about cause and effect relationships.
- Correlation does not necessarily imply causation or functional relationship though the existence of causation always implies correlation. It establishes only covariation.
- Correlation observed between variables that cannot conceivably be casually related is called spurious or nonsense correlation.
- Types of correlation are as follows-

1) Positive or negative correlation

2) Simple, partial, multiple correlation

3) Linear and non-linear correlation

- Positive or negative correlation- If both the variables are varying in the same direction i.e. if as one variable is increasing the other on an average is also increasing it is known as positive correlation. On the other hand if the variables are varying in opposite directions i.e. as one variable is increasing the other is decreasing or vice versa, correlation is said to be negative.
- Simple, partial or multiple correlation- when one, two variables are studied it is a problem of simple correlation, when three or more variables are studied it is a problem of either multiple or partial correlation. In multiple correlation three or more variables are studied simultaneously.
- Linear or non-linear correlation- if the amount of change in one variable tends to be a constant ratio to the amount of change in the other variable then correlation is said to be linear. Correlation would be called non-linear or curvilinear if the amount of change in one variable does not bear a constant ratio to the amount of change in the other variable.

## METHODS OF STUDYING CORRELATION

- Followings are the methods of correlation

1) Scatter diagram method

2) Graphic method

3) Karl Pearson coefficient of correlation.

4) Rank correlation

5) Concurrent deviation method

6) Method of least squares

1) Scatter diagram method- The simplest device for ascertaining whether two variables are related is to prepare dot chart called scatter diagram. The greater the scatter of the plotted points on the chart the lesser is the relationship between the two variables. The more closely the points come to a straight line, the higher the degree of relationships.

- If all the points lie on the straight line falling from the lower left hand corner to the upper right hand, correlation is said to be perfect correlation r=+1
- If all the points are lying on a straight line rising from upper left hand to the corner right hand correlation is said to be perfect negative r= -1
- If the plotted points lie on a straight line parallel to the x-axis or in haphazard manner it shows absence of any relationship between the variables and it is called no correlation r=0
- Perfect positive r= +1, perfect negative= -1, positive r>0, negative r<0, no correlation= 0.
- As much as relationships come closer to zero it is called weak correlation or low degree correlation.
- As much as relationships come closer to 1 it is called strong correlation or high degree correlation.

2) Graphic method- when values are plotted on a graph paper we obtain two curves, one for x variable and another for y variables. If both the curves drawn on the graph are moving in the same direction (either up or down) correlation is said to be positive. On the other hands if the curves are moving in the opposite direction, correlation is said to be negative.

3) Karl Pearson coefficient of correlation or product moment coefficient of correlation Karl Pearson method popularly known as Pearsonian co-efficient of correlation.

- The Pearsonian co-efficient of correlation is denoted by the symbol r, r=∑xy/nσx.σy.
- This method is to be applied only where the deviations of items are taken from actual means and not from assumed means.
- Value of co-efficient of correlation lies between -1 to 1.
- The co-efficient of correlation describes not only the magnitude of correlation but also its decision. r= ∑xy /√∑x2.∑y2.
- The coefficient of correlation is said to be a measure of covariance between two series. The covariance of two series x & y, covariance = ∑xy/n
- In order to find out the value of correlation coefficient, first we calculate covariance & then in order to convert it to a relative measure we divide the covariance by the standard deviation of the two series. The ratio so obtained is called Karl Pearson's coefficient.
- Correlation is independent of change of scale & origin.
- R= ∑xy /√σx.σy.
- R= cov (xy)/σx.σy.
- Probable error= P.Er= 0.6745, 1-r2↑/√n
- Standard error= S.E R = 1- r2/√n

## Co-efficient of Determination

- Square of co-efficient of correlation is called co-efficient of determination.
- Co-efficient of determination= r2
- R2= explained variance/ total variance.
- Co-efficient of determination (r2) means the percentage of variation in the (y) dependent variable which is explained by the independent variable (x).
- Y = ∞+βx where y is dependent variable, ∞ is intercept, β is slope, x is independent variable.
- Co-efficient of determination lies between 0 and 1.
- R2= bxy.byx
- The ratio of unexplained variance to total variance is frequently called the co-efficient of non-determination (k2)

- Square root of non-determination is called co-efficient of alienation or k.
- Properties of coefficient of correlation are as follows-

1) The coefficient of correlation lies between -1 to 1.

2) The coefficient of correlation is independent of change of scale & origin.

3) The coefficient of correlation is the geometric mean of two regression coefficient r= √bxy.byx

4) The degree of relationship between two variable is symmetric rxy= ryx.

## RANK CORRELATION COEFFICINT

- Edward spearman has developed this.
- Sometimes we are required to examine the extent of association between two ordinary scaled variables such as two rank orderings.
- A measure to ascertain the degree of association between the ranks of the two variables x and y is called rank correlation.
- Spearman denotes it by p(rho)
- P= 1-c∑d2/n3-n
- Features are asfollows-

1) The sum of the differences or ranks between two variables shall be zero, ∑d=0

2) It is distribution free or non-parametric

3) If ranks are equal then p=1- 6∑d2/n(n2-1)+m(m2-1)/12.

## CONCURRENT DEVIATION METHOD

- It is the simplest method
- To find out the direction of change of x variables & y variables.
- Rc=+-√(2c-n)/n
- C= concurrent deviations
- When we observe numerical data in relation to time the set of observations so obtained is known as time series.
- The limits of the population correlation are given by r+- P.E

## REGRESSION ANALYSIS

- It reveals the average relationship between two variables and this make possible estimation or prediction.
- The meaning of the term regression is the act of returning or going back.
- The term regression was first used by Sir Francis Galton in 1877
- The line describing the tendency to regress or going back was called by Galton a Regression line.
- It is the measure of the average relationship between two or more variables in terms of the original units of the data.
- To study the functional relationships between the variables and thereby provide a mechanism for predictions and forecasting.
- It is a statistical device with the help of which we are in a position to estimate (or predict) the unknown values of one variable from known values of another variables.
- Y = a+bx, Y dependent variable we are trying to predict, x= independent variable which is used to predict.
- Geometric mean of two regression co-efficient gives co-efficient of correlation. R= √bxy.byx
- Regression is affected by change of scale & independent of change in origin.
- R2= √bxy.byx
- R2= bxy.byx
- = cov(xy/σx2. Cov(xy)/σy

➢ = cov2(xy)/σx2.σy2

## ➢ Difference between Correlation & Regression

| CORRELATION | REGRESSION |
|---|---|
| 1) Correlation simply tells the relationship between the two or more variables which vary together | 1) Regression mean stepping back or returning to the average value i.e. it's simply tells average relationship between two variables. |
| 2) Correlation coefficient tells the degree of relationships between two variable, r= xy= ryx | 2) Regression analysis aims at establishing the functional relationships between two variables bxy.byx (not symmetric). |
| 3) Correlation need not imply cause & effect relationship between two variables. | 3) Regression analysis clearly indicate the cause & effect relationships. |
| 4) Correlation coefficient is a relative measure of the linear relationship between x and y & is independent of units of measurement. It value lies between -1 to 1. | 4) Regression coefficient bxy & byx are absolute measures representing the change in the value of variable y for a unit change in the value of variable x, its value lies between 0 & 1. |
| 5) There may be nonsense correlation between two variables e/g intelligent & weight called spurious correlations. | 5) There is no such things as non-sense regression. |
| 6) Correlation analysis is confined to the study of linear relationships between variables | 6) Regression analysis includes linear as well as non-linear relationships between variables. |
| 7) Correlation coefficient is independent of both change of scale & change of origin | 7) Regression is independent of change of change of origin but not of scale. |

➢ Both regression co-efficient wills have the same sign i.e. either they will be positive or negative. It is never possible that one of the regression co-efficient is negative & other positive.

➢ Since the value of the co-efficient of correlation ® cannot exceed one, one of the regression co-efficient must be less than one or, in other words, both the regression co-efficient cannot be greater than 1.

➢ The coefficient of correlation will have the same sign as that of regression co-efficient i.e. if regression co-efficient have a negative sign, r will also be negative and if regression coefficient have a positive sign, r would be positive.

➢ Since bxy=rσx/σy we can find out any of the four values given the other three.

➢ Regression coefficient are independent of change of origin but not of scale.

➢ When the data represent a sample from a larger population, the least square line is a best estimate of the population regression line. Regression equation of x on y, Xc= a+By

➢ The standard error of estimates measures the dispersion about an average line called the regression line syn=√∑(y-y)2/n or syn= σy√1-r2.

## PRINCIPLES OF SAMPLING

1) Law of statistical regularity- According to this law a group of objects chosen at random from larger group tens to possess the characteristics of that large group.

2) Principle of inertia of large number- It states that as the sample size increases the result tends to be more reliable & accurate keeping other things constant.

3) Principle of persistence of small numbers- According to this principle if some of the items in a population possess markedly distinct characteristic from the remaining items then this tendency would be revealed in the sample value also rather this tendency of persistence will be there even if the population size is increased or even in the case of large sample.

4) Principle of validity- A sample design is termed as valid if it enables us to obtain valid tests & estimates about the population parameters.

5) Principle of optimization- this principle stresses the need of obtaining optimum results in terms of efficiency cost of the sample design with the source available at our disposal.

- Type 1 error- when we reject the true null hypothesis it is also known as producer error, level of significance and alpha.
- Type 2 error- when we accept the wrong null hypothesis it is also known as consumer error, ;β-1), power function test or power curve beta.
- Standard error- standard deviation of the distribution of the sample mean is known as standard error. S.E=σ/√N.

## TYPES OF SAMPLING PROBABILITY SAMPLING/ RANDOM SAMPLING

1) Random sampling- In random sampling we select the sample randomly i.e. there is equal chance of selecting every item but it is a case of without replacement. If we select ball from 10 balls then 1/10, if we select 1 ball keeping 1 ball outside then 1/9.

2) Simple random sampling- In simple random sampling we select the sample randomly and there is equal chance of selecting every item and replacement occurs so size remain the same. eg if we select 1 ball from ten balls after replacement then 1/10 (tibbet tables/lottery)

3) Stratified sampling- In this type of sampling we convert heterogeneous data in homogenous form and then select the sample randomly (strata means layers e.g. if we separate boys & girls and then select)

4) Systematic sampling –In this type of sampling we follow a system for collecting a sample on our own and rest of the sample are automatically selected at equal gal from each other.

5) Cluster sampling- It is also known as area sampling, In this type of sampling we make groups out of heterogeneous data and then select the groupsrandomly.

6) Multi stage sampling- In this type of sampling we use same or different method of sampling to study the cases.

## NON RANDOM SAMPLING/ NON PROBABILITY SAMPLING

1) Purposive sampling- In this type of sampling the conclusion is predetermined and then we select the sample accordingly.

2) Convenience sampling- It is also known as chunk sampling, incidental sampling and in this type of sampling we get the sample in a convenient way from collections and guidance.

3) Judgmental sampling- In this type of sampling we collect our sample on the basis of experience, expert knowledge and accordingly to judge.

4) Quota sampling- In this type of sampling quota is fixed for every enumerators and they have to collect the sample by using any biased method.

5) Snowball sampling- In this type of sampling we study the rare cases such as aids patients and then accordingly to their reference we collect the sample.

## COLLECTION OF DATA

- **The information collected from various sources which can be expressed in quantitative form for a specific purpose is called data.**
- **Types of Data –**

**1) Primary data – It is the original data which are collected for the first time for a specific purpose e.g. population census data collected by government in a country.**

**2) Secondary data – It is those which have already been collected by some other agency and which have already been processed. It is in the published and unpublished. Sources is important for collecting data. Documentary source of data is also known as paper source.**

# MISCELLENEOUS POINTS

1. **Maximum value of correlation is-1**
2. **Spearman's method is the method of calculating coefficient of correlation by-- Charles Spearman.**
3. **Graph of variables having linear relation will be--Stright Line**
4. **The files required to maintain general ledger records include--Detail posting file.**
5. **In which files, the records are organised in sequence and an index table is used to speed up access to the records without requiring a search of the entire file? Indexed Sequential file.**
6. **Correlation between income and demand is-Postive.**
7. **F distribution is coined by George W Snedewr in Honour of Sir Ronald a fisher.**
8. **Chi square (non parametric test) concept given by karl pearson.**
9. **Concept of normal distribution is given by De Mouire and person involved in this are laplace, gauss and W J Yoden.**
10. **Concept of regression is given by Sir francis galton in 1877.**
11. **Concept of T- distribution is given by WS Gooset.**
12. **Data which are collected for the first time are primary data.**
13. **Data is only quantitative.**
14. **Secondary data are second hand data which are in the form of published & unpublished.**
15. **Category of secondary data are also called paper source.**
16. **Median and mode are positional average.**
17. **Arthemetic mean , geometric, harmonic & weighted average mean are mathematical average.**
18. **$\sum$ know as capital sigma.**
19. **Property of arthemetic mean-:**
    1) **Sum of all observations of the given set of observations from their arthemetic mean is zero.**
    2) **Combined mean= n1x1 + n2x2/n1+n2**
    3) **The sum of square of the deviations of the given set of observations is minimum when taken from the arthemetic mean.**
    4) **Mean is affected by both change of scale and change of origin.**
    5) **AM> GM> HM ( AM- arthemetic mean, GM- geometric mean, HM- harmonic mean)**
    6) **Mode = 3median – 2mean**
    7) **One dimensional 1d diagram are those which have only length. Examples are line diagram, multiple bar diagram, compound or cluster bar diagram, sub divided bar diagram are also called component bar diagram, percentage bar diagram, deviationa bar diagram.**
20. **Two dimensional diagram are those in which both length and breadth are present 2D. Examples are histogram, area diagrams, rectangles, square, circles and pie diagram.**
21. **Ogive curve and frequency polygon are also 2d diagrams.**
22. **Ogive represent cumulative frequency and histogram frequency distribution and frequency polygon means many angled diagrams.**
23. **3D , three dimensional diagrams are those cubes, sphere, cylinders and cuboid.**
24. **Numerical characteristics of population are parameters and sample are sample statistics/ estimators.**

25. Random sampling method is also called probability sampling method.
26. Non random sampling method is also called non probability sampling method.
27. Random sampling methods are-
    1) Simple random sampling method
    2) Stratified random sampling method
    3) Systematic sampling method
    4) Cluster sampling method
    5) Multistage sampling
28. Non random sampling methods are
    1) Convenience sampling or chunk or incidental sampling
    2) Judgement sampling
    3) Purposive sampling
    4) Quota sampling
    5) Snow ball sampling
29. The larger the sample the more accurate will be the research.
30. Increasing the sample size decreases the sample error.
31. Sample size N = 100
32. Principles of sampling-
33. 1) Law of statistical regularity
34. 2) Principle of inertia of large number
35. 3) Principles of persistence of small numbers
36. 4) Principle of validity
37. 5) Principle of optimization
38. Type 1 error by rejecting a true null hypothesis and it is also known as producer error, alpha or level of significance.
39. Type 2 error by accepting the false null hypothesis also called consumer error ( $1-\beta$) beta, power function of test or power curve, power of test.
40. Standard error ( SE) is standard deviation of the distribution of the sample mean. $S.E = \sigma/\sqrt{n}$
41. In a normal distribution curve, since the curve is a bell shaped & symmetrical i.e mean=median=mode
42. Total area under normal probability curve is 1 ( .5 + .5)
43. Since curve is symmetrical co efficient of kurtosis is 3 mesocurtic.
44. Range of distribution is $\infty$to $\infty$ but practically it is $6\sigma$.
45. Point of inflexion is $x= +- \mu\sigma$
46. Leptokurtic <3, platokurtic>, mesocurtic =3.
47. Area $\mu+-1\sigma$= 68.27%, $\mu+-2\sigma$= 95.45%, $\mu+-3\sigma$= 99.73%
48. Z( standard normal distribution) = $x-\mu/\sigma$
49. Concept of binomial distribution is given by James bernoulli
50. Concept of poisson distribution is given by simeon poisson . In this the value of mean and variance is (0,0)
51. Standard deviation is also known as root mean square deviation.
52. Standard deviation is affected by change of scale & independent of change of origin.
53. Positively skewed= mean>median>mode.
54. Negatively skewed= mode>median>mean.
55. Balance pattern= mean=median=mode.
56. Skewness means lack of symmetry or asymmetrical distribution.
57. Concept of co efficient of skewness given by karl pearson
58. Confidence interval 95%= 1.96, 99%= 2.56/2.58

**59. Z test is also called standard normal variable test, standard normal deviate test, approximation test, large scale test.**

**60. Conditions to be applied in z test is-**

1) **N> 30**
2) **N≤30 ( standard deviation of population mean is given)**

**61. One tailed test is also known as direction test or right tailed test. F test and chi square test is one tailed test.**

**62. Two tailed test is called left tailed test as direction is not mention.**

**63. Conditions to apply t test-**

1) **N≤30 standard deviation of sample mean is given.**
2) **To check the difference in mean.**

**64. T test is also called t distribution & student t test, exact test, small test.**

**65. Conditions to accept & reject hypothesis-:**

1) **Table value> calculated value= accept**
2) **Table value< calculated value= reject**

**66. Chi square is a non- parametric test**

**67. Chi square lies from 0 to ∞**

**68. Conditions to apply chi square test:-**

1) **Population mean & sample mean is not given in the question.**
2) **Degree of freedom ( df-1) as df starts from t test.**

**69. Chi square test is also known as :-**

1) **Goodness of fit accumulation**
2) **Contingency table**
3) **Quantitative variables**
4) **Co efficient of association**

**70. Degree of freedom = ( row-1) ( column -1)**

**71. F test in which value of numerator is always greater than denominator.**

**72. Conditions to apply f test:-**

1) **Population mean, sample mean & standard deviation is not given in the question.**
2) **It will talk about two mean.**
3) **Its value lies between 0 to ∞**

**73. Concept of correlation is given by karl pearson.**

**74. Correlation denotes from R and its values lies between -1 to 1**

**75. Spearman correlation given by Edward spearman.**

**76. Edward spearman denotes correlation from p ( rho)**

**77. P= 1- 6∑d2/n (n2-1)**

**78. If tied rank the formula will be p= 1-6∑d2/n(n2-1) + m(m2-1)/12**

**79. Karl pearson correlation formula is cov( xy)/σx.σy**

**80. Correlation is independent of both change of scale & origin.**

**81. Regression is affected by change of scale & independent of change of origin.**

**82. R2 is coefficient of determination.**

**83. Coefficient values lies between 0 to 1.**

**84. R2= bxy* byx**

**85. Regression shows a causual effect i.e cause & effect relationships.**

**86. Parametric test:- z test, t test, f test.**

87. **Non parametric test or distribution free test:- sign test, median test, mann whitney u test, run test, k.s test, chi square test.**
88. **Paired t test is used in management training, special coachings, producti**
89. **vity of crop before & after.**
90. **Paired t test is also known as bivariate normal distribution.**

91. **Nominal scale=mode used, ordinal scale= mode & median, interval & ratio scale = mean, median, mode.**

92. **Minimum value of correlation is-1**

93. **Files held on a storage device are identified by a special block of data held as the first block on the file. This block is called the---file label.**

94. **MIS stands for---Mgt information sys.**

95. **Graph of variables having non-linear relation will be--curved**

96. **Horizontal curve represents the value of coefficient of correlation to be--zero.**

97. **In case there is no relation between two variables, value of coefficient of correlation will be--0**

98. **Karl Pearson's coefficient of correlation method of measuring correlation is--Mathematical**

99. **Correlation between price and demand is-Negative.**

100. **The collection of integrated and related master files is known as---Database.**

- - - - - - - - - - - - - - - -

# UNIT- 2

# ECONOMICS

- Some important points-

¬ Cournot duopoly model- 1838

¬ Bernard duopoly model- 1880

¬ Edge worth duopoly model- 1897

¬ Stackeel duopoly model- 1933

¬ Chamberlin duopoly model- 1934

¬ Sweezy duopoly model- 1939

¬ Neumann Morgenstern game theory model- 1944

¬ Baumaul duopoly model- 1959

¬ Father of economics- Adam smith

¬ Originator of law of demand- Alfred Marshall

¬ Revealed preference theory- Paul Samuelsson

¬ Cardinal utility/ neo classical approach- Alfred Marshall

¬ Ordinal utility/ indifference curve- F Y edge worth, vilfredo Pareto, EE Slustky, J R Hicks and RGD Allen.

¬ Indifference curve analysis is also known as iso utility curve or equal utility curve and for producer it is iso quant curve.

¬ Budget line is also called price line, consumption possibility line and iso cost line.

¬ Consumer equilibrium is said when there is a tangency between the budget line and the indifference curve.

¬ Price discrimination- A C pigou

¬ Free entry & exit/ factor mobility concept- Adam smith

¬ Exception of law of demand- Beham

¬ Perfect competition is known as Myth

¬ Imperfect competition- John Robinson

¬ Kinked demand curve- Paul sweezy in 1939

¬ Consumer & producer surplus- Alfred Marshall

¬ Material requisites well-being- A C pigou

¬ Positive impact of monopoly- joseph Schumpeter

¬ Wealth of nations- Adam smith

¬ Composite demand- the demand of commodities or goods that provides multiple uses.

¬ Demand- willingness to purchase+ ability to pay

¬ Substitute goods like tea and coffee

¬ Complementary goods is also known as jointly demand goods. Such as car petrol.

¬ Characteristics of demand curve-
1) downward sloping.
2) From left to right.
3) Negative slope.

¬ There is an inverse relationships between the price of goods and the quantity demand of the goods in law of demand.

¬ A family of indifference curve is called an indifference map.

¬ Slope of indifference curve is known as Marginal rate of substitution.

¬ Transactions cost is given by Ronald coase

¬ In Normal goods price effect= income effect + substitution effect

¬ In inferior goods substitution effect= price effect + income effect

¬ In giffen goods income effect= price effect + substitution effect

¬ Law of demand is violated in giffen goods.

¬ Opportunity cost is also known as next best foregone cost, sacrifice cost, transfer earnings and alternative cost.

¬ Explicit cost is also known as out of pocket cost, accounting cost and direct cost

¬ Implicit cost is also known as imputed cost

¬ Cost of production= explicit cost+ implicit cost.

¬ Fixed cost is also known as supplementary cost, overhead costs, unavoidable cost or indirect cost.

¬ Variable cost is also known as direct cost and prime cost.

¬ Fixed cost cannot be zero even when production is stopped.

¬ Accounting costs are explicit cost

¬ Economic costs are both explicit cost and implicit cost.

¬ AFC (average fixed cost) is also known as rectangular hyperbola

¬ Effective demand backed by purchasing power and willingness to spend.

## CHAPTER WISE EXPLANATION

Demand and Elasticity of Demand

¬ Demand is the willingness to purchase plus ability to pay for it at a particular price and at a particular point of time.

¬ Demand backed by adequate purchasing power.

¬ Demand is multivariate relationships i.e. it is determined by many factors simultaneously.

¬ There is an inverse relationship between the price of the goods and the quantity demand of that goods. ¬ Partial equilibrium analysis- given by Alfred Marshall. ¬ Ceteris paribus it means other things being equal or constant.
3 ¬ Factors affecting demand-
1) Price of the product
2) Income
3) Relative price of product
4) Consumer expectations
5) Advertisement effect
6) Fashions, climate, customs etc.

¬ Demand schedule- it is tabular statement of price and quantity relationships.

¬ Demand curve- A graphical presentation of demand schedule

¬ Characteristics of demand curve are as follows-
1) Downward sloping
2) from left to right
3) Negative slope
4) Inverse relationship between price and quantity demand

¬ Exceptions to the law of demand- in this there is a direct relationships between the price of the goods and the quantity demanded.
1) Giffen goods- It is given by Robert Giffen. It is such a inferior goods in which consumer reduces its consumption when price decreases and increases the consumption when its price increases. It has a very high negative income effect. Demand curve is upward sloping
2) Goods of status- the goods of status are name after Thorstein Veblen as Veblen goods. It is a prestigious goods like diamonds.
3) Expectation if price rise in future
4) Demonstration effect
5) Emergency
6) Uncertain product quality of goods
7) Snob appeal or ostentations.

¬ Goods whose demand rises when income rises are called normal goods

¬ Goods whose demand falls when income rises are called inferior goods.

¬ **Substitute goods –** It is those goods which are an alternative to one another in consumption example tea and coffee. When price of tea rises, demand of coffee rises. There is a positive relations between price & quantity demand. Increase in the price of the substitute goods, the demand curve shifts rightward.

¬ **Complementary goods**-those goods which are jointly used or consumed together to satisfy want. It is also known as jointly demanded goods. Example is car and petrol. If the price of one goods rises then the quantity demand of other goods reduces. There is a negative relationship between price & quantity demand. If there is decrease in the price of complementary goods the demand curve shifts leftward.

¬ **Change in quantity demand-** when a movement along a demand curve is caused by change in price of the goods other things remain constant it is known as change in quantity demand. Movement along a same demand curve brings about expansion and contraction of demand curve. Expansion occurs when the price of goods is less and the quantity demand is more. Contraction occurs due to increase in price the quantity demand of the goods decreases.

¬ **Change in demand-** A shift in the demand curve is caused by the change in other factors than price of the goods. Others factors such as income, price of other goods like substitute & complementary or consumer taste. There is increase and decrease in the demand curve. When income rises consumers buy more product in the same price so demand curve move rightward or outward. When the income decline consumers buy less products at the same price so demand curve moves leftward or inward.

¬ The absolute value of the coefficient of elasticity of demand ranges from zero to infinity.

¬ **Law of demand**- originator of law of demand is Alfred Marshall. It states that other things being constant, the higher the price of a commodity the smaller is the quantity demand for a commodity and lower the price of a commodity, higher will be the quantity demand of a commodity.

¬ **Elasticity of demand-** the degree of responsiveness of change in quantity demanded due to a change in price or change in its determinants is called elasticity of demand.

¬ There are three types of elasticity of demand-

1) Price elasticity

2) Income elasticity

3) Cross elasticity.

¬ **Price elasticity of demand (ep**) - it is the proportionate change in the quantity demand due to the change in the price.

¬ Ep= % change in quantity demand/% change in price or delta q/delta p * p/q.

¬ In price elasticity minus sign is ignored

¬ Methods of measuring elasticity are as follows-
1) Percentage & proportionate method- In this method ep= % change in quantity demand/ % change in price.
2) Point elasticity or geometric method- point elasticity of demand is the elasticity at a finite point on a demand curve. Point elasticity= lower segment/upper segment.
3) Total outlay or total expenditure method- total expenditure= price * quantity.
4) Arc method- It is the average method. Ep= delta q/delta p * p0+p1/q0+q1. It did not ignore minus sign.

**¬ Types of elastic demand-**
1) **Perfect elastic demand-** In this consumer have infinite demand at a particular price and none at all at even slightly higher than the given price. Ep= infinite. Shape of perfect elastic demand is horizontal and it is parallel to x-axis.
2) **Relative elastic demand-** In this quantity demand is changes by a larger percentage than a price. Ep>1, it is also known as flatter. Mainly in prestigious and expensive goods.
3) **Unitary elastic demand-** In this quantity demand is changes by exactly the same % as the price change. Ep=1. It is also known as rectangular hyperbola with 45 degree of angle.
4) **Relative inelastic demand**- In this quantity demand is changes by a smaller percentage than a price. Ep<1. It is also known as steeper.
5) Perfect inelastic demand- demands remain unchanged whatever be the price. Ep=0, it is vertical in shape and parallel to y-axis.

**¬ On the basis of factors whether the things are elastic or inelastic-**
1) Luxury- elastic ep>1
2) Necessities- inelastic

3) Close substitute- elastic
4) No substitute-inelastic
5) High income- inelastic
6) High cost- elastic
7) More uses-elastic
8) Few uses- inelastic
9) More time period required to find substitute- inelastic
10) Durable- elastic
11) Perishable- inelastic
12) Habits- inelastic

¬ Income elastic demand- % change in quantity demand/ % change in income. Income elasticity is graphically shown by Engel curve named after Ernst Engle. It establish a systematic relationship between household income and expenditure on commodities. It shows optimum quantity of a commodity purchased at different levels of income, in order to equilibrium.

¬ Cross elastic demand- % change in quantity demand of x / % change in price of y. The value of cross elasticity ranges from minus infinity to plus infinity.

## INDIFFERENCE CURVE

¬ Persons associated with indifference curve is F Y Edge worth, Vilfredo Pareto, EE Slustky, j r hicks and rgd Allen.

¬ An indifference curve shows a set of different combination of quantities of two goods that yield same satisfaction to the consumer.

¬ Slope of indifference curve is known as Marginal rate of substitution. (MRSxy)

¬ MRSxy is defined as the amount of good y consumer is willing to give up in exchange for good x while leaving total utility unchanged.
¬ A family of indifference curve is known as indifference map.

¬ **Features of indifference curve are as follows-**
1) Downward sloping to the right
2) Convex to the origin due to decreasing slope
3) Never intersect each other
4) Higher indifference curve shows higher level of satisfaction
5) Indifference curve should generally not touch x-axis or y-axis.
6) It may not be parallel to each other

¬ Slope of indifference curve MRSxy= MUx/MULJ= Δy/Δ x

¬ Because of marginal rate of substitution indifference curve is convex to the origin.

¬ If increasing slope indifference curve is concave

¬ If constant slope indifference curve is straight line.

¬ Indifference curve is also known as iso equality curve or equal utility curve or producer iso quant curve.

¬ Slope of iso quant curve is known as Marginal rate of technical substitution.

## BUDGET LINE

¬ Budget equation M= Px.Qx + Py . Qy

¬ Px.Qx is price of two goods

¬ Py. Qy is a quantity.

¬ M is the income and Px.qx + Py. Qy is an expenditure.

¬ The budget equation states that the total expenditure of the consumer in goods x and y cannot exceed his total income m.

¬ Budget line is also called price line, iso cost line, consumption possibility line.

¬ If the price changes then budget line changes its slope and positions.

¬ If the income changes then budget line shifts.

¬ Slope of budget line= Px/Py

## CONSUMER EQUILIBRIUM

¬ A Consumer attain his equilibrium when he maximizes his total utility given his income and market price of goods and services that he consumes.

¬ Equilibrium is said when there is a tangency between the budget line and the indifference curve.

¬ Consumer equilibrium is a point where a consumers get maximum satisfaction.

¬ Slope of consumer equilibrium= slope of indifference curve= slope of budget line

¬ MRS xy= Mux/Muy= $\Delta y/\Delta x$= px/py.

## CONSUMER AND PRODUCER SURPLUS

¬ Alfred marshal has given the concept.

¬ Consumer surplus is the difference between what a consumer is willing to pay for a good and what the consumer actually pays. It is an area below an individual demand curve and above the price line.

¬ Producer surplus- It is the difference between the amount actually received by the producers and the amount required to induce them to sell. It is area above the supply curve and below the market price.

## UTILITY

¬ Wants satisfying capacity of a commodity is known as utility.

¬ Total utility is the sum of the utility derived by a consumer from the various units of goods or services he consumes at a point or over a period of time.

¬ Marginal utility is defined as the utility derived from the marginal or one additionalunit consumed. It refers to the change in the total utility obtained from the consumption of an additional unit of a commodity. MU= $\Delta$Tux/$\Delta$qx or MU= TUn- TUn-1.

¬ Point of saturation is a point when total utility is maximum and constant and marginal utility is zero.

¬ Equal marginal utility= Mux/Px= MUy/Py= Mum

¬ Utility is measure in terms of utils.

# PRODUCTION FUNCTION

¬ It expresses the relationship between the quantity of output and the quantity of various inputs used for the production.

¬ When a firm decide to do the job itself in house is called command principle.

¬ Production is defined as the transformation of input into output.

¬Productionfunctionistheprocessofgettingmaximumoutputfromgivenquantityofinputsinaparticulartimeperiod.

¬ Level of output land, labour, capital, entrepreneurs ¬ Short run production function= variable cost + fixed cost

¬ Long run production function= variable cost

¬ Total production= It is the total quantity of goods produced by a firm during a specified period of time. Total production starts at origin, increase at an increasing rate then increase at a decreasing rate, reaches maximum and start falling.

¬ Marginal production- It is defined as the change in total production resulting from the employment of an additional unit of variable factor. MP= ΔTP/ΔQ or TPŶ- TPn-1

¬ Average production- It measures the productivity of the firms labour in terms of how much output each labour produces on an average. AP= TP/q

¬ Relationship between AP MP TP
1) When AP=0, MP=AP
2) When AP>0, MP>AP
3) When AP<0, MP<AP, when TP is maximum and constant MP is zero. When TP starts declining MP becomes negative as long as TP is positive AP will positive.

¬ Law of variable proportion or diminishing return- It is a short run concept. It takes place when production is increased by using more of the variable factor while keeping all other factors fixed. Law of diminishing return marshal has applied this first to agriculture then Joan Robinson, Stigler called it law of variable proportions which is applied in all sectors of an economy. It states that when total output or production of commodity is increased by adding units of a variable input, while the quantities of other inputs are held constant, the increase in TP becomes after some time smaller and smaller.

**¬ Three stages of law of variable proportions are**
1) **Stage of increasing return-** TP initially increasing at an increasing rate and then starts increasing at a decreasing rate from the point of inflexion.
2) **Stages of decreasing return-** A point from where AP is maximum to the point where the MP= 0, TP increases but at a decreasing rate, when TP is maximum and constant MP =o
3) **Stages of negative return**- It is a point where TP starts declining and MP becomes negative. ¬ The law of returns to scale- It states that when all factors of production are increased in the same proportion output will increase but the increase may be at increasing rate or constant rate or decreasing.

**¬ Three stages of return to scale are as follows**
1) **Increasing return to scale-** It occurs when increase in output is more than proportional to an increase in inputs.
2) **Constant return to scale-** It occurs when increase in output is proportional to an increase in inputs.
3) **Decreasing return to scale-** It occurs when increase in output is less than proportional to an increase in inputs.

¬ The reason of increasing return to scale is economies of scale. ¬ Economies of scale are the advantages or benefits which a firm gets when it expands its output.
¬ Internal economies- internal firm

¬ External economies- external firm

¬ Diseconomies of scale- It means that the size of the firm grows so large that it becomes very difficult to manage it. It increase the cost & give rise to decreasing return to scale.

¬ Point of inflexion- It is a point from where slope of total production changes up to point. Total production has been increasing at increasing rate & from this point onwards total production increase but only at decreasing point.

¬ Cobb Doughlas function $Q= AK\infty.L\beta$, alpha+ beta > 1 (increasing return) alpha + beta<1 (decreasing return) alpha+ beta= 1 (constant return)

¬ Properties of Cobb Doughlas-
1) Power function
2) Constant return toscale
3) Elasticity of substitution as unity or constant.

## MARKET

¬ Market is a place where buyers and sellers meet each other to effect a business transactions.

¬ Market is divided in to perfect competition market and imperfect competition market.

¬ Imperfect market includes monopoly, monopolistic competition, oligopoly, duopoly, monopsony, bilateral monopoly.

## PERFECT COMPETITION

¬ It is also known as myth.

¬ Large numbers of sellers and buyers.

¬ Homogenous products.

¬ Free entry and exit.

¬ Factor mobility.

¬ No transportation and selling cost.

¬ Price takers.

¬ Perfect knowledge.

¬ Automatic price mechanism according to demand & supply.

¬ Highly elastic demand.

¬ No discrimination.

¬ Demand curve of the firm is perfectly elastic in it.

¬ Firms are very small and are large in numbers.

¬ Absence of government regulations.

¬ Uniform & low price.

¬ When the ownership is one it is called firm and group of small firms known as industry.

¬ Conditions for equilibrium is MC=MR. MC should cut MR curve from below at the equilibrium point.

¬ In short run perfect competition market has supernormal profit, normal profit and loss.

¬ Supernormal profit when Average revenue> average cost.

¬ Normal profit when Average revenue= average cost

¬ Loss is when Average revenue< average cost

¬ In long run perfect competition has only normal profit left with them because when there is an abnormal profit a firm starts entering into a market then the firms come in a normal profit and when the firm faces a loss then the firm starts existing the market as a result again it come to a normal profit.

## MONOPOLY

¬ A situation where there is only one producer is called monopoly.

¬ Only one seller and large number of buyers.

¬ Different products as there are no substitutes.

¬ Perfectly inelastic demand as there is no options.

¬ Barrier to entry & exit.

¬ Price makers & price setters.

¬ Price discrimination the main features.

¬ Unique product.

¬ Size of market is large.

¬ Faces tradeoff between output & prices (at one time take decisions on output or price)

¬ Regulated by government.

¬ Demand is inelastic very low ie steeper.

¬ Price discrimination or discriminating monopoly.

¬ **Conditions for price discriminations are as follows:-**
1) There should be no contact between two markets
2) Elasticity of demand in different markets should be different
3) Market must be imperfect
4) No possibility of resale

¬ Price discrimination is profitable when the price elasticity of demand is different in different market.

¬ Price discrimination in which a monopolist by selling a product at two different prices pocket a part of consumer surplus Pigou calls it third degree price discrimination.

¬ Dumping- when a monopolist is charging a higher price in the home market and a lower price in the international market.

¬ A. c Pigou has told that price discrimination is the ultimate aim of monopolist to earn maximum profit.

¬ In short run it earns normal profit, abnormal profit and in rare almost nil in case of loss.

¬ In long run it earns normal profit but tries to be in abnormal profit as always

¬ Multiplant monopoly is a more realistic situation where a monopolist produces in two or more plants and each plant having different cost structure.

¬ Price discrimination- It is the practice of charging different prices from different consumer for the same goods or services at the same time. It is also called discriminating monopoly, selective pricing by market segmentation, charging what the traffic will bear.

## MONOPOLIST COMPETITION

¬ When such monopolist producers are competing amongst themselves it is called monopolistic competition.

¬ It is also known as cut throat competition.

¬ Followers of monopolistic competition are beggar thy neighbor tactics.

¬ Many number of sellers and large number of buyers.

¬ Product differentiation ( same old product are sold under a different trade name, style, design & color. Only outward appearance change.

¬ High selling cost & advertisement cost on publicity.

¬ Demand is elastic ep>1

¬ Price difference with different price range

¬ Own price policy

¬ Create brand loyalty

¬ Price war

¬ Gift articles

¬ Free entry and exit

¬ Absence of interdependence- large number of firm are different in their size each firm has its own production and marketing policy so on. Firm is influence by other firms all are independent.

¬ Two dimensional competition
1) Price competition- firms compete with each other on the basis of price.
2) Non price competition- firms compete on the basis of brand product, quality and advertisement.

¬ In short run abnormal profit, normal profit and loss, in long run there is always normal profit.

¬ Output is much less

¬ Inefficient market also survive

## MONOPOSONY

¬ Under this there are many sellers but only one buyer.

¬ It is opposite of monopoly

## BILATERAL MONOPOLY

¬ If there is one seller and one buyer then it is called bilateral monopoly.

## OLIGOPOLY

¬ It is derived from the two greek word oligi- few and polein- to sell

¬ Few is the main point of oligopoly

¬ Large number of buyers and few number of sellers

¬ Homogenous or differentiated product

¬ Restrictions to entry

¬ Large size of market to each firm

¬ High price

¬ Low elastic of demand

¬ Depends on rival strategy

¬ Firms are mutually dependent on each other

¬ Informative advertisement

¬ Oligopoly refers to an industry that contains only a few competing firm. Each firm has enough market power to prevent its being a price taker, but each firm is subject to enough interfirm rivalry to prevent it considering the market demand curve as its own.

¬ Mutual interdependence means that the firms are significantly affected by each other price & output decisions.

¬ They can retain long run abnormal profit as high barrier of entry

¬ In oligopoly cross elasticity of demand is very high between the products of the oligopolist because the products are close substitutes.

¬ Advertisement has main role in oligopoly

¬ Price rigidity- It means that firms would not like to change the prices. It will stick to price. If a firm tries to reduce the price the rivals will also retaliate by reducing their prices, so it will not be of any advantage to it. Likewise if a firm tries to raise its price, other firms will not do so. As a result the firm will lose its customers and incur loss. So
there is a price rigidity in an oligopoly market.

¬ Keen competition in oligopoly market, as the number of sellers is so small that any move by one seller immediately affects the rival sellers. As a result each firm keeps a close watch the activities of the rival firms and prepares itself to counter it.

¬ Oligopolist is the highest form of competition

¬ Existence of non -profit motive , motives like sales maximization, security maximization, risk minimization

¬ They are price setters and makers

## STRATEGIC AND NON-STRATEGIC BEHAVIOUR

¬ Strategic behavior refers to that behavior of a firm in which the firm, while deciding its price& output has to take into account for the possible reactions of the rival firms in the market. Oligopoly form of the market is a typical example of strategic behavior of the firms.

¬ Non-strategic behavior refers to that behavior of a firm in which the firm while determining its price & output does not account for the possible reactions of the rivals in the market. It focus on its own cost structure and demand conditions in the market.

¬ The behavior of oligopolistic is necessary strategic. In deciding on strategies, oligopolists face a dilemma that whether to compete or co-operate. If firms co-operate they will make more profits as a group. If firms do not co-operate but compete, they will have loss of profit

¬ Price leadership is an example tacit collusion in which the firms in an oligopolistic industry tacitly decide to set the same price as the price leader or low cost firm for that industry.

¬ Nash equilibrium – It is the equilibrium that is reached by firms when they proceed by calculating only their own gains, without co- operating with others.

¬ Covert cheating- secret price concessions to buyers or secret discounts or rebates.

## KINKED DEMAND CURVE 1939 PAUL SWEEZY

¬ The kinked is formed at the prevailing price level because the segment of the demand curve above the prevailing price level is highly elastic & the segment of the demand curve below the prevailing price level is relatively inelastic.

¬ Paul Sweezy given an explanation of price rigidity that the individual oligopolistic saw that if they raise the price his rivals will not follow the suit and would do the same thing quickly. As a result at a price higher than the customary one demand is seen to be highly elastic while at price lower than ruling one the demand is seen to be highly inelastic.

## REVENUE

¬ Revenue is the money payment received from the sale of a commodity.

¬ Total revenue- amount that a firm gets by selling a given quantity of a product. Price* quantity

¬ Marginal revenue- It is the change in total revenue which results from the sale of one more or less unit of a commodity. MR = $\Delta TR/\Delta Q$, $TR_n - TR_{n-1}$
¬ Average revenue- It refers to revenue per unit of output sold. AR = TR/q or AR = Price

¬ When TR is maximum and constant MR = 0

## COST

¬ **Private cost**- It is money cost incurred by a firm in producing a commodity.

¬ **Social cost-** It is cost of producing a commodity to the society as a whole.

¬ **Fixed cost**- It is also called supplementary cost. These are costs that do not change with a change in output. Also known as overhead cost or unavoidable cost.

¬ **Variable cost-** These are the costs which vary with the quantity of output produced. It is also called prime cost.

¬ Fixed cost cannot be zero when production is stopped

¬ **Shutdown cost**- It incurred in the events of a temporary shut- down of a business firm

¬ **Abandonment cost**- It is the cost of retiring a fixed asset from use. It involves a permanent shutdown of an activity.

¬ **Accounting cost-** These costs are the cash payments made by an entrepreneur to the supplier of various factors of production

¬ **Economic cost**- It includes accounting cost plus normal return on capital invested by an entrepreneur himself, salary not paid to an enterprise.

¬ Accounting cost are explicit cost

¬ Economic cost are both explicit and implicit cost.

¬ **Money cost-** The amount spent in terms of money for the production of a commodity is called money cost

¬ **Real cost-** The mental & physical efforts & sacrifices undergone with a view to producing a commodity are its real cost. Real cost is expressed not in money terms but in terms of efforts & sacrifices.

¬ **Opportunity cost**- The cost of producing one thing is measured in terms of what was given up in terms of next best alternative that is sacrificed. The opportunity cost is the cost in terms of the alternative foregone. It is also called alternative cost and transfer earning.

¬ The cost of self- owned & self-used resources are called implicit cost, also called imputed cost

¬ The cash payments which firms make to outsiders for their services and goods are called explicit cost, also called direct cost, accounting cost.

¬ **Opportunity cost** refers to both explicit and implicit cost.

¬ The expenditure incurred on land, labor, capital and entrepreneurship is called cost of production. Organization is also a part of cost of production.

¬ In long run there are only variable cost

¬ In short run there are both fixed cost as well as variable cost.

¬ **Total cost** – It denotes the sum of all expenditure incurred by a producer on producing a given quantity of commodity.

¬ **Fixed cost-** It is the sum of total of expenditure incurred by the producer on producing or hiring fixed factors of production. These costs do not change in volume of output is zero or maximum fixed cost remains the same. Fixed cost is also called supplementary cost or indirect cost.

¬ **Variable cost** – These are the expenditure incurred by the producer on the use of the variable factors f production. It is also called as prime cost and direct cost.

¬ **Total cost=** Total fixed cost + total variable cost

¬ **Total fixed cost (TFC)**- These cost do not vary with the output. Also called overhead or unavoidable cost. Straight line parallel to x- axis

¬ **Total variable cost (TVC)-** These cost varies with the quantity of output produced. It is inverse s-shaped because of law of variable proportion

¬ Average fixed cost can never be u shaped

¬ Average fixed cost is also called as rectangular hyperbola

¬ Relationship between average cost and marginal cost are-
1) Ac and mc can be calculated from tc
2) When ac falls mc is lower than ac
3) When ac rises mc is larger than ac
4) Mc cuts ac from its lowest point

¬ Relationship between total cost and marginal cost
1) When tc increases at increasing rate mc is increasing
2) When tc increases at a constant rate then mc is constant

3) When tc increases at decreasing rate then mc is decreasing
4) Mc cuts both ac and avc ( average variable cost) at its lowest point

## NORMAL, INFERIOR AND GIFFEN GOODS

¬ **Nominal income**- It is an income which we receive in our hand.

¬ **Real income-** It tells the purchasing power of consumers.

¬ **Income effect-** With the change in income the consumer moves from one equilibrium point to another. Such movement show the rise and fall in the consumption basket due to income change. This change is called income effect

¬ **Price effect-** The price effect may be defined as the total change in the quantity consumed of a commodity due to change in price.

¬ **Substitution effect-** It arises due to the consumer inherent tendency to substitute the cheaper goods for the relatively expensive ones.

## NORMAL GOODS

¬ Normal goods are those whose substitution effect is negative but income effect is positive

¬ Positive income effect moves in the same direction as the negative substitution effect

¬ Both substitution & income effects lead to an inverse relationship between price & quantity demanded.

¬ Demand curve for normal goods must slope downward.

¬ Price effect= income effect+ substitution effect

¬ Income & substitution effects in case of normal goods work in the same direction and will lead to the increase in quantity demanded of the goods whose price has fallen.

¬ Quantity demanded will vary inversely with price when income effect is positive.

## INFERIOR GOODS

¬ Substitution effect= price + income effect

¬ Income effect is negative

¬ Substitution effect> income effect

¬ It follows therefore that as a result of the fall in price of a good the substitution effect which always induces the customers to buy more of the goods whose price has fallen will usually outweigh the negative income effect.

¬ In case of inferior goods quantity demanded varies inversely with price when income effect is negative but is weaker than the substitution effect. Even in case of inferior goods having weaker income effect, the demand curve will be downward sloping so it follows law ofdemand.

## GIFFEN GOODS

¬ Robert Giffen has given this

¬ This is one of the exception of law of demand or law of demand is violated in this.

¬ Income effect= price effect+ substitution effect

¬ Negative income effect> substitution effect

¬ In this quantity purchased r demanded will vary directly with price.

¬ Such an inferior goods in which case the consumers reduces the consumptions when its price falls and increases the consumption when its prices rises is called giffen goods.

## SOME POINTS

¬ Negative substitution effect sustains the negative relationship between price of the commodity & quantity demanded in accordance with the law of demand

¬ Negative income effect contributes to positive relationship between price of the commodity & quantity demanded in violation of the law of demand.
¬ Law of demand is violated only when income effect emerges stronger than the substitution effect ie in case of giffen goods

¬ Positive cross elasticity of demand- substitutes goods

¬ Negative cross elasticity of demand- complementary goods

¬ Zero cross elasticity of demand- when goods are not related to each other eg wheat and car

¬ Normal goods shows positive income elastic of demand

¬ Inferior goods shows negative income elasticity of demand

¬ Zero income elasticity of demand when the change in income of the consumer evokes no change in his demand.

¬ A cartel consist of a group of firms that have explicitly & openly agreed to work together as monopolist

¬ **Allocative efficiency-** It occurs when the sum of consumer surplus & producer surplus is maximum.

¬ **Zero economic profit-** It means that firms are just able to cover their full opportunity cost. If a firm is earning normal return on its investment it is doing as well as it could by investing its money elsewhere. Under perfect competition economic profit is zero in the long run (zero economic profit implies firm is competitive)

¬ Shutdown point= price= AVC and losses = TFC

¬ Shutdown or close down situation occurs when the price is so critically low that it cannot cover the fixed cost

¬ Break -even point= this is the point where TR=TC, AR=AC , no profit no loss

¬ Derived demand= the demand for factors of production is a derived demand that is derived from the finished goods & services which resources help to produce. It indirect demand.

¬ Relative income hypothesis is given by J S Densenberry.

¬ Perfect competition- no control

¬ Monopoly= control

¬ Monopolistic = simple control

¬ Oligopoly- some control.

## DEMAND FORECAST

¬ Predictions of future demand for a firm product or products are called demand forecast.

¬ Techniques of demand forecast are established goods and new goods

¬ Established goods includes-
1) Interview & survey method
2) Opinion polling method
3) Collective opinion method
4) Sample survey method
5) Panel of experts
6) Composite management opinion
7) Projection approach includes – correlation & regression. Time series analysis

¬ New goods includes-
1) Evolutionary method
2) Substitution method
3) Growth pattern method
4) Opinion method
5) Sample survey method
6) Indirect opinion method

## PRICING STARTEGIES

1) **Full cost or cost plus pricing**- The price is set to cover the cost of material, labor, overheads and a certain percentage of profit cost to be included are actual cost, expected cost and standard cost.

2) **Going rate pricing**- The going rate pricing emphasize the market conditions where a price leader exists and he charges a price keeping with what the followers are charging.
3) **Marginal cost pricing-** The marginal cost pricing appears to suggest that the price charged should be equal to the marginal cost. A firm can set a price that ensures the targeted or possible level of profitability also called incremental cost pricing. It refers to the change in total revenue following a unit change in total revenue following a unit change in output.
4) **Intuitive pricing-** It is a response or reaction to feel the market.
5) **Experimental pricing-** In search of an optimum price, the firm takes some cognizance of the demand for the product and proceeds to fix a price by the trial and error method. Usually a sample of test market is selected and price is varied to see the reactions. These reactions are observed and then a price that maximizes the profit is fix ,widely used in new products
6) **Imitative pricing**- the firm fixes its price equal to or in the same proportion of the price of another firm
7) **Skimming pricing-** A firm can decide to skim the cream of the market by charging a very high price
8) **Penetration pricing-**charging a low price to penetrate the market
9) **Cyclical pricing-** firm may decide to respond to these fluctuations by reducing off season prices & raising price when conditions are brisk.
10) **Refusal pricing-** surgical equipment is example of this type. No price reduction is possible so at less than this the seller just refuses to supply the product.
11) **Psychological or double pricing-** on the price tag two prices are printed and the higher one is crossed. The consumer get the feeling that the price is lowered by the company & therefore sales get boost.
12) **Prestige pricing**- a high price is maintained where buyers attach prestige considerations to the product.
13) **Customary pricing-** it is charged in kinked demand curve.

# MISCELLANEOUS POINTS-

**Absolute advantage:** A principle that refers to the ability of an individual/firm or a country to produce more quantity of products/goods/services than their competitors, using the same amount of resources.
**Adam Smith:** A Scottish Economist, author and a moral philosopher. Best known for his works: An Inquiry into the nature & causes of the wealth of nations in 1776 and the theory of moral sentiments in 1959.

**Average revenue:** Refers to the revenue received for selling a good per unit of output sold. This is found by dividing the total revenue by quantity sold.
**Accounting profit:** A company's total earnings which includes explicit costs of doing business, such as taxes, depreciation, expenses, etc. It is the total revenue minus the explicit cost.
**Average tax rate:** Tax rate that is paid when all sources of taxable income is added and divided by number of taxes owed.
**Average total cost:** Total cost per unit including fixed and variable costs, found by dividing total cost by the quantity of output.
**Average fixed cost:** Per unit output of fixed costs, found by dividing fixed cost of production by quantity produced (output).
**Average variable cost:** Variable costs divided by number of units produced.
**Business cycle:** Economy-wide fluctuations in economic activities such as, production, trade, employment, etc.
**Budget surplus:** Excess of receipts or income over expenditure or outlays.
**Budget deficit:** A financial health indicator where expenditures exceed revenue.
**Circular flow diagram:** Basic visual model used in Economics to show how Economy functions (flow of money through firms, markets, etc.)
**Comparative advantage:** a law referring to ability of an economic actor to produce goods & services at lower opportunity cost than others.
**Complements:** Goods or services used in conjunction to other goods or services. A complementary good or service has no value when consumed alone, but value is added when it is combined with another good or service.
**Cross price elasticity of demand:** Measures responsiveness of quantity demanded for a good to a change in price of another good.
**Cost:** Combination of losses & gains that have value attached to them by an individual. The value of everything a seller must give up to produce a good.
**Consumer surplus:** Difference between what consumers are willing (and able) to pay for a service/good relative to its market price, and what they actually spend on the service/good.
**Coase theorem:** An economic theory which affirms that where there are competitive markets without any transaction costs, an efficient set of inputs & outputs, to & from production-optimal distribution are selected, regardless of how property rights are divided. When there is involvement of property rights, people involved will naturally gravitate toward the most beneficial and efficient outcome.
**Constant returns to scale:** Constant ratio between inputs and outputs. Occurs when increase in number of inputs leads to equivalent increase in output.
**Competitive market:** Market where large number of producers compete with each other to satisfy needs of large number of consumers.
**Collusion:** Agreement between firms in market, sometimes illegal, to limit competition by deceiving, misleading or defrauding others of their legal rights. An agreement to divide markets, set prices, limit production and opportunities.
**Cartel:** Organization created from formal agreement between group of producers of goods or services to regulate supply to manipulate prices.
**Capital:** Wealth used to start a business or other meaning is, a factor of production, others being land and labor.
**Diminishing marginal product:** An economic principle that states: while increasing one input & keeping the other inputs at the same level may increase outputs initially, further increase in that input will have a limited effect, & eventually no effect or a negative effect on the output.
**Deadweight loss:** Fall in total surplus caused by market inefficiency. Can be applied to any deficiency caused by an inefficient allocation of resources.
**Diseconomies of scale:** Economic concept that refers to a situation in which economies of scale no longer function for a firm.

**Economics:** Study of how society manages its scarce resources or a science concerned with production, distribution and consumption of goods & services.
**Efficiency:** A property of society in which resources are optimally allocated to serve each individual or entity in best way while minimizing waste and inefficiency.
**Explicit costs:** Clear cash outflow from a business that reduce its bottom-line profitability.
**Equity:** Value of assets minus the liabilities of the asset. Equity = Assets – Liability.
**Externality:** The positive or negative impact of an economic activity experienced by an unrelated bystander.
**Exports:** Function of international trade where goods produced domestically are shipped abroad.
**Equilibrium:** State in which economic forces are balanced where quantity demanded = quantity supplied.
**Elasticity:** Measure of variables responsiveness to change in another variable.
**Economic profit:** Total revenue – total cost (including implicit and explicit costs)
**Efficient scale:** Quantity of input that minimize the average total cost.
**Economies of scale:** Cost advantage that arises as quantity of output increases.
**Fixed costs:** Cost that doesn't change with quantity of output produced or sold.
**Free rider problem:** Market failure that occurs when people who receive benefits of common resource and don't pay their fair share of taxes.
**Factors of production:** Inputs used to produce goods and services to make economic profit.
**Game theory:** Study of human behavior within competitive or strategic situations.
**Inflation:** Rate of increase in overall prices of goods and services with consequent fall in purchase power of currencies.
**Interdependence:** Relation between two of more entities where each is dependent on other for goods or services.
**Imports:** Goods that are produced abroad and sold domestically
**Inferior good:** Good for which demand declines with increase in income or real GDP.
**Income elasticity of demand:** Sensitivity of the quantity demanded for certain goods or services to change in the real income of its consumers keeping all things constant.
**Import quota:** A limit set on the quantity of goods that can be produced abroad & sold domestically.
**Implicit costs:** Cost occurred but not necessarily reported as an expense.
**John Maynard Keynes:** A 19th Century British Economist & Philosopher who spent his working years with East India Company, and whose radical ideas had great impact on modern political & economic theories. He's also known as the father of Keynesian Economics.
**Law of supply:** Another microeconomic law that states, all factors being equal, quantity of supply of goods/services increases, when the price of goods/services increases.
**Laffer curve:** A curved graph, developed by Arthur Laffer, that illustrates the relationship between tax rates & amount of tax revenue collected by Governments.
**Lump sum tax:** Fixed amount of tax, regardless of change in circumstances of taxed entity.
**Lorenz curve:** A curve representing wealth/income inequality. Plots percentile of population according to income/wealth on x-axis and cumulative wealth/income on y-axis.
**Monopoly:** Industry dominated by one entity/corporation without close substitutes
**Marginal product of labor:** Change in amount of output from employing additional unit of labor.
**Monopolistic completion:** Market structure where firms sell similar products but not perfect substitutes.
**Marginal cost:** Change in total cost that arises from producing an extra unit
**Marginal revenue:** Change in total revenue resulting from sale of one additional unit of output.
**Marginal product:** Change in output from employing one more unit of an input.
**Marginal tax rate:** Extra tax paid on additional dollar of income.
**Market Economy:** Economic system that allocates resources through decentralized decisions of individuals and business.

**Microeconomics:** Study of implications of actions of individuals and how these affect distribution & utilization of resources.
**Macroeconomics:** Study of how economy behaves, including studying phenomena like economic growth, inflation, unemployment, etc.
**Normative statements:** Subjective & value-based claims that attempt to prescribe how world should be
**Normal good:** Goods for which, all things equal, increase in quantity demanded increases as individuals' real income increases.
**Natural monopoly:** Type of monopoly that arises as result of high startup or fixed costs of operating a business in specific industry.
**Nash equilibrium:** concept where no player has incentive of changing their chosen strategy after considering opponents choice.
**Oligopoly:** Market structure where small number of firms have large majority of market share.
**Opportunity cost:** Benefit that must be given up to obtain something else.
**Phillips curve:** a curve that shows the concept that inflation & unemployment have stable & inverse relationship.
**Production possibilities curve:** Graph that represents alternative combination of outputs that an economy can produce by transferring resources from one service/good to another.
**Positive statements:** Claims that attempt to describe the world the way it is.
**Price elasticity of demand:** Measure of relationship between chance in price of a good and the quantity demanded of that good. Price elasticity of demand = Change in quantity demanded(%)/change in price (%).
**Price elasticity of supply:** Measure of relationship between chance in price of a good and the quantity supplied of that good. Price elasticity of demand = Change in quantity supplied(%)/change in price (%).
**Price ceiling:** Max legal price a seller is allowed to charge for a good or service.
**Price floor:** Minimum legal price at which a good can be sold
**Producer surplus:** Measure of the difference between the amount producer is willing to accept for a good and amount he receives.
**Pigovian tax:** Affluent fee assessed against business/individuals for engaging in a specific activity.
**Private goods:** Goods that must be purchased for consumption by individuals which prevents others from consuming it.
**Public goods:** Opposite of private goods. Products consumed by individuals without reducing availability of said product to others.
**Proportional tax:** An income tax system where same percentage of tax is levied from higher income tax payers & lower income tax payers.
**Progressive tax:** Tax that takes higher percentage from higher income tax payers than lower income tax payers.
**Profit:** The total revenue minus total cost
**Production function:** Relationship between physical inputs or factors of production and physical output of production process.
**Price discrimination:** Business pricing practice of selling same good at different prices to different customers.
**Regressive tax:** Tax where higher income taxpayers pay smaller percentage of tax than lower income tax payers.
**Scarcity:** Limited nature of society's resources
**Specialization:** Focus on a particular area
**Substitutes:** Product/service consumers see as same/similar to another product. Another definition is, two goods are substitutes if increase in price of one leads to increase in demand for the other.
**Surplus:** Situation where quantity supplied is greater than quantity demanded
**Shortage:** Situation where quantity demanded is greater than quantity supplied
**Supply side economics:** Branch of economics that argues that the Economic growth can be created effectively by lowering the barriers on production & investing in capital.

**Sunk cost:** Cost already incurred/committed and cannot be recovered.
**Tariff:** Tax imposed on goods and services that are imported
**Tax incidence:** Division of burden of tax between buyers and sellers.
**Total revenue:** Total receipt of a firm, from sale of given quantity of service/good.
**Total cost:** Total economic cost of inputs used in production by a firm
**Variable cost:** The costs that changes in proportion to the quantity of output produced
**Welfare economics:** Study of how allocation of resources affects social welfare.

# UNIT-3

# BUSINESS ENVIRONMENT

**INDUSTRY:**

## 1) Industrial policy Resolution 1948

- After independence the first industrial policy was declared on 6th April, 1948 by then union industry minister Mr. Shyama Prasad Mukherjee.
- Resolution accepted importance of both public & private sector.
- This policy established a base for mixed & controlled economy in India.
- This policy divides the economy in four categories

1) Exclusive state monopoly 2) State monopoly for new units 3) State regulation 4) The field of private enterprises.

- Exclusive state monopoly includes industries of armed & ammunition, atomic energy, railway, transport. A monopoly of central government.
- State monopoly for new units includes coal, iron, steel, aircraft, manufacturing, Shipbuilding etc. central government look after this but after 10 years government will review the situation.
- State regulations includes industries of machine, tools, chemicals, fertilizers, Cement, paper etc. government of India did not undertake responsibility.
- The field of private enterprises includes industries which did not come under the above three groups. It also give importance to small and cottage industries.

## 2) Industries development and regulation act 1951

- An act was passed by parliament on Oct 1951 known as industries development regulation act 1951.
- It came in to force on 8th may 1952.
- Main task was development and regulation of private sector.
- Protection of small Entrepreneurs.
- Prevention of monopoly.
- Balanced regional development.

## 3) Industries policy resolution 1956.

- Also known as economic constitution of India.
- It was declared on 30th April 1956.
- Basic objective was socialist pattern of society.
- Every new policy accepted the 1956 industrial policy resolution as its base.
- Develop heavy industries & machines institutions, speed up industrialization and excelerate rate of growth and expand public sector.
- ➢ Reduce disparities of income and wealth, build up co-operative sectors, prevent monopoly & concentration of wealth & income in the hands of a small number of individuals'.
- Stress was laid on co-operation between public & private sectors but more importance given to public sector.
- Under this policy reservation of industries came.
- Reservation of industries means clear cut clarification of industries.
- Three schedules came under the reservation of industries

1) Schedule A – 17 industrial areas, complete monopoly. Under this provisions known as CPSU (central public sector undertakings) which was latter known as PSU (public sector undertakings)

2) Schedule B - 12 industrial areas, state government review, included the compulsory licensing and transportation

3) Schedule C – the field of private enterprises.

- Schedule B & C industries came under the license quota permit regime.
- Focus on small industries & khaddi and village industries.
- This is considered as the most important industrial policy of India.

## 4) Industries policy statement 1969.

- For solving the shortcomings of licensing policy which was started in 1956.
- Experts & industrialist told that licensing policy is serving just an opposite purpose.
- Reasons of licensing - exploitation of resources, price control of goods, checking concentration of economic power, channelizing investment in to desired direction.
- Finally in 1969 a new industrial licensing policy was allowed.
- Under this MRTP act came known as monopolies restrictive trade practices act with a limit of 25 crore. Green field ventures and take- over of other firms as per MRTP act came to be known as MRTP companies.

## 5) Industrial policy statement 1973.

- Core industries such as iron, steel, cement, coal, electricity in future known as basic industries and infrastructure industries.
- Schedule A is not a part of compulsory licensing policy out of 6 crore industries. Firm apply for licensing policy having assets of 25 crore or more.
- Concept of joint sector was developed, partnership among center, state & private sector.
- Government has been facing foreign exchange regulation so in 1973 FERA (foreign exchange regulation act) came, known as draconian act because it hamper the growth and modernization of industry.
- MNCs allowed to setup their subsidiaries.

## 6) Industrial policy statement 1977

- Established by janta government.
- This statement is opposite of industrial policy statement 1973.
- Foreign investment were prohibited which promote foreign investment through technology transfer.
- In 1977 concept of tiny enterprises came.
- Redefinition of small and cottage industries and emphasis on village industries.
- DIC (district industries center) were set up to promote small & cottage industries.
- Democratic decentralization at khadi and village industries
- Attention on prices of essential commodities of everyday use.

## 7) Industrial policy resolution 1980

- Revised of industrial policy statement 1977.
- Foreign investment through technology transfer allowed.
- MRTP limit 50 crores.
- DIC continued.
- Licensing was simplified, liberal attitude towards expansion of private sector.

## 8) Industrial policy resolution 1985& 1986

- Foreign investment further simplified, equity holding of MNCs in Indian subsidiary 49% with Indian partnership holding 51% share.
- MRTP limit 100 crores.
- Compulsory licensing of industries.
- Sunrise industries such as telecommunication, computerization & electronics.
- Modernization & profitability of public sector.
- Imported raw materials got boost, use of foreign exchange permits in area of FERA.
- Many new technologies & scientific approach for agriculture.

## NEW INDUSTRIAL POLICY 1991

- In June 1991 Narsimamh Rao government took over charge and new industrial policy came under the liberalized form.

- Sever BOP crisis, gulf of war higher oil prices, depleting fastly foreign reserves, inflation peaking and gross fiscal deficit also.
- Financial support from IMF.
- Government declared broad changes in industrial policy on 24th June 1991.
- De reservation of industries came of three industries-

1) Atomic energy ( nuclear, mining, fuel fabricant)
2) Arms ammunition, Defense equipment and warship
3) Railway transport

- Delicensing of industries came 1) Distillation & brewing of alcoholic drinks 2) Cigar cigarettes and other substitutes of prepared tobacco 3) Electronic, aerospace and all types of defense equipment 4) Industrial explosive including match box, detonating fuses, safety fuses, gunpowder and nitrocellulose. 5) Hazardous chemicals
- Liberalized policy of FDI (foreign direct investment) 1991, FPI (Foreign portfolio investment) 1994
- Government announced its policy towards small scale sector on 6th august 1991.
- Micro small medium enterprise development act 2006.
- Small and medium enterprises development bill 2005 was introduced in parliament on 12th may 2005 approved by parliament and named as small medium enterprises development act 2006 effective from 2nd oct2006.
- Manufacturing 1) Micro- 25 lakh 2) Small- 5 crore 3) Medium- 10 crore
- Service equipment 1) Micro- 10 lakh 2) Small- 2 crore 3) Medium- 5 crore
- Foreign exchange regulation act was liberalized on 8th January 1993.
- FERA was replaced by FEMA (foreign exchange management act) in Dec 1999
- BIFR (Board for industrial and financial reconstruction) was established under sick industrial companies act 1985. The board started its functions from 15th may 1987
- Process of disinvestment started in public sector in 1991-1992
- To minimize the financial burden on public sector enterprises the government has started voluntary retirement scheme for the employees by giving full compensation to employees. This is called golden handshake scheme.
- To evaluate the problems of financial sickness of small industries the government had constituted Nayak committee which submitted its report in September 1992.
- NELP- New exploration licensing policy 1999
- Government has granted MINI RATANA status to three public sector units-

1) IRCTC (Indian railway catering and Tourism Corporation)
2) Satluz hydro power corporation
3) National hydro power corporation

- SIDO- small industries development organization 1954
- MAHARATNA STATUS given to these public sector units:-

1) ONGC- oil and Natural Gas Corporation.
2) NTPC- national thermal power corporation.
3) Steel authority of India.
4) Coal India ltd.
5) Indian Oil Corporation.
6) BHEL- Bharat heavy electrical ltd
7) GAIL- Gas authority of India ltd

- Rest all NAVRATNA COMPANY
- In 1985 Tiwari committee recommendations government introduced SICA sick industrial companies act later on 1st Jan 1987 a statutory institution named BIFR( board for industrial & financial reconstruction was setup) later on Omkar committee gave recommendations to modify SICA & role of BIFR.

- Disinvestment commission appointed in august 1996 under the chairmanship of GB Ram Krishna. Commission was reconstituted under the chairmanship of RM Patil in 2001 objectives- to protect interest of employees.

# ECONOMIC PLANNING

- Planning commission is a non –constitution body.
- It is central body for making plans in India.
- A book entitled planned economy for India was published in 1934 by sir M Vishweshwarya.
- Indian national congress constituted a National Planning committee in 1938 to discuss the requirement & possibility of planning in India. Pundit Jawaharlal Nehru was the president that time of this committee
- In 1944 a plan called Bombay plan was presented by eight industrialist of Bombay. Thereafter in same year 1944 Gandhian plan by Mannaragan in 1945, the peoples plan by labour leader MN Raj and in 1950 the Sarvodya plan by Mr. Jai Prakash Narayan were presented.
- Planning commission constituted on 15th march 1950
- First chairman of planning commission was Pt. Jawaharlal Nehru.
- Prime minister of India is the ex-officio chairman of planning commission. There is also a deputy chairman of planning commission.
- The National development council NDC was formed on 6th august 1952.
- Format of five years plan came in 1951.
- Concept of planning commission is derived from Russia USSR.
- It was constituted by union cabinet on the proposal of a member of union parliament.
- Planning commission is approved by NDC (national development council).
- NDC is non-statutory body which is built to co-operate between states & planning commission.
- Planning commission is in concurrent list.
- The member of planning commission are appointed by the government.
- Second five year plan- Prof P C Mahalanbosis.
- Eleventh five year plan- Prof C Rangaranjan.

### 1) First five year plan (1st April 1951 to 31st march 1956).

- Rehabilitations of refugees from Pakistan.
- To check inflationary tendency.
- Agriculture was given a highest priority.
- To solve food problems.
- Reconstruct economy damaged due to war.
- Revival of small and cottage industries.
- Community development programme (NDC came on 6th Aug. 1952).

### 2) Second five year plan (1956 to 1961).

- Prep by Prof P C Mahalnobis.
- Basically industrial policy resolution 1956 based on socialist pattern of society.
- Faster growth of national income.
- Rapid industrialization with special emphasis on basic and heavy industries.
- To reduce inequality of income & wealth.
- Expansion in employment opportunities.
- Steel plant at Bhilai, Rourkela, Durgapur.
- Shortage of foreign exchange.

### 3) Third five year plan (1961 to 1966).

- To make Indian Economy self-reliant and self -sustain economy.
- Development of Agriculture.
- Self-reliance in food grains.
- Balanced regional development.
- Two war Indo-china (1962) Indo-Pak (1965) as ill- fated plan.
- India also faced drought in 1965-1966.

- Reduce inequality of Income & wealth.
- Optimum utilization of country's labour power.

### 4) Three Annuals plan (1966 to 1969).

- To overcome the ill effects of war.
- To solve the food problem.
- To prepare base for fourth plan.
- Green revolution (1966-1967) to develop new varieties of seeds.
- Currency devaluation (1966 June).
- Economist called this period 1966 to 1969 as plan holiday, also known as Gadgil plan.

### 5) Fourth five year plan (1969 to 1974).

- Growth with stability and progress towards self-reliance.
- Establishment of buffer stock.
- Implement family planning.
- To develop public sector, reduce regional imbalance.
- Balanced development of all the sectors.
- MRTP act came.
- Oil crisis, population explosion, war with Pakistan, 14 banks nationalized.

### 6) Fifth five year plan (1974 to 1979).

- Janata government declared this plan closed one year prior to its schedule.
- Eradication of poverty (Grabi Hatao).
- Attainment of self-reliance.
- National programme for primary education, drinking water, medical facilities in rural areas, nourshing food, and land for houses of landless labor, rural roads, electrification, cleanliness.
- Policy of import substitution and export promotion.
- Prepared by planning commission.
- Reduce regional economic, social inequality, unemployment problem.
- Prohibition of unnecessary consumption price wage policy.
- Janata government terminated in 1978.

### 7) Annual/ rolling plan (1978 to 1980).

- Janata government fail in 1978.
- Reduce poverty.
- Reduce unemployment.
- Also called rolling plan.

### 8) Sixth five year plan (1st April 1980 to 31st March 1985).

- Generate employment.
- Control population explosion.
- Efficient use of resources.
- Modernization.
- Encourage people to participate in education.
- Policy adopted to control population explosion.
- Rapid efficient utilization of energy resources.
- Indian economy made all round progress.
- Integrated rural development.
- Minimum needs programme.
- Industrial development regulation.
- Drought (1984-85).

### 9) Seventh five year plan (1st April to 31st march 1990).

- Progress towards a social system based on equality & justice.
- Prepare a firm base for technological development in industrial & agriculture.

-  Ecological & environment protection.
-  Productive employment.
-  First time private sector was given priority.

### 10) Annual plan (1990-1992).

-  Due to economiccrisis.
-  Political instability atcenter.
-  New industrial policy was announce.
-  Considered the beginning of large scale liberalization in Indian economy.
-  LPG Policy come under this

### 11) Eighth five year plan (1992 to 1997).

-  Human resource development.
-  Primary education, drinking water, health. Vaccination in all villages & complete elimination of scavengers.
-  Eliminate illiteracy among people of ages 15-35 years.
-  Universalization of primary education & 100% literacy in the age 06 to 14 years.
-  Achieving full employment by the end of century.
-  Sufficient employment opportunity.
-  PMRY- Pradhan Mantri Rojgar Yojana and many more Yojanas come.
-  Basic infrastructure (energy transport, communication, irrigation)

### 12) Ninth five year plan (1997 to 2002)

-  Growth with equity and distributive justice.
-  Equitable distribution and growth with equality.
-  To give priority to the development of agriculture and villages for eradicating poverty.
-  To accelerate pace of economic development by keeping the price stable & under control.
-  To create sufficient productive employment.
-  Improve lifestyle, remove environmental imbalances.
-  To ensure provision of food and nourishment to all and especially to weaker sections of society.
-  To provide the basic minimum services like clean drinking water, primary health care facility, universal primary education & housing (basic facilities).
-  To control population growth rate.
-  To encourage & develop the mass participation institutions, co-operative & voluntary sections.
-  To provide strengthen to women especially the weaker sections of SC & ST & backward castes, handicap.
-  NEAS- national employment assurance scheme.
-  To ensure better life, improve living of standard of people

### 13) Tenth five year plan (2002 to 2007).

-  Growth with human development.
-  Reduction of poverty ration by 5% points by 2007 and by 15% points by 2012.
-  Providing gainful & high quality employment at least to addition to the labor force over the 10th plan period.
-  All children in school by 2003, all children to complete 5yrs of schooling by 2007.
-  Reduction in gender gap in literacy & wage rate by at least 50% by 2007.
-  Reduction in decadal rate of population growth between 2001 & 2011 to 16.2%.
-  Increase in literacy rate to 75% within the plan.
-  Reduction of infant mortality (IMR) to 45 per 1000 live births by 2007 and to 28 per 1000 lives by 2012.
-  Reduction of maternal mortality rate (MMR) to 2 per 1000 live birth by 2007 as to 1 per 1000 live.
-  Increase in forest and tree covers to 25% by 2007 and 33% by 2012.
-  All villages to have sustained access to potable drinking water within the plan.
-  Cleaning of all major polluted river by 2007& other by 2012.
-  Doubling the per capita income in next 10 years.

### 14) Eleventh five year plan (2007 to 2012).

-  It setup the economic growth rate at 9% but it was revised 8.1% due to economic crisis by Mr. Montek Singh Alluwaliah.

- Increase in agricultural GDP growth rate 4% per year.
- Fast sustainable & more inclusive growth.
- Industrial growth 9.2% in 10th plan and want between 10% and 11%.
- Manufacturing 12% .58 million new work opportunities.
- Reduce educated unemployment to 5% below.
- Increase literacy rate for persons of age 7 or more to 85%.
- Reduce total fertility rate 2.1% provide clean drinking water.
- Reduce malnutrition between child 0-3 years, reduce anemia among women & girls.
- Raise sex ratio for age group 0-6 to 935 by 2011-12 & 950 by 2016.
- 33% beneficiaries of government schemes to girls & women.
- Ensure electricity connection to all village & BPL family by 2009.
- Provide telephone by Nov 2007 and broadband connectivity by 2012.
- Increase forest area by 5% points.
- Much stress on agriculture (4%).
- Promoting industrial (10-11%).
- Focus on service sector (9-11%) 15).

### Twelve five year plan (2012 to 2017).

- enhancing skills and faster growth & generation of employment.
- managing the environment.
- market for efficiency & inclusions.
- decentralization empowerment & information.
- securing energy future for India.
- rural transformation and sustained growth of agriculture.
- Improved access to quality education.
- Better preventive, curative health care as government providing free treatment to pregnant women.
- Vision is of rapid, sustainable and more inclusive growth.
- Enhancing the capacity for growth-today GDP is 8% increase it to 9% or 10%, mobilization of investment resources, better allocation of resources, higher investment in infrastructure through public & PPP, efficient use of public resources.
- Enhancing skills and faster generation of employment.
- Managing the environment.
- Market for efficiency & inclusion.
- Decentralization , empowerment & information.
- Technology& innovation.
- Securing the energy future for India.
- Accelerated development of transport infrastructure.
- Rural transformation & sustained growth of agriculture.
- Managing the environment.
- Improved access to quality education.
- Better preventive & curative healthcare.
- GDP= 8%, agriculture – 4%, manufacturing- 7.1%, industrial- 7.6%, service sector- 9%.
- Every state must have a higher average growth rate in 12th plan.
- Head count ratio of consumption poverty to be reduced by 10% points over the preceding estimate.
- Generate 50 million new work opportunities in the non-farm sector & provide skill certification to equivalent.
- Mean year of schooling to increase to 7 year by end of 12th plan.
- Enhance access to higher education by creating two million additional seats for each age cohort aligned to skill needs of economy.
- Elimination of gender & social gap in school enrollment (between boys & girls, SC & ST).
- Reduced IMR to 25 per 1000 live and MMR to 1 per 1000 lives, improve sex ratio (0-6 yr.) to 950 by end of 12th plan.
- Reduced total fertility rate to 2.1 by end of 12th plan.
- Reduced under- nutrition among children age (0-3 yr. to half of NFHS-3 levels by end 12th plan.
- Increase investment in infrastructure as per of GDP to 9%.
- Increase gross irrigated area 90 million hectare to 103 million hectare.

- Provide electricity to all villages.
- Upgrade national & state highways to minimum 2 lane standard.
- Complete eastern & western dedicated freight corridors.
- Increase rural tele density to 70%.
- Ensure 50% of rural population has access to 55 LPCD piped drinking water supply & 50% gram Panchayat achieve the nirmal gram status.
- Increase green cover by 1 million hectare.
- Add 30000 MW of renewable energy capacity.
- Reduce emissions intensity of GDP in line with the target of 20% to 25% reduction by 2020 over 2005 levels.
- Provide access to banking services to 90% Indian houses.
- Major subsidies & welfare related beneficiary payments to be shifted to a direct cash transfer by end.

## INDIA VISION 2020

- Planning commission has released India vision 2020 on Jan 23rd 2003, progress of next 2 decades by Mr. Shyam Prasad Gupta.
- Expected annual growth rate 9% by 2020.
- Elimination of unemployment, illiteracy & poverty by 2020.
- Per capita income to get doubled by 2020.
- Cent percent registration of children (age 6 to 14) in schools.
- 1.35 billion population having better life by 2020.
- Environment situation to remain as unbalance as present.
- 20 crores new employment opportunity.
- Present employment share in agriculture came down 56% to 40%.
- Unorganized sector to create more additional employment opportunity.
- Urban population percentage to get increased from 25.5% to 40%.
- ➢ Water problem remain as it ease in metro's cities.

# List showing names of Chairman, Planning Commission

a) Jawaharlal Lal Nehru March, 1950 27.05.64
b) Lal Bhadur Shashtri June, 64 Jan,66
c) Smt. Indira Gandhi Jan, 66 24.03.77 Jan, 80 31.10.84 d)
Morarji Desai 25.03.77 09.08.79
e) Charan Singh 10.08.79 Jan, 80
f) Rajiv Gandhi Nov,84 Dec,89 g)
V.P. Singh 22.12.89 Nov,90
h) Chandra Shekhar Dec, 90 24.6.91
i) P.V. Narasimha Rao June 1991 15.05.96
j) Atal Behari Vajpayee 16.05.96 31.05.96 k)
H.D. Deve Gowda 01.06.96 20.04.97
l) I.K. Gujral 21.04.97 18.03.98
m) Atal Bihari Vajpayee 19.03.98 22.05.2004
n) Dr. ManMohan Singh 22.05.2004 …………
o) Dr. ManMohan Singh ……………. 26.05.2014

## Targets and Achievements

1st plan-target 2.1% achieve 3.6% 2nd plan- 4.5-4.21 3rd plan- 5.6-2.72 4th plan- 5.7-2.05 5th plan- 4.4-4.83 6th plan- 5.2-5.54 7th plan-5-5.54 8th plan-5.6-6.68 9th plan-6.5-5.55 10th plan-8-7.7 11th plan-9 then revised 8.1 achieved 6.3% 12th plan-8.2-

## MRTP (Monopolies trade practices Act 1969)

- MRTP passed in 1969
- All over the India except Jammu & Kashmir
- The main objectives of MRTP Act are as follows-

1) To prevent concentration of economic power to the common detriment& control of monopolies.

2) To prohibit monopolies trade practices act

3) To prohibit restrictive trade practices act & unfair trade practices act.

- From curbing monopolies to promoting competition government of India appointed a committee under the chairmanship of SVS Raghvan which submitted report in May 2000. Accordingly competition bill 2001 was introduced in the parliament and a new act called competition act was introduced in December 2002.
- The main objectives of competition act 2002 are as follows-

1) To provide for the establishment of a commission to prevent practices having adverse effect on competition

2) To promote & sustain competition in the market

3) To protect the interest of the consumers

4) To ensure freedom of trade carried on by other participants in the markets

- A new law, the competition act has been enacted and published in the gazette of India on 14th January 2003 for bringing competition in the market.
- ➢ The act covers the following aspects according to the schedule- 1) Schedule (3) – deals with anti – competitive agreements 2) Schedule (4)- deals with abuse of dominance 3) Schedule (5&6) – deals with mergers and acquisitions
- The act is expected curb those practices, which would have an appreciable adverse effect on competition.
- Parliament on 10th Sep 2007 passed the long pending competition (amendment) bill 2007 that empowers the competition commission of India to act as the competition regulator.
- Competition commission of India has finally become operational on 20th may 2009.
- So MRTPC will not handle any cases after 20th May 2009.
- The government has introduced the bill for competition amendment act 2012 in parliament to give the competition a watchdog teeth.
- The amendment 2012 provides that all corporate mergers be cleared by the competition commission of India within 180 days.
- The bill proposes 18 amendments to the competition act 2002
- The competition bill 2012 was introduced to promote fair trade practices, aimed at giving more powers to the competition watchdog to monitor anti-competitive activities that impact trade in the market place.
- The amendment bill 2012 insert a new schedule 5(a) for approval of combinations by commission.
- CCI has introduced the mergers and acquisitions from 1st June 2011. A company going for mergers and acquisitions and having turnover Rs 1500 cr or combined assets exceeding Rs 1000 cr or combined turnover Rs. 3000 cr.
- A Company either having assets more than Rs. 200 cr. or turnover exceeding Rs 600 cr will also need permission from CCI before its acquisitions
- CCI has also declared while releasing rules for mergers and acquisitions that 95% agreements will be approved within 30 days span while the rest deals will be cleared within the maximum period of 180 days.

## CONSUMER PROTECTION ACT 1986

- It was introduced to protect the interest of the consumers & to check their exploitation from producers & consumers.
- It came into force on 1st July 1987 all over the states except Jammu & Kashmir.
- It is also known as COPRA
- ➢ Under this act consumer's forum have been constituted at district, state and national level.
- COPRA was amended in 1993 and 2002
- Objectives of consumer protection act as follows:-

1) Protecting the consumers against immoral and unfair activities f the traders

2) Compensating to the consumers

3) To setup consumer forums and consumer commission or council for the disposal of consumer disputes.

4) To educate the consumers for their rights controlling to markets

- Limits of the amount to be filed-

1) District – up to 20 lac

2) State- 20 lakh to 1 crore

3) National- above 1 crore

- **It covers the six rights of the consumers-** 1) Right to safety 2) Right to be informed 3) Right to choose 4) Right to be heard 5) Right to redressal 6) Right to consumers education 7) Right to healthy environment
- It covers some areas also such as – 1) Banking 2) Insurance 3) Transport 4) Processing 5) Physicians
- Consumer protection amendment act 2002 passed on 17th December 2002 and implemented on 15th march 2003
- Admissibility of complains is 21 days
- If someone wants to move from national to state or state to district then it can be moved within 30 days
- AWARE- Association of women against rising expenses
- Consumerism- consumer asking
- Caveat emptor- let the buyer beware
- Caveat vendor – let the seller beware
- If someone is filing a fake case then penalty will be imprisonment of 1 month to 3yrs according to case or rs 2000 to 10000. The period of appeal is 30 days from date of order
- Responsibilities of consumers-

1) To provide adequate information to seller.

2) To exercise caution in purchasing.

3) To insist on cash memo & receipt.

4) To file complain against genuine grievances.

5) To be quality conscious.

6) To be cautious against false & misleading advertisements.

7) To exercise legal rights.

- Followings are the types of laws which protect the interest of the consumers-

1) The contract act 1872

2) The sales of goods act 1930

3) The law of torts (when seller fraud with buyer or seller is negligent)

4) The essential commodities act 1955 (equitable distribution of essential commodities at reasonable price to consumers)

5) The prevention of food adulteration act 1954 (to ensure purity in food articles)

6) The standards of weights and measures act 1976 (weights, measures or numbers)

7) The trade and merchandise marks act 1958 (protection of trade mark and to prevent the use of fraudulent marks on merchandise)

8) The monopolies and restrictive trade practices act 1969 ( to prevent consumers from unfair trade practices)

- The supreme court of India in its important decisions has brought medical services under the purview of COPRA. The Supreme Court has classified the medical services in to three Category-

1) Such centers where free medical services are provided ( now it is exempted)

2) Such centers where medical services are provided to all on payment

3) Such centers where free medical services are provided to some people & some are provided on payment.

- On 29th Feb 1996 a trail court f Calcutta high court declared COPRA ultravires and cancelled its operations on the writ petitions.
- Justice Ajay Nath Roy declared this act as ultravires of the constitutions & cancelled it.

- The union government filed a petition against the decision bench of justice SK Mukherjee & justice R Bhattacharya of Calcutta high court cancelled the order trail court and as a result COPRA again came inti force with an immediate effect.

## BHARAT NIRMAN (16TH DEC 2005)

- It was launched by Government of India in 2005.
- Bharat Nirman is an Indian plan for creating basic rural infrastructure. It comprises projects on irrigation, roads, housing, water supply, and electrification and telecommunication connectivity.
- Bharat Nirman is a business plan for rural infrastructure which was implemented by the government of India in order to provide some basic amenities to the rural India.
- The basic objectives are as follows-

1) It aims at providing safe drinking water.
2) It aims at providing housing facilities.
3) It covers telecommunications and broadband facilities to all.
4) It will construct all weather roads and provide electricity to all.
5) It will provide irrigational land for cultivation.

- Sequence wise- 1) Irrigation 2) Road 3) House 4) Water supply 5) Electricity 6) Telecommunications 7) Connectivity
- Irrigation and road come under Pradhan mantra gram sadak yojana
- Housing comes under Indira awass yojana
- Water supply and electricity comes under Rajeev Gandhi grameen vidyutikaran yojana
- Telecommunications and connectivity comes under Bharat Nirman seva Kendra

## JAGO GRAHAK JAGO SCHEME

- The ministry of consumer affairs food and public distribution, department of consumer affairs, government of India had recently released an advertisement under the Jago Grahak jago scheme.
- The consumers awareness scheme for the 11th plan amounting to rs 4009 crores has been approved by the cabinet committee on economic affairs on 24th Jan 2008
- This scheme has been formulated to given an increased thrust to a multi-media publicity campaigns to make consumer aware of their rights.
- the slogan Jago Grahak jago has now become a household name as a result of publicity campaign undertaken in the last 3yrs.
- As part of consumers awareness scheme, the rural and remote areas have been given top priority
- Government has taken up number of activities and schemes increasing consumer awareness in country such as- 1) Print media advertisement 2) Audio campaigns 3) Video campaigns
- Realizing the importance of consumer empowerment the ministry of consumer affairs, food and public distribution has accorded top priority to consumer education, consumer protection, and consumer awareness.

## CAPITALISM SOCIALISM AND MIXED ECONOMY

- CAPITALISM- A capitalist economy is an economy in which productive resources are owned by private individuals who used the resources to earn profits and in which the state intervention is minimum so that economic activities are most unplanned and uncoordinated. A capitalist economy is also known as free enterprise economy, free market economy and laissez faire economy.
- Features of capitalism-

1) Private property
2) Freedom of enterprises and occupation
3) Freedom of choice for consumers
4) Price mechanism (based on demand and supply)
5) Invisible hand concept given by Adam smith (government intervention, law and order)

6) Cut throat competition

7) Profit motive/self-interest

8) Minimum government interference

**Merits**- 1) Spirit of enterprise (profit motive) 2) Incentive for technology progress 3) New consumer goods 4) Flexibility & adaptability 5) Economic freedom 6) Expansion of International trade

**Demerits** 1) Inequality of Income and Wealth 2) Class struggle 3) Economic Instability (over production, under production) 4) Misallocation of resources 5) Emergence of monopoly power 6) Neglect of social welfare

## SOCIALISM

**SOCIALISM**- proposed by Karl Marx, it is an economic system in which the means of production are owned by the entire society and operated by the public authority according to a general economic plan for the benefit of entire community > first soviet Russia (socialist) was the first country to establish a socialist (communist china) economy .Most of the east European countries adopted the communist system after the second world war.

**Features**- 1) Socialist ownership of productive resources i.e. land, mines 2) Economic planning replace price mechanism 3) Social welfare as a motivating force 4) Economic equality 5) Class less society 6) Elimination of compensation

**Merits** 1) Better allocation of resources 2) Full utilization of resources 3) Elimination of economic stability 4) Equitable distribution of income 5) Elimination of class struggle 6) Provision of social security 7) Production of more useful goods, railway etc.

**Demerits** 1) Loss of efficiency 2) Loss of incentive 3) Loss of consumer's sovereignty/freedom 4) Concentration of economic and political power 5) Loopholes in the planning process

## MIXED ECONOMY- In this both capitalism and socialism is present.

**Features** 1) Co-existence of public private sector 2) Co-existence of capitalist & socialist 3) Economic planning 4) Regulation & control of private sector 5) Promotion of social welfare 6) Price mechanism 7) Profit motive

**Merits** 1) Economic stability 2) Proper allocation of resources 3) Check on concentration of economic power 4) Economic & political freedom

**Demerits** 1) Conflict between two sectors 2) Short lived 3) Poor performance of the public sector 4) Excessive regulations 5) Inefficient of operations Sequence wise according to their existence Capitalism> lassiez faire> communism> socialism.

## LPG (LIBERALISATION, PRIVATISATION, GLOBALIZATION)

Liberalization shows direction of reform, privatization shows the path of the reform and globalization shows the ultimate goal of the reforms. Liberalization shows the process of decreasing traits of a state economy and increasing traits of market economy.
Privatization it is used as a process under which the state assets were transferred to the private sector Globalization means integrating the Indian economy with the world economy.

## BUSINESS ENVIRONMNENT

- The term business environment refers to the aggregate of all forces, factors and institutions which are external to and beyond the control of individual business enterprises and their management, but which influence their function.
- Business environment divided into internal environment and external environment.
- Internal environment such as value system, ethical standards, mission, goal, objectives, organizational structures, physical assets, availability of technology sources of funds, policies. These internal sources of a company determine the degree of strength or weakness which a company has.
- External environment it is beyond the control of individual firms and which may provide opportunities and threats to an organizations. Factors such as economic, demographic, political, legal, socio cultural, technological and natural environment.
- External environment divides into micro environment and macro environment

- Micro environment refers to the environmental forces which are in the immediate contact of the business such as customers, competitors, marketing intermediaries, suppliers and public.
- Macro environment includes demographic, political, economic, socio cultural, technology, international and national forces

# MISCELLANEOUS: Various committee

1) Hazari committee – Industrial policy.
2) Subimal dutt committee- Industrial licensing.
3) Abid Hussain committee- small scale industry.
4) C Rangaranjan- committee on disinvestment.
5) Arjun sengupta- MOU.
6) AC shah committee-NBFC.
7) Bimal Jalan committee- market infrastructure instruments.
8) Malegam committee- microfinance.
9) Birla committee- corporate governance.
10) Kirti parekh committee- petroleum products.
11) Chaturvedi committee- national highways.
12) SR Hashim committee- urban poverty.
13) Abhijit sen- wholesale price index.
14) C Rangaranjan- services price Index.
15) Abid hussian committee- developments of capitals markets.
16) Damodaran committee- customer service in banks.
17) Khandelwal committee- human resources in commercials banks.
18) Patil committee- corporate debt.
19) Vk Sharma committee- credit to marginal farmers.
20) Sarangi committee- NPAs.
21) Khanna committee- RRB.
22) Dantawala committee- lead bank scheme.
23) Gadgil committee- financial inclusions.
24) S C Sahoo committee – capital market.
25) FKF Nariman committee- branch expansion programme.
26) Khusro committee- small and cottage industry.
27) N Narsimhan committee- establishment of RRBs.
28) B Shivraman committee- establishment of NABARD.
29) Chakravarty committee- review of monetary system in banking industry.

30) A Ghosh committee- priority sectors and 20 point programme.
31) Uk Sharma- review of lead bank scheme.
32) Tiwari committee- industrial sickness and rehabilitation of sick units.
33) Vaghu committee- money market.
34) GS Patel- management of stock exchange.
35) Sm Kelkar- RRB.
36) M N Goporia committee- customer service requirement.
37) M Narsimhan committee- financial sectors reforms.
38) S A Dave committee- functioning of mutual funds.
39) Raj Chelliah committee- tax reforms.
40) Ghosh- frauds and malpractices in banks.
41) Tarapore committee- capital account convertibility.
42) LC Gupta committee- financial derivatives.
43) M S Verma committee- measures for weak banks.
44) Goswami committee- industrial sickness and exit policy.

# Some Important points:-

1. **The fiscal policy of India is formulated by finance ministry.**
2. **The Indian railway is a departmental enterprise.**
3. **The core sector does not include '' Detergents ''**
4. **The Khadi and village industries commission (KVIC) was set up during the second plan.**
5. **SIDCO is related to the development of small industries.**
6. **Dandakaranya project ensured '' Rehabilitation of refugees ''.**
7. **The most important small scale industry in India is the industry '' Handloom ''.**
8. **The major finance for small scale industries is '' Bank loans ''.**
9. **Banking ombudsman is appointed by RBI.**
10. **Tiger is the animal on the insignia of the RBI.**
11. **Since 1983, the RBI's responsibility with respect to regional rural banks was transferred to NABARD.**
12. **The new name of IRCI is IRBI.**
13. **Fiscal policy is connected with public revenue and expenditure.**
14. **In India, present trend of rapid urbanization is due to '' lack of employment opportunities in rural areas.**
15. **The minimum permissible age for employment in small scale industries is 14 years.**
16. **Credit creation increases purchasing power of the currency.**
17. **The philosophy of Laissez fair is associated with industrial state.**
18. **The modern state is welfare state.**
19. **Economic planning refers to the allocation of resources.**
20. **Economic planning is an essential feature of socialist economy.**
21. **In the state of India, the state financial corporations have given assistance mainly re develop medium and small scale industries.**
22. **The term '' plastic money'' applies to transactions made up of credit cards mainly issued by banks.**
23. **Corporate businesses provides the largest part of the demand for loanable funds in India.**

# OTHER IMPORTANT POINTS

1. **JOB PRODUCTION - The method of production were products are made individually.**
2. **BATCH PRODUCTION – Method of production where one type of product is made and made and then production is switched to make a different product.**
3. **FLOW PRODUCTION – Production of one product takes place continuously using a production or assembly line. Sometimes called mass production.**
4. **AUTOMATION - Machines, controlled by computer, are introduced into the production process.**
5. **LEAN PRODUCTION – A production system which helps ensure that waste is kept to a minimum.**
6. **PRODUCTIVITY – A means of measuring the efficiency with which a business produces goods.**
7. **QUALITY CONTROL – A system of checking the quality of finished goods.**
8. **TQM – Total management control: the process where all workers are responsible for the quality throughout the process of production.**
9. **SALES REVENUE- The amount of money that a business receives from selling what it provides or produces**
10. **INELASTIC PRODUCTS – People will still buy these products if the price increases as they are essential products, e.g. petrol. This means that if price increase revenue will increase.**
11. **ELASTIC PRODUCTS – People will cut back on these items if the price increases and will buy more if the price falls. Clothing is an elastic product and revenue will increase if the price falls.**
12. **FIXED COSTS - The costs that do not change as a business changes the amount it produces.**
13. **VARIABLE COSTS – Those costs that rise as business increases production and fall when it reduces production**
14. **TOTAL COSTS – The fixed and variable costs of a particular level of production added together.**
15. **AVERAGE COSTS – The cost of each unit produced.**
16. **BREAK-EVEN POINT- When total revenue is equal to total cost. Profits are zero.**
17. **BREAK-EVEN FORMULA – Fixed costs / price – variable costs**
18. **ECONOMIES OF SCALE – Occur when a business increases its scale of production and this leads to a decrease in average costs. Bulk-buying is a type of economy of scale.**
19. **INTEREST RATE – The charge made to businesses and people for lending money.**
20. **OVERDRAFT – A short term method of finance. The bank allows the business to withdraw more than is in their current account. Interest charged is high.**
21. **TRADE CREDIT – Goods and materials are obtained from a supplier and payment is made at a later date.**
22. **RETAINED PROFIT – Profit which is kept by the business for its own use.**
23. **HIRE PURCHASE – A business uses equipment but does not own it until the final payment has been made.**
24. **SHARE ISSUE – Finance is raised from selling shares. This finance does not have to be paid back. However, dividends will need to be paid and shareholders can vote. Only Plc's like AS plc can sell shares on the stock exchange.**
25. **DIVIDEND – That part of the company's profit paid out to shareholders of limited companies.**
26. **MORTGAGE –Allows a business to borrow a large sum of money to purchase or improve a building.**
27. **PROFIT –Money left over from sales after all costs have been paid.**
28. **GROSS PROFIT – Sales revenue minus cost of sales (variable costs).**
29. **NET PROFIT – Gross profit minus all expenses**
30. **NET PROFIT MARGIN – Net profit / sales revenue x 100 GROSS PROFIT MARGIN – Gross profit / sales revenue x 100 OPPORTUNITY COST – The cost of having to miss out on something else.**
31. **CASH FLOW FORECAST – A statement showing the expected flow of money into and out of the business over a period of time.**

32. **PERFECT COMPETITION – A market in which there are a large number of sellers, all competing for customers.**
33. **MONOPOLY – When one single business has least a 25% share of the market.**
34. **MARKET SHARE – The percentage of the total sales in a market accounted for by a firm.**
35. **BUSINESS ETHICS – When businesses act in a morally correct way.**
36. **RECESSION – A period of falling consumer incomes, demand and output.**
37. **INWARD INVESTMENT – When foreign firms set up in the INDIA. This brings wealth and jobs to an area and can lead to the multiplier .**
38. **MULTIPLIER – The amount by which an increase or decrease in spending on a specific item is multiplied in its effect on total spending in the economy.**
39. **INFRASTRUCTURE – The provision of roads, railways, ports and airports in an area or country.**
40. **TARIFF – Taxes on imports that raise the price of imports so that it will be harder for foreign firms to sell their goods.**
41. **QUOTA – Limits on the amounts of a good or service that can be imported. This restricts competition from foreign firms.**
42. **EXCHANGE RATES – The amount of one currency that another can buy.**
43. **INFLATION – When prices of a range of goods and services increase throughout the economy.**
44. **GLOBLISATION – The process by which business activities in different countries are becoming more and more connected with each other.**
45. **EUROPEAN UNION – A collection of 27 countries in Europe which trade together without restrictions such as tariffs and quotas.**

# UNIT-4

# BANKING

- First bank in the country was started at Calcutta in 1770 bank of Hindustan.
- The bank of Bengal, the bank of Bombay, the bank of madras these all presidency banks were merge and in 1921 Imperial bank were established.
- On 1st July 1955 the Imperial bank was partially nationalized and it was name as state bank of India. At present state bank is the largest commercial bank in the country.
- State bank of India has completed 200 years of banking business in India.
- ➢ Denmark's saxo bank enters into Indian market to replicate its global strategy of providing international stocks & financial instruments to clients who are exploring investment opportunities in overseas market.
- UCO bank introduces pre funded Cheques series of Rs. 1000, 5000, 10000.
- Bank of Rajasthan merge with ICICI bank 13 Aug. 2010.
- Punjab national bank was the first Indian bank. It established in 1894.
- Reserve bank of India established on 1st April 1935 under the act 1934 and it is a central bank of India. Its head office is in Mumbai earlier in Calcutta. RBI nationalized on 1st January 1949. Raghuram Rajan 23rd governor of RBI.
- On 19th July 1969 , 14 large commercial banks nationalized then on 15th April 1980 , 6 more banks were nationalized as new bank of India merge with PNB so total nationalized bank is 19.
- Those banks whose names are included in the second schedule of reserve bank act 1934 are called commercial banks.
- Prime lending rate is replaced by base rate 1st July 2010
- USB (Ultra small branches) in all villages under the financial inclusion scheme by march 31 2012
- Regional rural banks were established in 1975 are working in all states of country except in Sikkim & Goa. At present 67 RRBs are working in India.
- The nation largest lender state bank of India has commence operations in Qatar by opening a branch in the Qatar financial Centre, Doha.
- As per the declaration made by government in parliament, ten rupees coins are being introduced shortly into circulation to meet the increasing demand of currency notes of lower value.
- RBI occupies the apex position in the Indian money market.
- RBI of India (amended) bill 2005 has been approved by Lok Sabha on 17th may 2006. This bill amends the RBI act for providing flexibility to the central bank in India fixing CRR & SLR.
- SBI launches Parivartan scheme to provide better training to its staff including high officials, clerks and peons.
- SBI commercial & international bank ltd (SBICI BANK LTD) has been finally merged with state bank of India in July 2011. SBICI two branches in Mumbai.
- SIDBI amendment bill 2012 introduced in parliament on 22nd may 2012 definition of industrial concern to cover floriculture , setting up or development of tourism related facilities, construction and entertainment industry film & to accept repayment of foreign currency loans in foreign currency & maintaining foreign currency loan a/c.
- SBI merges its Mauritius based subsidiary, Indian ocean International bank IOIB with SBI international (Mauritius) in African island nation.
- Money market is that organization which provides short term credit. Capital market is to provide long term capital.
- Government share in SBI reduced to 51% from 59% to mobilize Rs. 12000 Crores.
- IDBI (Industrial development bank of India) has been the apex institutions of industrial finance in country. Commencement of business on 8th Sep 2004. It became IDBI ltd on 1st Oct 2004 and established in 1964.
- Finance Asia award to Kotak bank (7th time)
- Imperial bank established in 1921.
- SIDBI established on 2nd April 1990, its headquarter is at Lucknow.
- ➢ Unit trust of India (UTI) was established in 1964 with the objective of mobilizing the small savings of the people for their suitable & profitable investment. It has now been bifurcated in UTI – 1 and UTI- 2.

- UTI bank ltd has been renamed as AXIS bank ltd. This was from 30th July 2007.
- NABARD (national bank for agriculture and rural development) established on 12th July 1982 as the apex financing institutions for agriculture & rural development.
- Export import of India (EXIM) is the apex institution for financing exports and imports. It was established on 1st Jan 1982.
- UTI started the first bank in private sector on 2nd April 1994. Its head office is at Ahmedabad. It renamed as AXIS bank.
- SBI becomes the first registrar for unique identification authority of India (UDAI) now renamed as Aadhaar for collecting both demographic and biometric information's of bank a/c holders.
- Mobile number portability (MNP) launched on Nov 25, 2010 in Haryana, now all over country from Jan 20, 2011.
- Chandigarh 10th largest e commerce hub in India.
- India oil corporations (IOC) has completed 50 years of its establishment on 30th June 2009. (Golden jubilee)
- First bank with limited liability managed by Indian board was Oudh commercial bank in 1881.

## SFCs (State financial corporations)

- It was established in 1948.
- State financial corporation act was passed by parliament on Sep 1951.
- First SFCs set up in Punjab in 1953.
- At present there are 18 SFCs (out of which 17 SFCs were established under SFC act 1951).
- Tamil Nadu Industrial Investment corporation Ltd establish under company act 1949 (18th SFCs).
- SFCs promote small and medium industries of the states.
- SFCs are helpful in ensuring balanced regional development, higher Investment, more employment generation and broad ownership of Industries.
- Act as a regional development bank.
- It has failed to meet the demand of small and medium industries.

## IDBI (Industrial development Bank of India).

- Industrial development bank of India established under industrial development bank of India act 1964.
- A principal financial institution for promoting credit and other facilities for developing industries & assistant developing institutions.
- Till 1976, IDBI was a subsidiary bank of RBI.
- In 1976 it was separated from RBI and the ownership was transferred to government of India.
- To provide financial assistance to industrial enterprises & to promote institutions engaged in industrial development.
- IDBI which was established as development finance institution under IDBI act 1964 has been converted as a banking Company.
- IDBI got certificate of commencement of business on 28th Sep 2004 and IDBI was transformed into IDBI Ltd on 1st Oct 2004, a company under companies act 1956 and scheduled bank under RBI act 1934.
- Apex organization in development financing
- Act as a lender of the last resort
- Headquarter is at Mumbai

## RRB (Regional Rural Bank).

- Regional rural bank was established on 2nd Oct 1975 under the provisions of RRB act 1976 with a view to develop rural economy.
- It was established to take banking services to the door step of rural masses, especially in remote rural areas with no access to banking services.
- It also provide institutional credit to weaker sections of society at concessional rate.
- On 2nd Oct 1975, 5 RBBs were established at 1) Moradabad (U.P) 2) Gorakhpur (U.P) 3) Bhiwani (Haryana) 4) Jaipur (Rajasthan) 5) Malda (West Bengal)
- With effect from 1997 priority sector lending was made applicable to RRBs
- The union cabinet on 31st Jan 2013 gave its approval to the proposed amendments in RRBs Act 1976 to enhance authorized and issue capital to strengthen their capital base.
- RBI on 13th June 2006 announced its liberalized licensing policy for RRBs.
- RRBs known as Small man bank.
- Total 82 RRBs , in which 46 are amalgamated and 36 are standalone

- New 82nd RRBs was Puduval Bhathiar Grama Bank Pondicherry 26 mar 2008.
- All RRBs to adopt core banking system (CBS) by Sep 2011.
- Khushro committee- agriculture credit review committee. Khushro said that RRBs to merge with sponsor bank.
- MC Bhandari committee to restructuring of RRBs.
- Prof VS Vyas recommendation advising committee on flow of credit to agriculture & related act to restrict RRB in order to improve their operational viability & to take advantage of economies of scale were accepted.

## NABARD (National bank for agriculture & rural development).

- ARC- Agricultural refinance corporations 1963.
- It is the apex banking institution providing finance for agriculture & rural development.
- It was established on 12th July 1982.
- Start with paid up capital of Rs. 100 crore 50:50 (Gov.: RBI) but now it's (99:1) (GOV: RBI).
- NABARD amendment bill 2000 was accepted by the president in Jan 2001.
- Authorized capital of NABARD to Rs. 20000 crore from Rs 5000 crore.
- Paid up capital increased in 2 phase of Rs 2000 cr to 5000 crore.
- In 2006-2007 Bharat Nirman construction of rad under PMGSY total sanctions of NABARD TO NRRDA (National rural road development) under RIDF on 31st mar 2010 Rs 18500 crore to NRRDA.

## SIDBI (Small industries development bank of India).

- It was established as a wholly owned subsidiary of IDBI under the small industries development bank of India Act Oct 1989 as the principal financial institution for promotion, financing & development of industries in small scale sector.
- SIDBI act as a apex role to provide finance to small scale sector.
- It started its functions from 2nd April 1990.
- Its headquarter is in Lucknow.
- SIDBI provides loan under its single window service.
- IDBI largest shareholders of SIDBI, SBI & LIC next.
- SIDBI amendment bill 2012 introduced by Pranab Mukherjee in lok sabha on 22nd May 2012. In SIDBI amendment bill definition of Industrial concern is 1) expand activities to floriculture 2) development of tourism related 3) construction facilities 4) entertainment industry.
- It also provides to accept repayment of foreign currency loans in foreign currency & maintaining foreign currency loan account as required under any law or accounting standard.
- Government of India announced in budget 1988-1989 to establish SIDBI.

## IFCI (Industrial Finance Corporation of India).

- IFCI Ltd was established in 1948 under a special act on the recommendation of central banking enquiry committee.
- IFCI was the first all India development financial institution to be set up
- To arrange medium & long term credit carious industrial enterprises of country.
- On 1st July 1993 IFCI given the status of Ltd Company with the name IFCI Ltd. It got its registration under company act 1956.
- IFCI will soon merge with PNB.

## UTI (Unit trust of India).

- First private bank & popular in west.
- UTI set up on 26th Nov 1963 after an act passed on 1962.
- It was effective from 1st July 1964
- Objective of UTI is to mobilize the small savings of the people for their suitable and profitable investment.
- UTI are open end investment as they sell their shares units continuously in order to raise additional capital. Redeem their shares (repurchase) to ensure high liquidity.
- UTI 1 has been named as administrator of the specified undertakings of the unit trust of India (private)
- UTI 2 SBI, PNB, BOB, LIC set up. (Public)
- UTI mutual fund, UTI Trustee Company, UTI Asset Management Company.
- Government signed as agreement on 15 Jan 2003 for transfer of undertakings
- 1st Feb 2003 was appointment day and bifurcation of UTI 1 an UTI 2.

- UTI abolish Raj Laxmi unit plan 2 which came in 1992 for girls benefit on 1st Oct 2000.
- On 31st May 2003 US-64 came to an end.
- On 31st July 2007 UTI was renamed as AXIS bank
- UTI mutual fund join hands with Sri Mahila SEWA Sahkari scheme to unorganized women workers through UTI retirement benefit pension fund.
- UTI has launched a pension scheme for the extremely poor among the India workers for a minimum contribution of Rs. 50 women working with SEWA (Self -employed women association)

## LABELS OF ATM

- The automated teller machine (ATM) entered India by 1980s
- First bank to introduce ATM in India was HSBC bank in 1987, Mumbai.
- Three types of ATMs are- 1) Bank's own ATMs- These are owned and operated by the concerned bank and carry the Banks logo.

2) Brown Label ATMs BLAs- These are owned by third party. The concerned banks only handle part of the process that is cash handling & backend server connectivity. They carry logo of the bank which outsources their services.

3) White label ATMs (WLAs) - These are owned & operated by a third party. They do not bear logo of the banks they serve in place they carry logo of the firm which own them. They serve customers of all banks & are interconnected with the entire ATM network in the country. The Tata communications payment solutions became the first such firm to get permission of RBI to setup such ATMs, its brand name is Indi cash.

## MERGERS AND AMMALGAMATION

- United western bank of India- IDBI.
- Lord Krishna bank- Centurian bank.
- Ganesh bank of kurundwar- Federal bank.
- IFCI- Punjab National Bank.
- Bank of Punjab- Centurian bank.
- Global trust of India- oriental Bank of commerce.
- Nedugandi Bank- Bank of Punjab.
- Banaras state bank- Bank of Baroda.
- Bank of Mudura- ICICI.
- Times Bank- HDFC.
- Sikkim Bank- Union bank.
- Barely corporation – Bank of Baroda.
- Bharat overseas bank- India Overseas Bank.
- Sangali Bank- ICICI.
- American express bank- standard chartered bank.
- Centurian bank of Punjab- HDFC.
- 20th century finance company- Centurian bank.
- New bank of India- Punjab National Bank.
- Repo rate introduced in Dec 1992, also known as policy rate, rate of repurchase and rate of discount.
- Reverse repo rate introduced in Nov 1996.
- Marginal standing facility rate in May 2011 also known as penal rate.

## SBI AND ITS ASSOCIATES BANK

- Imperial Bank established in 1921 and nationalized on 1st July 1955 and became SBI Bank.
- Its 5 associates banks are-

1) SBI of Bikaner & Jaipur.

2) SBI of Hyderabad.

3) SBI of Mysore.

4) SBI of Patiala.

5) SBI of Travancore.

- 13 Aug 2008 SBI of saurashtra merge with SBI.
- 19 June 2009 SBI of Indore merge with SBI.

## BANKING OMBUDSMAN SCHEME.

- RBI introduced a banking ombudsman scheme in the country on 14th June 1995 for giving solutions for customer complains.
- Bank can send their complains to these ombudsman if concerned banks fail to satisfy them. These ombudsman scheme will take action and ensure relief to customers.
- According to RBI all schedule primary co-operative banks & commercial banks & now from 2002 RRBs also included in that.
- Matter reported within the period of 1 month after getting final reply from concerned bank & after 1 month it will not be entertained.
- Mainly this ombudsman came to overcome the delays in banking facilities.

## JANKIRAMAN COMMITTEE

- RBI set up a high level enquiry committee on 30th April 1992. Under the chairmanship of Mr. R Jankiraman.
- Committee submitted final report on 7th May 1993
- This was formed to check all irregularities in securities transactions.
- Irregularities were committed by public sector banks, sector banks, private banks & foreign banks.

## GOIPORIA COMMITTEE

- RBI constituted a committee under the chairmanship of MN Goiporia, president of SBI in Sep 1990.
- Committee submitted its report on 5th Dec 1991.
- For consumer service improvements in Banks.
- To exceed public hour for all worker excluding cash payment.
- Re-adjustment of bank opening time
- Spot deposits of outstations cheques of Rs 5000 instead of Rs. 2500.
- Increase in Bank rate on saving account.
- Provide tax benefit on deposit amount.
- Optimum use of powers available with bank staff.

## NARSIMHAM COMMITTEE

- Government of India constituted this on 14th August 1991 for making recommendations on existing financial system & to give suggestions for improving the existing structure.
- Submitted it on Nov 1991 placed on table on Dec 17, 1991.
- Focus on DFIs (development financial Institutions & money & capital market)
- 4 tier banking system should be introduced

1) 1st Tier – 3& 4 International Banks

2) 2nd Tier- 8 or 10 national Banks

3) 3rd Tier- regional banks

4) 4th Tier – Rural banks

- In 1991 the country was caught into deep economic crisis & government at this juncture decided to introduce comprehensive economic reforms.
- Damodaran committee- Banking sector Reforms.

## NITI AYOG – NATIONAL INSTITUTION FOR TRANSFORMING INDIA

- 1st Jan 2015 planning commission replaced.
- Government of India replaced planning commission with a new institution named NITI Ayog.
- The institution will serve as Think tank of government-a-directional and policy dynamo.
- Its roles are as follows-

1) The center to state one way flow of policy, that was the hallmark of the planning commission era, is now sought to be replaced by a genuine& continuing partnership of states.

2) It will seek to provide a critical directional& strategic input into the development process.

3) Arvind Panagariya took charge as vice chairman of NITI Ayog.

4) It will emerge as Think tank that will provide government at the central & state levels with relevant strategic & technical advice across the spectrum of key elements of policy.

5) Senior bureaucrat Sindhushree Khullar was appointed as the chief executive officer of NITI Ayog with effect from 1st Jan 2015. She will serve the position for one year.

6) It will also seek to put an end to slow and tardy implementation of policy, by fostering better Inter-Ministry co-ordination and better center-state co-ordination. It will help evolve a shared vision of national development priorities and foster co-operative federalism, recognizing that strong states make a strong nation.

7) It will develop mechanisms to formulate credible plans to the village level and aggregate these progressively at higher levels of government. It will ensure special attention to the sections of society that may be at risk of not benefiting adequately from economic progress.

8) It will create knowledge, innovation & entrepreneurial support system through a collaborative community of national & international experts, practitioners & partners. It will offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda

9) It will monitor and evaluate the implementation of programmers and focus on technology upgradation and capacity building

## OBJECTIVES AND OPPORTUNITY

- An administration paradigm in which the govt. is an "enabler" rather than a provider of first & last resort.
- Progress from food security to focus on a mix of agricultural production, as well as actual returns that farmers get from their produce.
- Ensure that India is an active player in the debates and deliberations on the global commons
- Ensure that the economically vibrant middle class remains engaged & its potential is fully realized.
- Incorporate the significant geo-economic& geopolitical strength of the Non -resident Indian community.
- Use urbanization as an opportunity to create a wholesome & secure habitat through the use of modern technology.
- Use technology to reduce opacity & potential for misadventures in governance.

## NITI AYOG WILL COMPRISE OF –

- Prime minister of India as the chairperson.
- Governing council comprising the chief ministers of all the states & Lt Governors of Union Territories.
- Regional councils will be formed to address specific issues and contingencies impacting more than one state or a region. These will be formed for a specified tenure. The regional councils will be conveyed by the prime ministers and will comprise of the chief ministers of states & Lt Governors of UT in region. These will be chaired by the chairperson of the NITI Ayog or his nominee.
- Experts, specialists and practitioners with relevant domain knowledge as special invitees nominated by the Prime ministers.
- The Full time organizational framework will comprise of, in addition to the PM as the chairperson
- Vice chairperson – To be appointed by PM
- Members full time.
- Part time members – Max of 2 from leading universities research organizations other relevant institutions in an ex-officio capacity. Part time members will be on a rotational basis.
- Ex-officio members- maximum of 4 members of the union council of ministers to be nominated by the PM.
- Chief executive officer- To be appointed by the PM for a fixed tenure, in the rank of secretary to the GOI.

## MUDRA BANK- MICRO UNITS DEVELOPMENT REFINANCE AGENCY

- Finance minister has proposed to create a micro unit development refinance agency bank with a corpus of rs 20000 crore and credit guarantee corpus of Rs 3000 crore.

- MUDRA bank will refinance Micro finance institutions through Pradhan Mantri Mudra yojna.
- In lending priority will be given to SC/ST enterprises.
- These measures will greatly increase the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs.
- Existing small business to expand their activities.
- The center has ensured credit flow to SMEs sector & has also identified NBFC as a good fit to reach out them
- People will now be able to get refinance at subsidized rate and it would be passed on to SMEs. Moreover it would enable SMSs to expand their activities.

## RESERVE BANK OF INDIA

- It is the central bank of India
- Established on 1st April 1935 under an act 1934.
- Nationalized on 1st Jan 1949.
- Its Headquarter is at Mumbai but earlier was at Calcutta.
- Raghuram Rajan 23rd governor of RBI.
- It is the issuing agency of the currency & coins except 1 rupee & coins which is issued by Ministry of finance (signature finance secretary)
- It is a distributing agent of currency & coins.
- Banker of government.
- Bankers of bank/ bank of last resort.
- Announces the credit & monetary policy.
- Stabilizing the rate of inflations.
- Stablishing the exchange rate of rupee.
- RBI agent of IMF.
- Earlier RBI changes its rate two times in a year but now it can be change according to the requirement. (60 days).
- 10 rs 20 rs 50 rs RBI has introduced star bank note.
- Controller of credit both quantitative and qualitative.
- Quantitative are Cash reserve ratio, bank rate, statutory liquid ratio, open market operations.
- Qualitative controls are publicity, rationing of credit, regulation of consumer credit, moral suasion, and variation in margin requirements.
- 6th July 2005 financial market department for surveillance on financial market.
- 1st July 2010- RBI introduced plastic currency notes.
- Australia 1st to issue plastic currency notes.
- RBI to issue non-sequentially numbered rs 500 notes.
- RBI established on 1st April 1935 under the act 1934 on the recommendations of John Hilton Young Commission 1926 called Royal Commission on Indian Currency & finance.
- Prior to RBI Imperial bank (now SBI) was conducting the central bank functions.
- RBI is managed by a central board of directors with 4 local bodies at Delhi, Mumbai, Chennai, and Kolkata.
- Schedule bank means a bank whose name is in the 2nd Schedule of RBI Act 1934.
- Rs 2 and rs 5 note discontinued.
- **Tools which are regulated by RBI credit & monetary policy are**

1) CRR 2) SLR 3) BANK RATE 4) REPO RATE 5) REVERSE REPO RATE 6) MARGINAL STANDING FACILITY 7) PRIME LENDING RATE/ BASE RATE

- RBI adopted Minimum reserve system for note issue.
- RBI released rs 1000 currency note on 9th Oct 2000
- Base Rate- It is the interest rate below which scheduled commercial banks will lend no loans to its customers. It is replaced by BPLR on 1st July 2010 (Benchmark prime lending Rate). The base rate system is aimed at enhancing transparency in lending rates of banks & enabling better assessment of transmission of monetary policy.
- PLR (Prime lending rate) chaired by Deepak Mohanty to suggest changes to make credit pricing more transparent. All categories of loans are priced with reference to the base rate, only except differential rate of interest DRI, loans to bank depositors against their own deposits.
- **SLR (Statutory liquid ratio)** – It is the ratio fixed by RBI of total deposits of a bank which is to be maintained by the bank with

itself in non- cash form prescribed by Government.

-  **Bank rate-** It is the interest rate which the RBI charges on its long term landings. The client who borrow through this route- GOI, state government, banks, financial institutions, co-operative bank and NBFC.
-  **Repo rate-** Introduced in Dec 1992. It is the rate of interest the RBI charges from its clients on their short term borrowings. It is also known as rate of repurchase and rate of discount. Higher the repo rate costlier the loan.
-  Reverse repo rate- Established in Nov 1996, LAF liquidity adjustment facility is a part of it. It is the rate of interest the RBI pays to its clients who offer short term loan to it.
-  **Marginal standing Facility rate-** May 2011, under this scheme banks can borrow overnight up to 1% of their NDTL (Net demand time liabilities) from RBI at the interest rate 3% higher than the current repo rate.it is penal rate for banks.

## MICRO FINANCE BILL

NABARD is to be appointed as regulator for the micro finance sector and bank would later frame rules for maintenance of credit adequacy ratio (CAR)

-  Microfinance Institute bill has a provision to safeguard the interest of people depositing their money in self-help group (SHG)
-  MFI bill is an attempt to link the resource rich commercial banks
-  Union finance Ministry has directed banks to set up ultra-small branches (USB) in all villages under financial inclusion scheme by 31st Mar 2012

## PRADHAN MANTRI JAN DHAN YOJANA

-  28th Aug. 2014
-  Target to open 1.5 crore account on a single day.
-  Benefits of this yojna are as follows-

1) A Rupay debit card for every card holder.

2) 1 lakh accident insurance cover.

3) 5000 overdraft facility.

4) Additional 30000 life insurance before 26 Jan 2015.

-  KPMG services was hired by finance ministry to undertake a validation exercise of number of basic bank account opened by the bank under PMJDY.
-  KPMG target to open 7.5 crore bank.
-  Punch line of Pradhan Mantri Jan Dhan Yojana- Mera Khata Bhag Vidhata (My bank account- The Good Fortune creator)
- ➢ Pehla kadam (minor) and pehli udan (10+) two savings bank product for the children's launched by SBI.
-  BCSBI= Banking codes standards Board of India
- ➢ Dr nachiket MOR committee – on comprehensive financial services for small business and low income households.
-  Luthiana 19th member of Eurozone
-  Prescribed age of minor 10 years for operating financial Inclusion
-  Saumitra chaudhari a committee recommended recasting of the index of industrial production IIP & WPI

## FINANCIAL INCLUSION

-  Department of financial services, ministry of finance.
-  Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged & low income segments of society, in contrast to financial exclusion where those services are not available or affordable.
-  It is argued that as banking services are in the nature of public good, the availability of banking and payments services to the entire population without discrimination is the prime objective of financial inclusion public policy.
-  Goals of financial inclusions-

1) Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment & transfer services, credit & insurance.

2) Sound & safe institutions governed by clear regulation and industry performance standards.

3) Financial & institutional sustainability to ensure continuity & certainty of investment.

4) Competition to ensure choice & affordable for clients.
- In India Financial Inclusions came in 2005.
- Mangalam became the first village in India where all households were provided banking services.
- GCCs- General creditcards
- NGOs/SHG- Self-help group
- Pradhan mantra Jan Dhan Yojana.
- Opening of no frills account- basic banking no frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of population.
- BCs- Business correspondent's
- Relaxation on KYC know your customer
- Adaption of EBT- To transfer social benefits electronically to the bank account of beneficiary & deliver government benefits to the door step of beneficiary.
- CRISIL Incuses is one of its kind tool to measure the extent of inclusion in India.

## NON PERFORMING ASSETS

- Non-performing assets is an advance where payment of interest and repayment of installment of principal remain unpaid for a period two quarters more the advance is treated as 'past due' if it remains unpaid for 30 days beyond due date.
- An asset including a leased asset becomes an NPA when it lease to generate income from the banks.
- An NPA is a loan or advance where

1) The interest and installment of principal remain overdue for a period of more than 180 days in respect of a term loan.

2) An accounts remain out of order as indicated in the paragraph below, in respect of overdraft cash credit (overdraft – no payment continuously for 90days)

3) A bill remains overdue for a period of more than 90 days in case of bills purchase and discounted.

4) An instalment of the principal or the interest thereon remains overdue for two crop seasons for short duration cost.

5) An instalment of the principal or the interest thereon remains overdue for one crop season for long duration crops. So total 2 and half years.
- Bank should classify an account as an NPA only if the interest charged during any quarter is not serviced fully within 90days from the end of the quarter.
- In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs bank should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.
- Bank are required to furnish a report on NPAs as on 31st March each year after completion of audit.
- Categories of NPA – Based on periods & realisabilty of due-

1) Substandard NPA

2) Doubtful assets

3) Loss assets
- Substandard asset – with effect from 31st march, 2005 a substandard asset would be one, which has remained a NPA for a period less than or equal to 18 months
- Doubtful assets- with effect from 31st march 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 18 months or more
- Loss asset- a loss assets is one , where the bank or the internal or external auditors or the RBI inspector has identified the loss but the amount has not been written off wholly.

## MICRO FINANCE

- It is a source of financial services for entrepreneurs and small business lacking access to banking & related services. The two main mechanism for the delivery of financial services to such client's are-

1) Relationship based banking for individual entrepreneurs and small business.

2) Group based models where several entrepreneurs come together to apply for loans & other services as a group.

 Micro finance is a movement whose object is a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurances fund transfers.

## CAPITAL ADEQUACY RATIO

 The central banks of the world started devising tools to minimize the risks of banking at one hand and providing cushions (shock absorbers) to the banks at the other hand so that banks do not go bust ( shut down after becoming bankrupt)

 Providing cushion/shock absorbers to banks has seen three major developments-

1) The provision of keeping a cash ratio of total deposits mobilized by the banks (known as CRR)

2) The provisions of maintaining some assets the deposits mobilized by the banks with the banks themselves in non-cash form (known as the SLR)

3) The provision of the capital adequacy ratio norm (CAR)

 It was in 1988 that the central banking bodies of the developed economies agreed upon such a provision the CAR- also known as the Basel Accord. The accord was agreed upon at Basel, Switzerland at a meeting of the bank for International settlements (BIS)

 The capital adequacy ratio is the percentage of total capital to the total risk-weighted assets.

 The new norms (Basel 3) has devised a third category of capital tier-3 capital.

 The RBI introduced the capital-to-risk weighted assets ratio (CRAR) system for the banks operating in India in 1992.

 BCBS (Basel committee on banking supervision)

 The first Basel Accord, known as Basel 1, was issued in 1988 and focuses on the capital adequacy of financial institutions. The capital adequacy risk (the risk a financial institutions faces due to an unexpected loss) categories the assets of financial institutions into five risk categories (0%, 10%, 20%, 50%, 100%). 8% loss.

 The second Basel Accord, known as Basel 2, is to be fully implemented by 2015. It focuses on three main areas, including minimum capital requirements, supervisory review and market

 discipline, which are known as the three pillars. The focus of this accord is to strengthen international banking requirements as well as to supervise and enforce these requirements.

# MISCELLANEOUS POINTS

**Banking Ombudsman:** Banking Ombudsman is a quasi-judicial authority, which functions under India's Banking Ombudsman Scheme 2006. It was created by Government of India with a purpose to deal with the complaints of customers of the banks related to various services rendered by the banks.

**Deflation:** It is a decrease in the general price level of goods and services.

**Inflation:** It can be defined as a sustained increase in the general level of prices for goods and services.

**Liquidity:** Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.

**Merchant Banking:** It is a combination of Banking and consultancy services.

**Monetary Policies:** It refers to the use of instruments by ***Reserve Bank of India (RBI)*** to regulate the availability, cost and use of money and credits.

**Plastic Money:** It is a term used in reference to the hard plastic cards we use every day in place of actual bank notes.

## Direct Instruments:-

**Cash Reserve Ratio (CRR):** Cash reserve Ratio (CRR) is the amount of funds that the banks have to keep with the RBI.

**Refinance Facilities:** RBI offers refinance facility to help out the exporters by replacing an existing debt obligation with another.

**Statutory liquidity ratio (SLR):** SLR is the minimum proportion of their Net Demand and Time Liabilities, which every bank maintains in the form of cash, gold and securities, at the close of business every day.

## Indirect Instruments:-

**Bank rate:** The rate of interest which the RBI charges on the loans and advances to a commercial bank.

**Liquidity adjustments facility (LAF):** It's a monetary policy tool which allows banks to borrow money through repurchase agreements and adjusting the day to day mismatches in liquidity.

**Marginal standing facility (MSF):** It's a window for banks to borrow from the RBI in an emergency situation when inter-bank liquidity finishes completely.

**Market Stabilization scheme (MSS):** Securities that are issued with the objective of providing a stock of securities to the RBI to intervene in the market for managing liquidity.

**Open Market Operations (OMO):** It's an activity by a RBI to give or take liquidity in its currency to or from a bank or a group of banks.

**Repo rate:** The rate at which the RBI lends money to commercial banks in the event of any shortfall of funds.

**Reverse Repo Rate:** The rate at which the RBI borrows money from commercial banks within the country.

**Term Repo:** A repurchase agreement with a term of more than one day.

## Money Market Instruments:-

**Authorized Capital:** The authorized capital/ registered capital/nominal capital of a company is the maximum amount of share capital that the company is authorized by its constitutional documents to issue to shareholders.

**Bonds:** It is an instrument of indebtedness of the bond issuer to the holders.

**Call Money:** Money loaned by a bank or other institution which is repayable on demand.

**Commercial Bills:** A bill of exchange issued by a commercial organization to raise money for short-term needs.

**Commercial Papers:** An unsecured, short-term debt instrument issued by a corporation for the financing of accounts receivable, inventories and meeting short-term liabilities.

**Certificates of deposits (CD):** A savings certificate entitling the bearer to receive interest.

**Dated government securities:** These are long-term securities and a fixed or floating coupon/interest rate which is paid on the face value, payable at fixed time periods.

**Debentures:** A long-term security bearing a fixed rate of interest, issued by a company and secured against assets.

**Issued Capital:** The share capital that has been issued to shareholders.

**Mutual Funds:** It is a professionally managed investment fund that pools money from many investors to purchase securities.

**Net Asset Value (NAV):** A mutual fund's price per share or exchange-traded fund's (ETF) per-share value.

**Paid up Capital:** The amount of a company's capital that has been funded by shareholders.

**Treasury bills:** A short-dated UK/US government security, bearing no interest but issued at a discount on its redemption price.

## Negotiable Instruments:-

**Bill of Exchange:** A bill of exchange is a binding agreement by one party to pay a fixed amount of cash to another party as of a predetermined date or on demand.

**Cheques:** An order to a bank to pay a stated sum from the drawer's account, written on a specially printed form.

**Ante Dated Cheque:** Cheques which have been written by the maker, and dated at some point in the past.

**Bounced Cheque:** Check that cannot be processed because the writer has insufficient funds.

**Crossed Cheque:** These cheques can only be deposited directly into a bank account and cannot be immediately cashed by a bank or any other credit institution.

**Post Dated Cheque:** Cheque that is written by the drawer (payer) for a date in the future.

**Stale Cheque:** A cheque which a bank will not accept and exchange for money or payment because it was written more than a certain number of months ago.

**Cheque Truncation:** It is the conversion of a physical cheque into a substitute electronic form for transmission to the paying bank.

**Promissory Note:** A financial instrument that contains a written promise by one party to pay another party a definite sum of money either on demand or at a specified future date.

## Various Types of Accounts:-

**Current Account/Demand deposit Account:** An active account catering for frequent deposits and withdrawals by cheque.

**DeMat Account:** This account is opened by the investor while registering with an investment broker (or sub-broker).

**Fixed deposit account or time deposit account:** It is a financial instrument provided by banks which provides investors with a higher rate of interest than a regular savings account, until the given maturity date.

**NOSTRO Account:** A bank account held by a UK bank with a foreign bank, usually in the currency of that country.

**Recurring Deposit Account:** It is opened by those who want to save regularly for a certain period of time and earn a higher interest rate.

**Saving Account:** A deposit account held at a bank or other financial institution that provides principal security and a modest interest rate.

**Current Account Deficit:** A current account deficit is when a country's government, businesses and individuals import more goods, services and capital than they export.

**Financial Inclusion:** Financial inclusion is the delivery of financial services at affordable costs to massive sections of disadvantaged and low income groups.

**Fiscal Deficit:** When a government's total expenditures exceed the total revenue.

**Foreign Direct Investment (FDI):** It is a controlling ownership in a business enterprise in one country by an entity, based in another country.

**Foreign Institutional Investors (FII):** FIIs are those institutional investors which invest in the assets belonging to a different country other than that where these organizations are based.

**General Anti-Avoidance Rules (GAAR):** A GAAR is a statutory rule that empowers a revenue authority to deny taxpayers the benefit of an arrangement that they have entered into for an impermissible tax-related purpose.

**Money Laundering:** Any act to hide the identity of illegally obtained proceeds so that they appear to have originated from genuine sources.

**Participatory notes or P-Notes:** These are instruments, issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India (SEBI).

**Quantitative easing and tapering:** A monetary policy in which RBI purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

**Electronic Payment Systems in Banks:-**

***National Payments Corporation of India (NPCI): NPCI is an umbrella organization for all retail payments system in India.***

**Clearing Corporation of India Limited (CCIL):** It is a joint stock company with share capital contribution by major banks and financial institutions.

**Electronic Clearing Service (ECS):** ECS is an electronic mode of funds transfer from one bank account to another and can be used for both

**Electronic Funds Transfer (EFT):** It is a system of transferring credit and debit purposes.money from one bank account directly to another without any paper money changing hands.

**National Electronic Funds Transfer (NEFT) System:** It is an Indian system of electronic transfer of money from one bank or bank branch to another.

**Real Time Gross Settlement (RTGS) System:** These are specialist funds transfer systems where the transfer of money or securities takes place from one bank to another on a "real time" and on "gross" basis.

## Important Organizations:-

**International Bank for Reconstruction and Development (IBRD):** An international financial institution that offers loans to middle-income developing countries.

**International Monetary Fund (IMF):** An international organization that foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

**Bank for International Settlements (BIS):** An international company, limited by shares owned by central banks which look after international monetary and financial cooperation and serves as a bank for central banks.

**Asian Development Bank (ADB):** A regional development bank to promote social and economic development in Asia.

**EXIM Bank:** A premier export finance institution that works as both a catalyst and a key player in the promotion of cross border trade and investment.

**Reserve Bank of India (RBI):** The central bank of India that is charged with regulating the country's currency and credit systems.

**National Bank for Agriculture and Rural Development (NABARD):** An apex development bank that review arrangements for institutional credit for agriculture and rural development.

**Industrial Development Bank of India (IDBI):** An Indian government-owned financial service company to provide credit and other financial facilities for the development of the fledgling Indian industry.

**Institute of Banking Personnel Selection (IBPS):** An autonomous agency in India enhancing human-resource development through personnel assessment selection and recruitment of Officers and Clerks in Indian banks.

**Indian Banks' Association (IBA):** A representative body of management of banking in India operating in India.

**Securities Exchange Board of India (SEBI):** The regulatory body for the investment/securities market in India.

**National Housing Bank (NHB):** An apex financial institution for housing.

**Small Industries Development Bank of India (SIDBI):** An independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India.

# Other Essential Terms of Banking

**Acquiring Bank: A bank or financial institution that processes credit or debit card payments on behalf of a merchant.**

**Adjustable-Rate Mortgages (ARMS): The initial interest rate is normally fixed for a period of time after which it is reset periodically, often every month.**

**Amortization: It is an accounting term that refers to the process of allocating the cost of an intangible asset over a period of time.**

**Annuity: A fixed sum of money paid to someone each year, typically for the rest of their life.**

**Arbitrage: It is basically buying in one market and simultaneously selling in another, profiting from a temporary difference.**

**Automated Teller Machine (ATM): A machine that automatically provides cash and performs other banking services on insertion of a special card by the account holder.**

**Authorization: A document giving official permission.**

**Bancassurance: The selling of life assurance and other insurance products and services by banking institutions.**

**Banker's Lien: Type of charge that gives a bank automatic claim over a borrower's property or assets that come in bank's possession in the normal course of its business.**

**BASEL Committee: A committee established by the Central Bank governors of the Group of ten countries in 1974 that seeks to improve the supervisory guidelines that central banks or similar authorities impose on both wholesale and retail banks.**

**Basis Point: One hundredth of one percentage point, basically used in expressing differences of interest rates.**

**Blue Chips: They generally sell high-quality, widely accepted products and services.**

**Bull Markets: A market in which share prices are rising, encouraging buying.**

**CAMELs rating system: An international bank-rating system where bank supervisory authorities rate institutions according to six factors. The six factors are represented by the acronym "CAMELS".**

**C – Capital adequacy**
**A – Asset quality**
**M – Management quality**
**E – Earnings**
**L – Liquidity**
**S – Sensitivity to Market Risk**

**Capital Adequacy Ratio: It is the ratio of a bank's capital to its risk.**

**Capital Gain: A profit from the sale of property or an investment.**

**Credit Rating Agencies of India: An independent company that evaluates the financial condition of issuers of debt instruments.**

**Collateral: Property that a borrower offers a lender to secure a loan.**

**CORE Banking Solution (CBS): It is networking of branches, which enables Customers to operate their accounts, and avail banking services from any branch of the Bank on CBS network, regardless of where he maintains his account.**

**Coupon Frequency: The yield paid by a fixed income security.**

**Debtor: A person, country, or organization that owes money.**

**Derivative Instrument: Financial instruments whose value is derived from the value of something else.**

**Demand Deposits: A deposit of money that can be withdrawn without prior notice.**

**Earnings per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock.**

**Earnings Yield: The quotient of earnings per share divided by the share price.**

**Equity: The value of an asset less the value of all liabilities on that asset.**

**Ex-dividend (XD): A security which no longer carries the right to the most recently declared dividend.**

**Face Value: The nominal value of a security stated by the issuer.**

**Forfeiting: The purchasing of an exporter's receivables at a discount by paying cash.**

**Forgery: It is the process of making, adapting, or imitating objects, statistics, or documents with the intent to deceive for the sake of altering the public perception.**

**Garnishee Order: A legal procedure by which a creditor can collect what a debtor owes by reaching the debtor's property when it is in the hands of someone other than the debtor.**

**General Lien: The right to take another's property if an obligation is not discharged.**

**Hedge: An investment to reduce the risk of adverse price movements in an asset.**

**Hypothecation: Refers to securities in a margin account that an investor uses as collateral to borrow funds from a brokerage.**

**Indemnity: Security against a loss or other financial burden.**

**Initial Public Offering (IPO): It is a type of public offering in which shares of a company usually are sold to institutional investors [1] that in turn, sell to the general public, on a securities exchange, for the first time.**

**Insolvent: Insufficient to meet all debts, as an estate or fund.**

**Intrinsic Value: A value which exists as part of something, such as the value of an option.**

**JHF (Joint Hindu Family) Account: JHF is account of a firm whose business is carried out by Karta of the Joint family, acting for all the family members.**

**Joint Account: Bank account in the name of two or more individuals who jointly share its concomitant rights and liabilities. Joint holders of an account are regarded in law as together making up the 'owner.'**

**Junk Bond: The first sale of stock by a private company to the public.**

**Karta: Karta means manager of joint family and joint family properties.**

**Kiosk Banking: It is self-service solutions, allowing customers to service themselves with computer based touchscreen and making different sort of transactions.**

**KYC Norms: The process of Banks verifying the identity of its clients.**

**Lease Financing: A legal document outlining the terms under which one party agrees to rent property from another party.**

**Leverage Ratio: Ratio that measures a company's leverage.**

**Libor: The interest rate that the banks charge each other for loans.**

**Listing: Reference of the Initial Public Offering Company's shares on the stock exchange for public trading.**

**Margin Call: A broker's demand on an investor using margin to deposit additional money or securities so that the margin account is brought up to the minimum maintenance margin.**

**Mandate: Written authorization by a person, group, or organization (the 'mandator') to another (the 'mandatary') to take a certain course of action.**

**Micro credit/micro finance: The lending of small amounts of money at low interest to new businesses.**

**Moratorium: The suspension of repayment of DEBT, or INTEREST, for a specified period of time.**

**Non-Performing Assets (NPA): It is defined as a credit facility in for which the interest and/or installment of Bond finance principal has remained "past due" for a specified period of time.**

**Negotiation: An act of transferring or assigning a money instrument from one person to another person in the course of business.**

**Non-Resident Accounts: These are accounts maintained by Indian nationals and Persons of Indian origin resident abroad, foreign nationals and foreign companies in India.**

**Notary Public: It is a public officer constituted by law to serve the public in non-contentious matters usually concerned with estates, deeds, powers-of-attorney, and foreign and international business.**

**Open Offer: It is an exit route, which is given to the existing shareholders by the acquirer of shares through a public announcement.**

**Option**: A financial derivative that represents a contract sold by one party to another party.

**Par Value**: The nominal value of a bond.

**Personal Identification Number (PIN)**: A number allocated to an individual and used to validate electronic transactions.

**Pledge:** It's a kind of charge created when the lender (pledgee) takes actual possession of assets.

**Power of Attorney**: It is a legal document that allows someone else to act on your behalf.

**Portfolio**: Refers to any collection of financial assets such as cash.

**Preference Shares**: It is a share which entitles the holder to a fixed dividend, whose payment takes priority over that of ordinary share dividends.

**Premium**: The amount of money that an individual or business must pay for an insurance policy.

**Prime Lending Rate (PLR):** The interest rate charged by banks to their largest, most secure, and most creditworthy customers on short-term loans.

**Privatization**: The transfer of ownership, property or business from the government to the private sector is termed privatization.

**Provisioning**: Can be defined as loss in the profit and loss account while finalizing accounts of banks.

**Relative Strength Index (RSI):** It is a technical indicator used in the analysis of financial markets.

**Rights Issue**: An issue of shares offered at a special price by a company to its existing shareholders in proportion to their holding of old shares.

**Rate of Return**: The gain/loss on an investment, expressed as a percentage increase over the initial investment cost, over a specified period.

**Real Interest Rate**: An interest rate that is adjusted for inflation.

**Self Help Groups (SHGs)**: It is a village-based financial intermediary committee usually composed of 10–20 local women or men.

**Speculation**: The act of trading in an asset, or conducting a financial transaction, expecting a substantial gain, but with a risk of losing most or all of the initial outlay.

**Stock Splits**: A corporate action in which a company/Bank divides its existing shares into multiple shares.

**Substantial Shareholder**: A person, who acquires an interest in relevant share capital equal to, or exceeding, 10% of the share capital.

**Teller**: A person employed to deal with customers' transactions in a bank.

**Time Horizon**: The length of time over which an investment is made or held before it is liquidated.

**Trust Deed**: A formal document which outlines the terms of a trust agreement.

**Time Horizon**: The length of time over which an investment is made or held before it is liquidated.

**Underwriting**: The process by which investment banks raise investment capital from investors on behalf of corporations and governments by issuing securities.

**Underlying Security**: It is a financial instrument whose price is derived from a different asset.

**Universal Banking**: A banking system in which banks provide a wide variety of financial services, including both commercial and investment services.

**Valuation**: The process of determining the current worth of an asset or property.

**Virtual Banking**: Handling all transactions of banks via the Web, e-mail, mobile check deposit and ATM machines.

**Warrant**: Official guarantee by a bank.

**Wholesale Banking**: Banking services between merchant banks and other financial institutions.

**Window Dressing**: It refers to actions taken prior to issuing financial statements in order to improve the appearance of the financial statements.

**Yield to Maturity**: It is the internal rate of return of an investment in a bond if the investor holds the bond until maturity and if all payments are made as scheduled.

**Zero Coupon Bond**: A debt security that doesn’t pay interest but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value.

# UNIT-5

# BUSINESS MANAGEMENT

## LEADERSHIP

- Leadership is the ability to influence the behavior of individual towards the achievement of goals.
- It is the process of influencing the behavior of others to work willingly (confident) and enthusiastically (happily) for achieving the predetermined goals.
- Features of leadership- 1) continuous process 2) relationships between leader and his followers 3) influence the behavior 4) followers work willingly and enthusiastically as there is no coercive force.
- Leader feel the importance of individuals.
- Adopt different leadership styles at different situations.
- Vision – futuristic (what the organization will look in the future (it is a realistic credible and attractive future for an organization).
- Envisioning – It is the process of formulating a vision for an organization.
- Mission- what are the different planning or steps to reach that vision.
- Transformational leader- It is given by James Burns (1978). It is applied in leadership as it is the abilities that allow the leader to recognize the change to create a vision to guide that change. It involves bringing valuable and positive change in the followers and inspire them to transcend their own self- interest for the good of the organizations.(higher level)(top line growth)
- Transactional leader- It is given by Adams. It involves routine regimented activities, assigning work, evaluating performance, making decisions and so on. Basically for Management ( lower level) ( bottom line growth and traditional)
- A person having more authority but lacking leadership qualities may be less effective as compared to a person with less authority but high degree of leadership Qualities.
- Formal leader – Autocratic type as he centralizes the decision making power in himself.
- Informal leader- Participative and democratic, he decentralizes the decision making power with the subordinates.
- Leadership motivates employees, create confidence and build morale. (Attitudes of employees)
- Some of the questions such as what makes a leader effective? Is his success due to his personality or his behavior or the types of followers he has or the situations in which he works or a combinations of all these and to answer these all questions different leadership theories arises.
- Theories such as

1) Trait theory.

2) Behavioral theory.

3) Situational theory.

4) System theory.

1) Trait theory- Given by Bernard. It is defined as relative enduring quality of individual. Personal qualities. It was a hypothesis that a person with a certain trait could become successful leader. Innate qualities and acquirable qualities include in this. Innate qualities means by birth or god gifted or natural qualities. Leader are born not made. Acquirable qualities- acquired or learned through training and experiences.

2) Behavioral theory- Leader is known by what he do rather than what he is. Leadership is shown by a person's acts more than by his traits. It includes two approach – 1) task oriented and 2) relationship oriented. Task related functions also called problem solving functions as it relate to providing solutions to the problem faced by the groups in performing the jobs and activities. Group related functions includes social functions, related to mediating disputes and individual feel value.so if an individual is able to perform both the roles successfully then he would be an effective leader.

3) Situational and contingency theory- It is given by R.M Stogdill. It is first applied in armed force of Germany. It means a situations in which leadership is exercised. It depends on two factors 1) leader behavior 2) situational factors .leader behavior includes leader

characteristics and leader hierarchical position. Situational factors include subordinate characteristics, group factors, leader situation, organization factor (climate, culture)

4) System theory- Behavior is an emergent phenomenon resulting from interactions among subsystem. It suggests that leadership is an emergent phenomenon in the form of integrative leadership out of interactions of agents (leader & followers) within variables lying inside and outside the organizations. From this theory four types of leadership emerges- 1) formal leadership 2) emergent leadership based on skills 3) shared leadership 4) integrative leadership. System theory of leadership takes as a holistic approach as many variables affect the leadership.

-  Functional leadership- It influence positively. It includes setting goals, motivating employees, raising level of morale, building team spirit, effective in two way communications.
-  Dysfunctional leadership- It influence negatively. Ineffective leadership, unfavorable to employees, poor human relations, emotion immaturity.
-  Leadership style- It is the pattern of behavior which a leader adopts while influencing the behavior of his subordinate. Leadership style is based on two approach-1) behavioral approach 2) situational approach.
-  Behavioral approach of leadership style includes-

1) Power orientation.

2) Leadership as a continuum.

3) Likert's management style.

4) Employee production orientation

5) Managerial grid

6) Tridimensional grid

-  Situational approach of leadership style includes-

1) Fiedler's contingency model.

2) Hersey Blanchard's model.

3) Path goal model.

-  Explanation of Behavioral approach of leadership style-

1) Power orientation – based on degree of authority which a leader uses in influencing the behavior of his subordinates. Under this there are three leadership style. 1) Autocratic style- also known as authoritarian, directive, Monothetic. A manager centralizes decision making power in himself. Negative leadership. It includes strict autocrat- follow autocratic style in a very strict sense, negative motivation. Benevolent autocrat Manager centralizes decision making power in himself but follows positive motivation. Incompetent autocrat- To hide their incompetence superior adopt this method.2) participative style- It is also called democratic, ideographic, consultative. Participation means mental and emotional involvement to contribute with group goal. He decentralizes decision making process, he emphasizes consultation and participation of his subordinates. As because of motivation productivity will be high.3) free rein or laissez faire- It means complete freedom to his subordinates as contribution of manager is almost nil. It helps to develop subordinate independent personality. As manager makes policies, plan and entire process left to subordinates.

2) Leadership as a continuum – Given by Tannenbaum & Schmidt. In this leadership style on a continuum moving from the authoritarian leadership( boss centered )at the one end to free rein leadership( subordinate centered) at another end.

3) Likert's management system- Given by Rensis Likert's. It includes four system of management such as 1) exploitative- (No trust and confidence in subordinates) 2) benevolent – (confidence but just as master has confidence in his servant) 3) participative- (substantial interest and trust among workers) 4) democratic- (complete trust and confidence towards employed, subordinate feel free)

4) Employee production oriented – It is based on two concepts 1 )employee orientation- It stress the relationship of the employees jobs, every individual is important and interest in everyone, as it is based on democratic concept. Give importance to the employee relations. 2) Production orientation- Emphasis on production, technical aspects of job, as employees are taken as tool for accomplishing job. Based on authoritarian concept. This also includes two things 1) initiating structure and 2) considerations.

Initiating structure refers to the leader's behavior in delineating relationships between himself and members of work group, well defined pattern of organization, channel of communication, methods and procedure. (Basically focus on work). Considerations includes friendship, mutual trust, respect, warmth in relationship between leader and members of staff. High considerations& low structure, high structure& high considerations (team best) Low structure & low considerations, high structure & low considerations (task related)

5) Managerial Grid – Given by Blake and mouton. It is based on two factors 1) Task orientation/concern for production and 2) relations orientation/concern for people. It consists of

1) (1, 9 called country club)-high concern for people& low concern for production.

2) (1, 1 called impoverished) - low concern for people& low concern for production.

3) (9, 9 called team based) –high concern for production & high concern for people.

4) (9, 1 called task based) -high concern for production & low concern for people.

5) (5, 5 called middle road) - in a middle path of production and people.

7) Tridimensional Grid – Given by Reddin. It is also known as 3D management. Three dimensional includes

1) Task orientation 2) Relationship orientation 3) effectiveness.

Task oriented includes planning, organizing, controlling things towards goal achievement. Relationship oriented includes personal relationships, mutual trust, feelings. Effectiveness is defined as the extent to which a manager is successful in his position. When the style adopted is appropriate to a given situation it is called effective and when the style is inappropriate to a given situation it is called ineffective. Three combinations are there- 1) basic styles 2) less effective 3) more effective. Basic styles are 1) Related- high relations & low task 2) Separated- low task & low relations 3) Integrated- high relations & high task 4) Dedicated- high task& low relations. Less Effective styles 1) missionary –high relations & low task 2) Deserter low relations & low task 3) compromiser- high task & high relations 4) autocrat- high task& low relations. More effective are 1) Developer- high relations& low task 2) Bureaucrat- low task &low relations 3) Executive – high task & high relations 4) benevolent autocrat – high task & low relations.

- **Explanations of situational approach –**

1) **Fiedler's Contingency Model**- appropriateness of leadership styles depend on their matching with situational requirement. It consist of three elements 1) leadership style including (TO task oriented RO relationship oriented) 2) situational variables 3) interrelationships. Fielder's uses the two types of scores to measure the style adopted by a leader 1) score on least preferred co- worker (lpc it depends on liking/disliking, friendly/unfriendly) 2) scores on assumed similarity (AS it based on the degree to which leader perceived group members to be like him. Situational variables include 1) leader position power 2) task structure 3) leader member relations.

2) **Hersey's Blanchard's situational model**- Given by Hersey's Blanchard's. Based on the need of maturity leader has to match his leadership style. It is also called life cycle theory of leadership. Two basic considerations 1) leadership styles (TO Task oriented & RO- Relations oriented 2) maturity of subordinates depends on their willingness and ability. It includes four combinations 1) telling – low ability + low willingness= low maturity. 2) Selling- low ability+ high willingness= low to moderate maturity 3) Participating- high ability+ low willingness=moderate to high maturity. 4) Directing high ability + high willingness= high maturity.

3) **Path goal model of leadership-** Given by Robert house. It is a combination of situational leadership+ vrooms expectancy theory of motivation. It includes different goal paths such as leader identifies subordinate needs>appropriate goals are established>leader connects reward with goal>leader provides assistance on employee path towards goal>employee become satisfied & accepts the leader>effective performance occurs>both employees &organization are better able to reach the goal. It includes leadership styles
1) directive-low task, high relations 2) supportive – low task, low relations 3) participative- high task , high relations 4) Achievement oriented- high task ,low relations.

- Locus of control refers to alternative benefits whether the employee's achievement are the product of his own effort (internal locus of control) or the result of outside forces (external locus of control)
- It also includes two things 1) characteristics of subordinates – locus of control, willingness, self-perceived (ability to work or

perform) 2) work environment includes nature of task , formal authority systems and work group.

- Charismatic theory – Given by Pluto's Republic and Confucius Analects. It's a Greek word meaning gift or a god gifted quality or an extraordinary ability of a person to perform miracles. Also known as great man theory. It suggested that leader is born not made. (Inspirational leadership)
- Some important theories given by – Trait theory- Bernard.
- Situational/contingency theory- R M Stogdill.
- Great man theory or charismatic theory- Pluto's Republic & Confucius's analects.
- Followers theory- F M Sansford.
- Half-life cycle theory- A K Korman.
- Life cycle theory continued by- Paul Hersey's Blanchard's.
- Leadership as a continuum – Tannenbaum & Schmidt
- Management system theory- Renisis liket's.
- Managerial grid- Blake&Mouton
- Tridimensional grid- V j REDINN
- Contingency model of leadership- Fiedleđ's
- Path goal model- Robert house.
- Transformational- James Burns.
- Transactional- Adams.

# MOTIVATIONS

- Motivation is a psychic force that drives an individual towards goal realizations.
- Rensis Likert has called motivation as the core of the management.
- Motivation derived from Latin word Movere which means to move.
- Need = physiological + psychological
- If the individual has high intensity for the achieving the goal then his level of motivation is also high.
- Motivation- A goal directed behavior.
- Motivation related to satisfactions.
- Satisfactions refers to the contentment experiences of an individual which he derives out of need fulfillment.
- Persons motivated in totality not in part.
- Nature of motivation – based on motives, affected by motivating, goal directed behavior, related to satisfaction, person motivated in totality, complex process.
- Need is a natural and biological phenomenon in an individual.
- Three types of need 1) primary need – also called psychological, basic, biological or unlearned need which is essential for the survival of human beings e.g. food, cloth, shelter, sex, sleep breathe. 2) Secondary need – also called learned need or derived need which we learn from the experiences and individual e.g. need for status, recognition, power and achievement. 3) General need- This need is between primary and secondary needs e.g. need for competence, curiosity, manipulation, affection.
- Need> Tension arises>goal directed behavior>goal fulfillment in favorable environment>satisfaction then another need arises so it is continuous process and if need is not fulfilled then frustrations arises.
- Three things arises because of non-fulfillment of needs- 1) Flight – people quit the job. 2) Apathy – lack of interest or enthusiasm, employees do everything except his work 3) Aggressions- aggressive and frustrated and harm themselves or surroundings by their behavior.
- Some important words which may ask sometimes- 1) Sympathy- the feelings of being sorry for someone. 2) Empathy- The ability to understand & share the feelings of someone else. 3) Apathy – Lack of interest or enthusiasm.
- Sense of competence- It denotes the extent to which an individual consistently regards himself as capable of doing job.
- Locus of control – It means whether people believe that they are in control of events or events control them. An individual with the internal locus of control tends to be a high performer than those with external locus of control.
- Ability = knowledge+skill
- Role ambiguity – Individual is not clear as what is expected from him in the job situation.
- Role conflict- when the persons are engaged in two or more jobs simultaneously and these jobs are mutually incompatible.

# Different theories of Motivation

### (1) Maslow's Need Hierarchy Theory

- Given by Abraham H Maslow's.
- According to him needs are arranged in hierarchy.
- If the basic needs are not met, efforts to satisfy the higher needs are postponed.
- Physiological needs> security /safety needs>social needs> self -esteem needs> self - actualization needs.
- Physiological needs- The basic necessities of life (food, cloth, shelter) also called basic needs.
- Security/safety needs- need for safety, physical danger and self -preservation.
- Social needs- As man is social animal they need affections, love and they make relations.
- Self- esteem needs- It is concerned with self- respect, self -confidence, a feeling of personal worth, feeling of being unique and recognition.
- Self- actualization needs- It is the need to maximize ones desire to become more and more, what one is to become everything that one is capable of becoming.

### (2) Herzberg Motivation & Hygiene theory (Two factor theory)

- Given by Frederick Herzberg.
- He talked about two things i.e. Maintenance or hygiene theory and Motivational theory.
- Maintenance or hygiene factors – If it is present in the firm then it did not satisfy the employees but its absent strongly dissatisfy the employees as this is also called dissatisfies.

There are ten hygiene factors:-

1) Company policy & administration

2) Technical supervision

3) Interpersonal relationships with supervisors

4) Interpersonal relationships with peers

5) Interpersonal relationships with subordinates

6) Salary

7) Job security

8) Personal life

9) Working conditions

10) Status

- **Motivational factors-** An increase in these factors will strongly satisfy the employees, any decrease will not affect their level of satisfaction.

### There are six factors of motivation:-

1) Achievement 2) Recognition 3) Advancement 4) Work itself 5) Possibility of growth 6) responsibility.

- Positive effect on job satisfaction and in increase in one's total output.
- Herzberg model give insight to job enrichment.
- Conclusion – To keep maintenance or hygiene factors higher or constant while increasing motivational factors.
- Maslow's lower order needs – physiological, security, social needs come under the maintenance or hygiene factors whereas higher order needs self- esteem needs and self -actualization needs are motivational factors.

### (3) Mc Clelland's Need Theory (Three Need Theory)

- It is also called three need theory.
- Need for power, need for affiliation, need for achievement.
- Need for power- high power, great concern for existing influence and control.
- Need for affiliation – Pleasure from being loved and social responsibility.
- Need for achievement – intense desire to achieve.

- Leading advocate of power motive was Alfred Adler.
- Effective manager has high on achievement & power and low on affiliation.

**(4) ERG Theory (Existence, Relatedness, Growth)**

- Given by Alderfer's.
- Existence , relatedness, growth theory
- It is an extension of Maslow's hierarchy theory and Herzberg two factor theory as there is distinctions between lower order needs and higher order needs.
- Existence- physiological+ securityneeds.
- Relatedness- social+ half self-esteem needs.
- Growth – half self-esteem+ self-actualization.
- People try to satisfy their most concrete needs (lower) first then they move on to the abstract needs (high)

**(5) Victor vroom's Expectancy Theory**

- Given by Victor vroom
- Also called VIE Theory ( Valence, Instrumentality, Expectancy)
- This theory is based on the motivation process
- Motivational(force) = valence*instrumentality*expectancy
- Valence- It means the strength of an individual preference to a particular outcome.
- Instrumentality- For example – if someone wants a promotions and he know that superior performance is the key of promotion so superior performance is the instrumental i.e. the strong factor
- Expectancy- probability that particular action lead to outcome, as superior performance lead to promotions.

**(6) Porter Lawler Model of Motivation**

- It is a relationship among job attitudes and job performance.
- It includes effort> performance>rewards>satisfactions.
- Given by porter Lawler.

**(7) Equity Theory of Motivation**

- Given by J Stacy Adams.
- Based on social exchange process.
- To maintain fair relationships between their performance& reward in comparison to others.
- Three types of equity as discussed here-

1) Overpaid equity- outcome>input (guilt feeling)

2) Underpaid equity- outcome<input (dissonance/dissatisfy)

3) Equity – outcome=input (satisfaction)

- Based on the principle i.e. Equal pay for equal work.

**(8) Carrot and stick approach**

- Based on principles of Reinforcement given by B F skinner.
- Reinforcement means when someone behavior repeatedly rewarded.
- Carrot is reward for the performance and stick is the punishment.
- The mixture of both reward and punishment should be used judiciously so that both have positive effects on the motivation profile of the people in the organization.

**(9) Theory X and Y**

- Given by McGregor's.
- It involves certain assumptions, generalizations, hypothesis relating to human behavior and human nature.
- It serves the purpose of predicting human behavior

**Distinctions between theory x and theory y Theory X Theory Y**

| **THEORY X** | **THEORY Y** |
|---|---|

| | |
|---|---|
| 1) Traditional theory of human behavior. | 1) Modern theory of human behavior |
| 2) Management is responsible for organizing elements of productive enterprises. | 2) Self direction &self-control. |
| 3) It includes directing, controlling, motivating, modifying behavior. | 3) No external control& threat of punishment. |
| 4) Management task to get things done by people through external control. | 4) Cooperative endeavor of management & employees. |
| 5) Includes lower order needs. | 5) Maximum output with minimum amount of control & direction. |
| 6) Autocratic style. | 6) Democratic & participative style. |
| 7) Lack of self-motivation. | 7) Decentralizations. |
| 8) Scalar chain/centralization. | 8) Higher order needs. |

**(10) Theory Z**

- Given by William Ouchi.
- Promotional purposes.
- American + Japanese management services.
- Five broad features of this theory are-

1) Trust.

2) Strong bond between organization and employees.

3) Employee involvement.

4) No formal structure (team work) (group spirit is the backbone of success)

5) Coordination of human beings.

# Contingency approach of motivation

- It says that what motivates people is situational. This is the basic theme of contingency approach of motivation.
- It emphasizes linking between micro motivation and macro motivation. Micro motivation operates at the level of individual firms while macro motivation operates at the broad social level.
- Sound motivation system is one which takes into account both individual and organizational variables.

# Miscellaneous –

- Maslow's need Hierarchy theory-Abraham H Maslow's.
- Herzberg motivation hygiene theory- Frederick Herzberg.
- Three need theory- Mc Clelland's.
- Leading advocate of power- Alfred Adler
- ERG theory-Alderfer's.
- Vroom expectancy theory – victor vroom.
- Porter Lawler model- effort, performance, reward, satisfaction.
- Equity theory- J Stacy Adams.
- Reinforcement theory- B F skinner.
- Theory x and y – Mc Gregor's.
- Theory z- William Ouchi.

# PLANNING

**PLANNING**

- SWOT- Strength weakness opportunity threat.
- Management functions include planning, organizing, staffing, directing and controlling. All these functions are required to achieve the objectives of organizations.

- Planning and plan, there is a little difference between them, planning is an activity or a process while plan is a commitment to a particular course of action believed necessary to achieve specific results. Plan are prepared through planning process.
- Planning as a process involves the determination of future course of action, that is why an action, what action, how to take action and when to take action. It is a futuristic.
- Features of planning- it is a process, it is a futuristic, it involves selecting of suitable course of action, it is taken at all levels of management, planning is flexible as it change according to situations, planning is pervasive (continuous management functions)
- Planning activity goes in hierarchy- corporate or organizational level>divisional plan>departmental plan>sectional plan.
- Importance of planning- it precedes all other managerial functions such as organizing, staffing, directing & controlling, to offset uncertainty & changes, to focus attention on objectives, to help in co- ordination, to help in control, to increase organizational effectiveness.
- Co -ordination is the essence of management and planning is the base for it.
- Process of planning- perception of opportunities>establishing objectives>planning premises>identification of alternatives>evaluation of alternatives>choice of alternatives>formulation of supporting plans>establishing sequence of activities.
- Planning premises is a conditions under which planning activities will be undertaken. It is of two types

1) Internal premises

2) External premises.

- External premises include total factors in task environment like political, social, technological, competitors, plans& actions, government policies.
- Internal premises includes organizational policies, resources of various types and the ability of the organization to withstand the environment pressure.
- Top level- externally focused
- Middle & lower level – internally focused
- Types of planning-
- On the basis of coverage of activities –

1) **Corporate planning**-planning at the top level also known as corporate level which cover the entire organizational activities. Long term objectives it is also used as synonymous to long term planning or strategic planning. It is integrative ( holistic approach)

2) **Functional planning-** It is segmental and is undertaken for each major function of organizations.

- On the basis of direction of actions –

1) **strategic planning-** It sets long term direction of organizations in which it wants to proceed is external to the environment, time period 3-5 years and formulated at the top level of management.

2) **Operational planning**- It is also known as tactical planning or short term planning usually covers 1 year. It basically includes day to day operations. It focus on the internal organizations and formulated at middle and lower level of management.

- On the basis of time period-

1) long term planning- It is of strategic nature and involves more than 1 year period extending to 20 years, more common is 3-5 years. It is external to the environment also known as strategic planning.

2) Short term planning- It is also known as operational or tactical planning usually covers 1 year.

- On the basis of approach adopted –

1) **Proactive planning-** In this, organizations do not wait for environment to change but take actions in advance of environmental change.

2) **Reactive planning –** In this organizations responses come after the environmental changes have taken place.

- On the basis of degree of formalizations-

1) **Formal planning-** It is the form of well structural process involving different steps. Large organizations undertake planning in formal way. Monitor external environment on continuous basis. The planning process that is adopted is rational, systematic, well documented & regular.

2) **Informal planning-** It is taken by smaller organizations based on memory, intuitions, gut feelings.

- Plan- It is a commitment of resources to a particular course of action believed necessary to achieve specific results.
- Standing plan or strategic plan or long term plan- It provide guidelines for further course of action and are used over a longer period of time.
- Single use or operational or tactical or short term plan- This plan are relevant for a specified time and after the lapse of that time these plans are formulated again for the next period.
- Standing plan/strategic plan/long term 1) Mission or purpose 2) Objectives 3) Strategies 4) Policies 5) Procedures
- Single use/operational plan/short term 1) Rules 2) Programme & projects 3) Budgets 4) Quotas 5) Target
- Major plan- projects & budget
- Minor plan- quotas & target
- Hierarchy of organizational plans- mission or purpose>objectives>strategies>policies>procedures& rules> programmes & projects>budgets> quotas & target.
- Planning premises- Anticipated (aware of future) environment in which plans are expected to operate so basically it is conditions under which planning activities are undertaken.
- Types of planning premises-

1) External premises (opportunities, threat)

2) Internal premises (strength, weakness)

3) Tangible premises (quantitative)

4) Intangible premises (qualitative)

5) Controllable premises (internal such as organization policies, structures, systems, procedures)

6) Uncontrollable premises (external such as economic, social, cultural, political-legal, technological, competitive).

- ETOP- Environmental threat opportunity profile
- SAP- Strategic advantages profile
- Forecasting – It is the process of estimating the relevant events of future based on the analysis of their past & present behavior.
- In planning, decisions are made at the top level whereas in forecasting decisions are taken at middle or lower level.
- Forecasting as a key to planning process.
- In forecasting manager work like a navigator, it means he cannot control the sea tides and other disturbances but he can take his ship at the right path & can save it from these disturbances if he knows in advance.
- Importance of forecasting-

1) Promotion of organization

2) Key to planning

3) Coordination & control

4) Success in the organization.

- Limitations of planning-

1) Based on assumptions i.e. if an event has happened this way in the past, it will happen this way in the future.

2) Not absolute truth

3) Time & cost factor.

- Steps in forecasting –

1) Develop groundwork for forecasting

2) Estimating future business

3) Comparing actual& projected results

4) Refining the forecasting process.

➢ Technique of forecasting-

1) Historical analogy

2) Survey

3) Opinion poll

4) Business barometers (index number)

5) Time series analysis

6) Extrapolation (it relies on the behavior of a series in the past & projects the same trend in future).

7) Regression analysis

8) Input output analysis/end use technique

9) econometric models (refers to the science of economic measurement)

➢ Scenarios-it constitute an effective device for sensing, interpreting, organizing and bringing to bear diverse information about the future in planning and strategic decision making ( qualitative form)

➢ Monitoring and forecasting environment factors help in arriving at sales forecast i.e the projected sales in future which act as base for formulating various plans.

➢ There are many barriers to effective planning-

1) Difficulty of accurate premising

2) Problems of rapid change

3) Internal inflexibilities such as psychological inflexibility, policy and procedural flexibility, capital investment.

4) External flexibility such as political climate, trade unions, technological changes

5) Time and cost factor

6) Failure of people in planning

➢ Features of a good plan

1) Linked to long term objectives

2) Direction for action

3) Consistent

4) Feasible

5) Simplicity

6) Flexible

➢ Measures for making planning effective:-

1) Establishing climate for planning

2) Initiative at top level

3) Participation in planning process

4) Communication of planning elements

5) Integration of long term & short term plans

6) An open system approach

- **Mission** –Mission has external orientation and relates the organization to the society in which it operates. A mission statement helps the organization to link its activities to the needs of the society and legitimize its existence. It offers guidance to managers in developing sharply focused result oriented objectives, strategies and policies.
- **Formulation of mission** – key decisions makers philosophy & vision>organizational philosophy & vision>organizational mission.
- **Philosophy** – It consists of an integrated set of assumptions & beliefs about the way things are, the purpose of the activities and the way these should be.
- **Vision-** It is the mental perception of the kind of environment a person desires to create within a broad time horizon and the underlying conditions for the actualization of the perception. It represents the imagination of future events and prepares the organization for the same. Thus, vision represents the challenging portrait of what the organization would be in future.
- Explicit mission statement is desirable as it serves the purpose of communicating to the members about the corporate philosophy identity character and image which govern their behavior in the organization.
- **Objectives-** It is used to specify the end results which an organization wants to achieve. Objectives are expressed in quantitative and absolute terms.
- **Hierarchy of objectives-** Organizational objectives form a hierarchy ranging from the broad aim to specific individuals objectives. End means chain which suggest that what is a means for one unit may be an end for another unit.
- Hierarchy of objectives are as follows-

1) Socio economic purpose

2) Visionary long term concept of organization

3) Organizational mission

4) Organizational objectives

5) Objectives in key result areas

6) Departmental objectives

7) Sectional objectives

8) Individual objectives

- From up to low of above hierarchy is known as top down approach, which is prepared by upper level manager. From bottom to up of above hierarchy is known as bottom up approach, which is prepared by lower level manager.
- **Management by objectives/ management by results – (MBO/MBR) -** It focus on the objectives or results, emphasizes participants management, an approach which provides high motivation to individuals in an organizations. MBO is coined by Peter F Drucker in 1954. It is s comprehensive management system that integrates key managerial activities in a systematic manner, directed towards the efficient & effective achievement of organizational objectives. It is a result centered, non-specialist, operational managerial process for the effective utilization of material, physical & human resources of the organization by integrating the individual with the organization and organization with the environment.
- **Features of management by objectives –**

1) It is an approach and philosophy to management

2) Objective orientation is the essence of it.

3) MBO tries to match objectives and resources

4) MBO is characterized by the participation of concerned managers in objective setting and performance reviews

5) Periodic review of performance is an important feature of MBO.

- Process of MBO-

1) Setting of organizational purpose and objectives (objective settings start at the top level of the organization and moves downward to the lowest manager level.

2) Key results areas (KRA/KPA) key performance areas

3) Setting subordinate objectives- objectives are set by the mutual negotiation between superior and subordinates.

4) Matching resources with objectives

5) Appraisal (it is taken as a matter of system to ensure that everything is going as planned)

6) Process continuity (objective setting> action planning>performance review)

- **Benefits of MBO-**

1) Clarity of objectives

2) Role clarity

3) Periodic feedback of performance

4) Participation by managers in the management process

5) Realization that there is always scope for improvement of performance in every situation

- **Strategy –** The strategic plans are in the form of long term specific objectives and strategies. In order to put strategies in operations, managers have to formulate operational or tactical plans in the form of various standing plans like policies, procedures, rules, method and single use plans like projects, budgets and standards. Single use plans are undertaken on regular basis to put the strategic plan in operations.
- From military science, strategy has entered the management.
- Strategy is a course of action through which an organization tries to relate itself with its environment to develop certain advantages which help in achieving its objectives.
- **Features of strategy-**

1) It relates to an environment (external/internal)

2) It is a combinations of actions

3) Strategy is forward looking (shows directions)

- **Level of strategy –**

1) Corporate level strategy (highest level of strategic decision making as decisions are made by top managers)

2) Business level strategy (SBU – strategy business unit)

3) Functional level strategy

- Strategies at all the three levels are interlinked in which a higher level strategy generates a lower level strategy and a lower level strategy contributes to the achievement of the objectives of higher level strategy.
- **Policy –** The term policy is derived from the Greek word Pliteia meaning citizen and Latin word Politis meaning polished that is to say clear.
- A policy is the statement or general understanding which provides guidance in decision making to members of an organization in respect to any course of action.
- Features of policy- guidelines to the members of the organizations, it limits the area within which decisions are prepared, it is qualitative ,conditional and it is formulated at all levels, permanent features of organizations, long term.
- **Procedures-** a procedures prescribes the chronological sequence in which an activity should be performed to achieve the objective of the activity.
- **Methods-** it is defined as a prescribed manner for performing a given task with adequate consideration to the objective , facilities available, and total expenditures of time ,money and effort.
- **Rules-** It is prescribed guide for conduct or action. Rules are plan as they are a course of action which is chosen from among the alternatives. A rules provides definite action to be taken or not taken with respect to a situation.
- **Project-** It is a single use plan which can be thought of in terms of planned actions integrated into a unity and designed to bring about a stated objectives. It is a scheme for investing resources which can be analyzed and appraisal reasonably and independently.
- **Budget-** A budget is a kind of single use plan of expected results expressed in numerical terms. These results are expected to be

achieved within specified time period which is generally 1 year. The term budget has been derived from the French word bougette denoting a leather pouch in which funds are appropriate for meeting anticipated expenses.

- Types of budget-

1) **Master or summary budget**- It is prepared for the entire organization and includes sales, production budget, cash budget etc.

2) **Functional budget-** It is prepared keeping in mind different types of functions of organizations.

3) **Capital and revenue budgets-** capital expenditures whose returns accrue over a number of years, revenue budget involves the formulation of targets for a year.

4) **Long term and short term budget-** long term budget for 2-3 years and short term budget less than 1year or 1 year.

5) Fixed or static and variable budget

- Types of Budgeting-

1) **Performance or Programme budgeting -** It is an input output budget or costs and results budget. It shows costs matching with operations. Programme budgeting measures total cost of programmes or activities, performance budgeting measures both cost and activities. It is useful for evaluating past performance & for planning future activities. It emphasizes non-financial measures of performance which can be related to financial measures in explaning changes & deviations from planned performance.

2) **Zero base budgeting- It** is in both business and non-business budgeting. It is based on a system where each function, irrespective of the fact whether it is old or new, must be justified in its entirety each time a new budget is formulated. It requires each manager to justify his entire budget in detail from scratch that is zero base.

3) **Strategic budgeting-** It is used as a tool of resource allocation to various strategic business units and other units of an organizations.

- **Decision making-** The word decision has been derived from the Latin word decider which means a cutting away or cutting off.
- The decision involves cut off alternatives between desirable and undesirable.
- Decision making is a process to arrive at a decision, the process by which an individual or organization selects one position or action from several alternatives.
- Decision making includes three aspects of human behavior –

1) Cognition- activities of mind associated with knowledge.

2) Connation- willing, desire

3) Affectation- emotions, feelings.

- **Features of decision makings-**

1) Most desirable alternative is chosen

2) Freedom to choose alternatives.

3) Not completely rational but emotional and judge mental too.

4) Goal directed

- Types of decision making-

1) Programmed decision making

2) Non programmed decision making

3) Strategic decision making

4) Tactical decision making.

- **Programmed decision making-** It is a routine, repetitive and are made within the framework of organizational policies & rules.

Policies and rules are prepared in advance. It is static& well structured, short term and made by lower level of managers.

- **Non programmed decision making-** It is for solving unique & unusual problems and alternatives and are not made in advance. It is not well structured, non-recurring, dynamic, uncertain and prepared by the higher level managers.
- **Strategic decision making-** It is just like non-programmed decision making.
- **Tactical decision making-** It is just like programmed decision making. It relates to day to day operations of the organization & has to be taken frequently, repetitive and narrow part of an organization.
- **Decision making process involves**- specific objectives> problem identification (diagnosis /analysis) > search for alternatives> evaluation of alternatives> choice of alternatives> action>result> feedback.
- Actual process of decision making ends with the choice of alternatives.
- Effective decisions- action oriented, goal oriented, efficiency in implementation.
- **Techniques for improving group decision making-**

1) **Brainstorming** – it is given by Osborn. Technique to stimulate idea generation for decision making. Using the brain to storm the problem. It is a conference technique by which a group attempts to find a solution for a specific problem by amassing all the ideas spontaneously contributed by its members. 10-15 persons are needed. Each member is asked to give ideas through which the problem can be solved. Emphasis on the quantity of ideas & quality may follow later. It is useful for all types of decisions, it is more useful for simple well defined problems.

2) **Nominal group technique**- It is structured group meeting which restricts the verbal communication among members during decision making process. Each member writes down his ideas silently and independently & presents his best single idea on the problem. It is widely used in health service, industry, education and government organization.

3) **Delphi technique**- The name Delphi indicates a shrine at which the ancient Greeks used to pray for information about the future. In this members do not have face to face interaction for group decision. The decision is arrived at through written Consensus mapping communication in the form of filling up questionnaires often through mail. It is a time consuming process.

4) - It tries to pool the ideas generated by several task subgroups to arrive at decision. The technique begins after a task group has developed clarified & evaluated a list of ideas. Strawman map- consolidation of different schemes developed by subgroups into a representative scheme that act as a Strawman map. Members work to revise Strawman map until the whole group arrives at a single, consolidated map & final decision.

- Rational – Simon has described it appropriate means are chosen to reach desired ends, the decision is rational.
- Kepner & Tregoe have suggested approach to managerial problem solving and decision making.
- Non quantitative and quantitative bases for decision making-
- Non quantitative as follows-

1) Intuition – uses of hunches, inner feelings or gut feelings to make decisions, its just a way to feel about it.

2) Facts – excellent basis on which decisions can be made.

3) Experience- To draw assistance from past.

4) Considered opinion – It uses logic which is made explicit and derived from careful analysis of the situation.

- Quantitative as follows-

1) Operations research

2) Decision tree

3) Linear programming

4) Game theory

5) Queuing theory or waiting line theory

➢ **Operations research**- It is the application of specific methods, tools, and techniques to operations of system with optimum solution to the problems.

➢ **Decision tree**- It is a graphical method for identifying alternative actions, estimating probabilities and indicating the resulting expected pay off. Some decisions involve a series of steps, the second step depending on the outcome of the first, the third depending on the outcome of the second and so on. Often uncertainty surrounds each step, so the decision makes faces uncertainity piled on uncertainty. This graphical form visually helps the decision maker view his alternatives & outcomes.

➢ **Linear programming**- It is a mathematical technique for the purpose of allocation of limited resources in an optimum manner.

➢ **Game theory**- As outcomes depends not only on his own actions but also on the actions of others. It is simply logic of rational decisions. It is a science of conflict. The basic objective of game theory is to provide a basis for making decisions in the light of actions taken by the competitors. It is used in elections, marketing strategies and military.

➢ **Queuing theory or waiting line theory-** It involves the mathematical study of queues or waiting lines. A group of items waiting to receive service, including those receiving the service is known as queues. It helps in achieving the balance between the costs associated with waiting time and idle time. This theory helps in arriving at a decision about the provision of optimum facilities.

## ORGANIZING

### ORGANIZING

➢ Organizing involves analyzing of activities to be performed for achieving organizational objectives, grouping these activities into various divisions, departments and sections so that these can be assigned to various individuals & delegating them appropriate authority so that they are able to carry on their work effectively.

➢ Organizing includes following elements- departmentation, linking departments, defining authority & responsibility, prescribing authority relationships.

➢ Organization structure establishes relationship between people and work within which managerial and operating tasks are performed to achieve organizational objectives.

➢ Cybernetics involves communication and control it relates to the connation direction of.

➢ Factors affecting organization structure-

1) Environment
2) Strategy (give direction to a plan)
3) Technology
4) Size
5) People

➢ **Span of management** – It means number of subordinates which should be put under one superior or it refers to the number of subordinates who can be managed effectively by a superior. It is also known as span of control and span of supervision. Number of subordinates reporting to a superior is fixed.

➢ Factors affecting span of management-

1) Capacity of superiors
2) Capacity of subordinates
3) Nature of work
4) Degree of decentralization
5) Degree of planning
6) Communication techniques
7) Use of staff assistance
8) Supervision from others

- **Wide or narrow span of management**

| Wide/flat/horizontal | Narrow/tall/vertical |
|---|---|
| ➢ Modern approach<br>➢ Causes flat or horizontal structure<br>➢ Supervisory personnel is required very less<br>➢ Decentralization<br>➢ Democratic styles<br>➢ Employees centered | ➢ Classical approach.<br>➢ Causes tall or vertical structure.<br>➢ More supervisory personnel required.<br>➢ Centralization.<br>➢ Autocratic style.<br>➢ Boss centered. |

- **Departmentation**- The process of identification of activities and group them properly is known as Departmentation.
- Departmentation such as divisions, departments, sections, branch, bureau. In military – battalion, group, company use.
- Importance of Departmentation-

1) Advantages of specialization

2) Fixation of responsibility

3) Development of managers

4) Facility in appraisal

5) Feeling of autonomy (freedom of action)

- **Bases of Departmentation**-

1) Function- basic or organic functions and secondary functions (includes both line & staff function). The grouping of common or homogenous activities to form an organizational unit.

2) Product – It involves grouping together of all activities necessary to produce a product or product line.

3) Territory- It is useful to large sized organizations having activities which are physically or geographically spread such as banking, insurance, and transportation.

4) Process- various types of equipment's are used.

5) Customer

6) Time

7) Alpha numerical (military)

- Design of organization structure- It is the totality of both formal and informal relationships.

| ➢ **Formal organization-** | ➢ Informal organization- |
|---|---|
| 1) Structured.<br>2) Designed by top management.<br>3) Concentrates more on the performance of the job.<br>4) Official.<br>5) Focus on positions.<br>6) Centralization. | 1) Not structured.<br>2) Also known as informal group.<br>3) Design by middle & low level management.<br>4) Concentrates more on relations.<br>5) Membership is voluntary (a person may become member of several informal organization at the same time).<br>6) Non official.<br>7) Focus on persons.<br>8) Decentralization. |

- **Forms of organizations structures-** Henery Mintzberg has given a different scheme of classification of organization structures.
- There are seven types of organizations structure-

1) Line (includes pure line organization structures and department line organization structures)

2) Line and staff

3) Functional

4) Divisional

5) Project

6) Matrix

7) Team based

8) Free form

- **Line organizations structures-** It is also known as scalar, military or vertical organization. It is the oldest form of organization structures. There must be a single head who commands it. It is divided in to two -1) pure line organization structures- In this similar activities are performed at a particular level. 2) Departmental organization structure- entire activities are divided into different departments on the basis of similarity of activities. Each department is placed under one department head. Lines of authority and instructions are vertical, that is, they flow from top to bottom. Line organization follows scalar chain method of communication it means that communication going up & down will pass through the immediate superior. Line organization is based on autocratic approach, vertical relationship, and downward communication. Line organization is suitable for small scale organizations.

- **Line & staff organization structure**- line are the managers and staff are the specialists (advisor). It refers to a pattern in which staff specialists advise managers to perform their duties. Advices are provided to line managers by staff personnel who are specialists in their fields. It is suitable for large organizations.

- **Functional organization structures**- It is created by grouping the activities on the basis of functions required for the achievement of organizational objectives. It is widely used in medium & large organizations. It works better if the organization has one major product or similar product lines.

- **Divisional organizations structures**- It is also known as profit decentralization. Growth through geographic & product diversification. Three divisions are there 1) product divisionalization 2) territorial divisionalization 3) SBU (strategic business unit) –In multi-product or multi geographical area companies, divisions are created in the form of various strategic business units. It is suitable to organizations having several products with each product having distinct features or for organizations having coverage of wide geographical area or having distinct market segments. It is very costly too.

- **Project organization structures** – pure project organization is suitable for taking small number of larger projects with long duration so that a separate division can be created for each project. It is created for the life time of a project. When a particular project is completed the concern division may disappear.

- **Matrix organization structure**- It is a violation of unity of command. Matrix organization is suitable for taking large number of smaller projects & the activities of various projects can be accomplished through temporary departments. It is the realization of two dimensional structure which emanates directly from two dimensions of authority. Two complementary structures pure project structures & functional structures are merged together to create matrix structures. Each functional department has two bosses- administrative head & project manager. Internal environment related. Matrix structure applied in various types of activities – manufacturing, service, and professional activities, non -profit organizations, Gov. agencies, United Nations & universities.

Limitations are power struggle, develop anarchy- people have to work under multiple command, busy in internal problems so find less time for external affairs.

- **Team based organization**-A team is a small number of people with complementary skill who are committed to a common purpose, performance, goals & approach for which they hold themselves mutually accountable. Three types of skills are required in a team-1) technical or functional skills 2) problem solving skills & decision making skills 3) interpersonal skills. Teamwork is essentially a mind -set which requires a complete mental revolution from individual orientation to collective orientation from individual contribution to collective contribution & from individual rewards to collective rewards. A feeling is generated among team members that no one is authorized to direct others & no one is in the team to be directed by others. if team performs well ,credit goes to all & if it performs worse than all members share responsibility for that.
- **Types of team-**

1) Problem solving team

2) Cross functional team

3) Self managing team

4) Virtual team( not face to face. Communications through technology)

## COMMITTEE

- The word committee means those to whom some matter or charge is committed.
- A committee is a group of persons in an organization for making or recommending certain decisions.
- Minimum 2 persons and maximum no limit.
- Committee is charged with dealing with specific problems and it cannot go in for actions.
- A committee have the authority to make a final decision but it cannot go in for actions.
- Various committee such as finance, budget, purchase, grievance, welfare committee.
- A committee works on theme that two heads are better than one.
- Reasons for use of committee-

1) Pooling of knowledge & experience

2) Facility of coordination

3) Representation of interest groups

4) Fear of too much authority in a single person

5) Consolidation of authority

6) Transmission and sharing of information

7) Motivation through participation

8) A tool of management development

9) Avoidance of action

- **Problems in committee**

1) High cost

2) Slow decisions

3) Indecisions

4) Minority tyranny

5) Splitting of responsibility

6) Misuse of committee

- **Measures for making committee effective**

1) Appropriate size

2) Selection of members

3) Well defined authority and scope

4) Nature of subject matter

5) Effective chairman

6) Logical procedure for conducting meetings

7) Circulation of minutes

8) Cost considerations

- **Task force**- It is made up of a group of people with different backgrounds who are assigned a specific task or mission. The tenure of a task force is over when the task force or mission is over. Membership in the task force is temporary. It is similar to an adhoc committee. It has a broader power of action & decisions.
- **free form organization**- It is also known as naturalistic, organic, adhoc organization. It is in the form of a rapidly changing adaptive, temporary system, organized around the problems to be solved by a group of people who may be stranger to each other & have diverse professional skills.
- **Virtual organization**- It is also known as networked organization or modular organization. It is a temporary network of independent companies- suppliers, customers, even erstwhile rivals linked by information technology to share skills, costs and access to one another's market. It will have neither central nor organization chart. It will have no hierarchy, no vertical integration, and telecommunication department, temporary.
- **Synergy**- It is the process of putting two or more elements together to achieve a sum total greater than the sum total of individual elements separately.
- **Boundary less organizations**- It is coined by jack welch. It is also known as T form (technology based organization). It seeks to eliminate vertical & horizontal boundaries in the organization as well as the boundaries between the organization & its customers & suppliers. It deemphasizes chain of control, span of control, & rigid Departmentation. It relies on information technology & self - managing teams.

## POWER AND AUTHORITY

- **Power –** It refers to a capacity that A has to influence the behavior of B so that B does something he or she would not otherwise do. It is means of influence in different ways.
- Types of power

1) **Positional power (formal)** – It includes legitimate (lawful) power, reward (in form of salaries etc. ) power, coercive(forceful by harm) power, Information power. Positional power emerges from a position that individuals holds in an organization.

2) **Personal power (informal)-** It includes expert(knowledge is power) power, referent power, charismatic( enduring qualities)power. It emerges from the qualities that are unique. Referent power based on identification. It is the process of learning wherein a person copies the behavior of other person whom he takes an ideal.

- **Authority-** It is legitimate rights of a position holder to give orders to others& get these orders obeyed. Order is legitimate i.e. socially ethically acceptable to all concerned. Basic objectives of use of authority is to influence the behavior of the subordinates in terms of doing right things time so that organizational objectives are achieved.
- Three types of authority-

**1) Formal authority**- It holds that the authority inherent in a managerial position is achieved by delegation from the higher position.

**2) Acceptance authority-** role behavior authority.

**3) Competence authority-** personal qualities.

- **Limits of authority** – authority is limited only to his span of management. There are many types of limit such as biological limit, economic, technical limits. A manager can only use the authority which is specifically delegated to him.

- Authority and power are used interchangeably because of the common objective of influencing the behavior of people on whom these are exercised.
- There is a difference between authority and power as, authority is the right to command whereas power is the capacity to command.
- **Responsibility-** It is a duty or activity assigned to an individual in an organization. It is the obligation of an individual to perform activities or duties which are assigned to him. Responsibility is the obligation of a person t perform assigned activities to the best of his ability.
- **Accountability-** It implies that a subordinate is accountable to his superior for the successful performance of total activities assigned to him whether he performs these activities on his own get some of the activities performed by his subordinates. It flows upward.
- **Principle of parity of authority and responsibility** – It suggest that authority of a person should match his responsibility. Authority is the discretionary right to carry out assignment and responsibility is the obligation to accomplish. Its logically follows that 30 the authority should correspond to responsibility. Lack of parity means to delegate authority inadequately.
- **Delegation of authority**- Assignment of activities to various managers creates responsibilities and order to carry out these responsibility managers need appropriate authority. Delegate means to grant or confer. A manager simply does not delegate authority, he delegates authority to get certain work accomplished. By means of delegation the manager extends his area of operations. In delegation subordinates receiver authority from his superior, but at the same time, his superior still remains all his original authority. It just like imparting knowledge. Authority once delegated can be enhanced, reduced or withdrawn depending on the situation& requirement. A person exercise an authority so long as he holds the position. A superior cannot delegates his full authority.
- A manager only delegates his authority to reduce burden from his shoulder and to concentrate on some other works also.
- Steps in delegation of authority- 1) Determination of results expected 2) Assignment of duties 3) Authorization for action 4) Creation of obligation
- **Principles of delegation**- delegation by results expected, functional definition, clarity of lines of authority (it includes scalar chain and unity of command) ( scalar chain refers to the chain of direct authority relationship from the superior to subordinates throughout the organization. Unity of command refers to a single superior & should receive instructions from the single superior) level of authority, absoluteness of responsibility, parity of authority & responsibility.
- Centralization and decentralization is the degree of delegation of authority. Not absolute centralization nor decentralization.

| ➢ **Centralization** | ➢ **Decentralization** |
|---|---|
| **1) Concentration of authority.** | **1) Dispersion of authority.** |
| **2) It refers to the reservation of authority at the top level of the organization.** | **2) It refers to the systematic delegation of authority in the organization.** |
| **3) Formal.** | **3) Informal.** |
| **4) Suitable for smaller organization.** | **4) Suitable for large organization.** |
| **5) Vertical from top to down approach.** | **5) Horizontal equal level.** |

- **Authority relationships** – It includes line & staff authority.
- **Line & staff authority**- line functions are those that are related directly with the attainment of the organizational objectives. Staff functions are those that help line functions in attaining the objectives.
- **Line authority**- It is defined as a direct authority which a superior exercises over his direct subordinates to carry out his direct subordinates to carry out orders and instructions. The exercise of this authority is always downward i.e. from superior to subordinate.
- Staff authority involves giving advice to line managers to carry on the operations. The flow of this authority may be in any direction depending on the need of such an advice. Types of staff authority includes advisory, functional, concurring, control staff authority.
- **Line authority-** (**Barnard)** The direct relationship between a superior and subordinate relationships in the organization. A line authority is the heart of this relationship because it entitles a superior to direct the work of his subordinate. Line authority includes chain of command, chain of communication, and chain of responsibility.
- An advisory staff manager studies the problems, offers suggestions and prepares plans for the use and help of line managers. He provides advice, assistance & information & recommend to line managers.

- **Depiction of authority relationship-** there are two methods 1) Organization chart- It is diagrammatical form which shows the major functions & their respective relationships, the channels of formal authority and the relative authority of each manager who is in charge of each respected functions. It shows a formal relationships divided into master chart and supplementary chart. It is top down, vertical, left or right chart, horizontal, circular chart. 2) Organization manual- It is small book containing information about the organizational objectives, authority & responsibility of various positions, methods & procedure followed.
- **Conflict-** they cause damage to the organization. It includes disagreement, contradiction & incompatibility.
- **Co-ordination is the essence of management-** It involves the integration of human efforts for achieving the goals which is not a particular function but the basic objective of all managerial functions.

## SCIENTIFIC MANAGEMENT

- This concept was introduced by F W Taylor ( Frederick Winslow Taylor 1856-1915)
- Scientific management is concerned with knowing exactly what you want men to do and then see in that they do in the best and cheapest way.
- F W Taylor is also known as the Father of Scientific Management.
- It is basically traditional approach.
- He carried experiments about hoe to increase the efficiency of people.
- Tailors contribution is divided into two parts –

1) Elements and tools of scientific management
2) Principles of scientific management

- Elements and tools of scientific Management- It includes-

1) Separation of planning and doing.
2) Functional foremanship (against unity of command).
3) Job analysis (it includes motion study, time study and fatigue study).
4) Standardization.
5) Scientific selection and training of workers.
6) Financial incentives.
7) Economy.
8) Mental revolution (mutual co -operation between managers and workers)

- **Principles of scientific Management-**

1) Replacing rule of thumb with science (organized knowledge should be applied).
2) Harmony in group action.
3) Cooperation.
4) Maximum output.
5) Development of workers.

- The worker was put under the supervision of a supervisor commonly known as gang boss.

## 14 PRINCIPLES OF MANAGEMENT

- Henry Fayol has given the fourteen principles of management.
- He has made a distinction between management principles and management elements.

- Management principles is a fundamental truth and establishes cause effect relationships while management element denotes the function performed by a manager.
- Principles are flexible not rigid.
- **Fourteen principles are as follows-**

1) Division of work

2) Authority and Responsibility

3) Discipline

4) Unity of command (superiors get orders from one head only)

5) Unity of direction (one plan one head)

6) Subordination of individual interest to general interest

7) Remuneration of personnel

8) Centralization

9) Scalar chain

10) Order (right man at right place)

11) Equity (justice and kindness)

12) Stability of tenure

13) Initiatives (thinking i=out and execution of plans)

14) Espirit de corps (unity is strength)

- Scalar chain of authority and of communication ranging from highest to the lowest must flow through each position in the line of authority.
- Gang plank is used to prevent scalar chain from bogging down actions.

## DIRECTING/LEADING

- **Marshall Dimock** has called directing is the heart of administration.
- Directing is the process of instructing, guiding, counselling, motivating & leading the human resources to achieve organizational objectives.
- It guides, motivate, inspire.
- Features of directing-

1) Important managerial functions

2) Performed at every level of management

3) It is a continuous process

4) Top to down level in the organization

5) It has dual objectives-

1) It aims at getting things done by subordinates.

2) To provide superiors opportunities for some more important work which their subordinates cannot do.

- **Importance of Directing-**

1) Initiation of actions

2) Integration of employee's effort.

3) Getting maximum out of individuals.

4) Facilitating changes in the organization.

5) Providing stability & balance in the organization.

- **Principles of directing**

| Relating to purpose of direction | Relating to direction process |
| --- | --- |
| 1) Principle of maximum individual contribution.<br>2) Principle of harmony of objectives.<br>3) Principle of efficiency of direction. | ➢ Principle of unity of command<br>➢ Principle of appropriateness of directional technique<br>➢ Principle of managerial communication<br>➢ Principle of comprehension (correct information)<br>➢ Principle of use of informal organization<br>➢ Principle of leadership<br>➢ Principle of follow theory |

- Principle of appropriateness of direction technique - three direction techniques includes authoritarian, consultative & free rein it can be used in the most appropriate time.

- Direction and supervision - supervision is used as an element of direction & therefore every manager in the organization performs the function of supervision irrespective of his level in managerial hierarchy.

- The scope of supervision is much more limited as compared to that of direction which includes motivating and leading employees & communicating with them besides guiding them. It is used to denote the functions performed by supervisor. It includes all supervisory functions planning, organizing, directing, staffing & controlling. Thus supervision become much wider than directing.

- **Elements of effective supervision**-

1) Leadership (high morale, high productivity)

2) Closeness of supervision (successful supervisors follow the less close supervision)

3) Employee oriented or human relations (successful supervisor, employee oriented)

4) Group cohesiveness (it is a group situation in which all member's works together for a common goal)

5) Delegation- appropriate delegation leads to high productivity in the organization. Effective supervision implies adequate delegation

- Order giving - it is one of the most important elements of direction. Management gives orders & instructions to subordinates as to how the work should be accomplished.
- Order is defined as a directive to subordinates as to what is to be done or not to be done in the execution of work for achieving organizational objective.
- General/specific order, written/oral, formal/informal, timing, follow up of orders.
- Techniques of direction 1) Orders & instructions 2) Follow up orders & instructions 3) Standard practices & procedures 4) Behavioral pattern

**CONTROLLING**

- Controlling is the process of evaluating actual performance and if necessary taking corrective actions so that the performance is in accordance with planned performance.
- Controlling is related to planning.
- **Features of controlling-**

1) It is a forward looking after measuring the past performance.

2) It can take corrective actions.

3) Executive process (each manager has to perform controlling functions in an organization)

4) It is a continuous process.

5) It is a co-ordinated integrated system.

- It is said that planning is the basis, action is the essence, delegation is the key & information is the guide control.
- **Importance of controlling-**

1) Adjustment in operations

2) Policy verification

3) Managerial responsibility

4) Psychological pressure

5) Co-ordination in action

6) Organizational efficiency & effectiveness.

- Steps in controlling- 1) Establishment of control standards 2) Measurement of performance 3) Comparing actual & standard performance 4) Corrective actions
- Types of control- based on elements-

1) Strategic control 2) operational control, based on stages- 1) feedback control 2) feed forward control 3) concurrent control.

- **Strategic control**- It is the process of taking into account the changing planning premises, both external & internal to the organization, on which the strategy is based, continuously evaluating the strategy as it being implemented and taking corrective actions to adjust the strategy to the new requirements.
- **Operational control**- It is concerned with action or performance and is aimed at evaluating the performance of the organization as a whole or its different components, SBU (strategic business units), divisions and departments.
- Strategic control 1) External environment 2) Long term 3) Exclusive by top management, may be through lower level support.
- Operational control 1) Internal environment 2) Short term 3) Exclusive or middle management on the direction of top management.
- **Controlling and Management By Exception-** This principle allow managers to detect those places where their attention is required and should be given. This implies the use of management by exception particularly in controlling.
- Management by exception is a system of identification and communication that signals to the manager when his attention is needed.
- Management by exception has six basic ingredients- 1) Measurement 2) Projection 3) Selection 4) Observation 5) Comparison 6) Decision making
- Various areas where percepts of management by exception are used such as statistical control of product quality, economic order quantities & order points for control of inventories & suppliers, break even points for determining operating levels, trends in ratios of indirect to direct labor used in apportioning overhead, attitudes surveys for gauging employee morale.
- Management by exception is useful because- 1) Saves time because it looks after only on fewer problems which are important.

2) Concentrate on major problems 3) It identifies crisis & critical problems 4) It alerts management to appraise opportunities as well as difficulties. 5) It provides qualitative & quantitative yardsticks for judging.

- Operational control techniques- control techniques also known as control tools or control aids.
- Operational control is exercised at the level of various operating units by the concerned operating managers while overall control is exercised by top management of the organization.
- In an operating system there are two aspects where control is required-

1) Financial aspects known as financial control

2) Operating mechanism of the system known as operating control.

- **Financial control**- In this outcomes are expressed in monetary terms. Budget is used to exercise control at operative level while budget summary is used to exercise control at overall organization level.

- The major financial control techniques are-

1) Budgetary control

2) Control through costing

3) Break even analysis

4) Responsibility accounting

5) Internal audit

1) **Budgetary control**- It is a system of controlling costs which includes the preparation of budgets ,co-ordinating the departments and establishing responsibility comparing actual performance with budgeted and acting upon results to achieve maximum profitability.

- Budgetary control as a tool for planning, act as a tool for control, act as an aid to coordination.

2) **Control through costing**- It involves the control over costs in the light of certain predetermined costs usually known as standard costs. Standard costs are pre-determined operations costs computed to reflect quantities prices & level of operations.

3) **Break even analysis-** It is concerned with cost volume profit relationships. Set of relationships of fixed cost, variable cost, price, sales mix to the profitability of the organization.

- BEP = FC/Contribution (fc/sp-vc) fc= fixed cost, vc= variable cost, sp= selling price, BEP= break-even point.
- Margin of safety= total sales- BEP sales
- Profit= sales- total cost/ total contribution-fc
- BEP= neither profit nor loss
- Learning curves implies that an organization is able to reduce its costs because of the improvement in production operations process.

4) **Responsibility accounting**- The use of responsibility accounting focuses attention on management by objectives (MBO) rather than management by domination. Each person is responsible for his effective control, he must know what his costs should be and what his costs were. Three types of responsibility centers are there- 1) cost centers 2) profit centers 3) investment centers

5) **Internal audit-** It is also known as operational audit. It is much more wider or broader in scope & encompasses the whole range of activities of the organization. Thus internal audit in addition to ensuring that accounts properly reflect the facts, als appraises policies, procedures, use of authority, quality of management, effectiveness of methods, special problems & other options of operations.

- Operating Control- It is closely linked to concurrent control i.e exercise of control during the operating process itself. Three types of operational control are- 1) Quality control 2) Cost control & inventory control 3) Time event network analysis. 1) Quality Control- Quality is a sense of appreciation that something is better than something else. Quality means focusing on the production of increasingly better products & services at progressively more competitive prices.

- **Techniques of quality control**-

**1) SQC (Statistical quality control)** – It is also known as statistical process control. It is a method of measuring & continuously improving work process before the final inspection of the product. It is a preventive & remedial method. It is based on the theory of sampling which implies that the analysis of few items out of the total production can be used to understand the features of the entire population. It measures the product quality by taking sample for inspection during the production process. It produce large volume of the product.

**2) Inspection Control-** It is applied at the stage of raw materials as well as at the stage of finished products or in between. It may be done either for the raw materials which are in the form of finished products resulting from the completion of production process. Inspection is done by comparing the quality of the product to the standard, commonly known as specifications by means of visual or testing examination.

**3) Quality control through quality circle**- concept of quality circle emerged from quality control. Japanese system of management integrated quality control with manufacturing department which give rise to the idea of quality control circle or simple quality circle.

- It is a group of employees that meets regularly to solve problems affecting its work area.
- Six to twelve volunteers from same work area make up the circle.
- It recommends solutions for quality & productivity problems which may be implemented by management.
- It can be made a permanent feature of organization. (Voluntary)
- Steering committee the highest level serves as advisory body of quality control.
- Brainstorming methods are used for problem solving.

**2) Inventory control**- Inventory control tries to specify the optimum level of inventory that an organizations should keep with itself. In 1970 a Japanese introduced the concept of just in time inventory system (JIT) known as kanban. The basic theme of this system is to have no inventory.

- Generally there are two techniques of inventory control-

1) ABC Analysis

2) Economic order quantity

1) ABC Analysis- Synder has given this. It is widely used technique for classifying different items. This technique uses the values of different types of inventory for their classifications.

- A = High value, low number (more attention)
- B= Average value, average number ( average attention)
- C= low value, high number ( low attention)
- So ABC Analysis provides clue where attention should be focused in inventory control.

2) Economic order quantity- It includes ordering cost, carrying cost.

- EOQ= √2so/Đ ; s= total quantity, o= ordering cost, c= carrying cost)
- Safety stock- The estimation of safety stock that an organization should keep regularly to continue its operation uninterruptedly.

3) **Time event network analysis**-Programme or project completed within the stipulated time. Time element is one of the most significant consideration because if the project is not completed within the specified time the organization has to pay heavy penalty. There are three techniques of time event network analysis-

1) Gantt chart

2) PERT/CPM

3) Milestone budgeting

**1) Gantt chart –** It is developed by Hennery Gantt. He recognized that total Programme goals should be regarded as a series of interrelated derivative plans that people could comprehend & follow. He said some of the activities were independent of others while some of the activities were dependent on others. It is indicated that two or more activities which have sequential relationship must be completed in that order. It shows relationships among two activities.

**2) Milestone budgeting** – It is also known as milepost budgeting. A project that can be completed individually in a time sequence, to be ready when needed. It establishes relationships between two or more segments of a project.

**3) PERT/CPM** – PERT (Programme evaluation and review technique) CPM (critical path method) .There is a difference between PERT and CPM in accordance of duration of activity. CPM assumes duration of every activity to be constant. PERT assumes uncertainty in the duration of activities by three parameters- 1) Most optimistic – activities in which least time taken 2) Most likely – most probable time 3) Most pessimistic – maximum time.

- PERT/ CPM is used either to minimize total time, total cost, cost for a given total time, time for a given cost or minimize idle resources**.**
- **Process of PERT/CPM –** Identification of activities> sequential arrangement> time estimates of activity> network construction> critical path.
- **Advantages of PERT/CPM-** For top level manager, solving problems of scheduling the activities, it presses for right action at right point & at right time in the organization.
- Disadvantages of PERT/CPM- Activities are of non -repetitive type, not useful for routine planning of recurring events.

# CORPORATE GOVERNANCE

- Corporate governance is about promoting fairness, transparency and accountability
- A code of corporate governance contents the compositions of board of directors, disclosure of information and management practices.

# BUSINESS ETHICS

- It refers to a set of moral principles which play a significant role in guiding the conduct of personnel in the operation of any business organizations.
- It is concerned with what is right or wrong in human behavior.
- Ethical dilemma- it is a complex situation in which there are not clear cut guidelines for ethical or unethical behavior.
- Values are convictions and a framework of philosophy of an individual on the basis of which he judges what is good or bad, desirable or undesirable, ethical or unethical.
- Attitudes are pre dispositional, based on this, an individual responds in a positive or negative way in his environment.

**MISCELLANEUS PONITS**

**1. Administered Vertical Marketing System: An arrangement that coordinates distribution activities through the market and/or economic power of one channel member or the shared power of two channel members.**

**It can also be said that, it is a system in which the channel members, while retaining much of their autonomy, are informally coordinated in their marketing activities by the dominant member of the channel. Dominance is achieved through the exercise of political or economic power rather than through outright ownership.**

**Contractual Channel System / Contractual Vertical Marketing System: A system in which independent channel members at two or more levels have entered into formal agreements to coordinate their marketing efforts in an attempt to take advantage of the economies of scale. Contractual vertical marketing systems are generally of three types: i. Voluntary chains, ii. Retail cooperatives, and iii. Franchisee operations.**

**Corporate System / Corporate Vertical Marketing System: A system in which a large corporation controls two or more levels of a marketing channel. For example, a manufacturer may own the distribution facilities for his product as well as the retail outlets through which it is sold.**

**2. Advertising: All activities involved in presenting to an audience a nonpersonal, sponsor-identified, paid-for message about a product/service of an organization.**

**3. Advertising Agency: An independent company that provides specialized advertising services and may also offer more general marketing assistance.**

**4. Advertising Media: The communication vehicles (such as newspapers, radio, television etc) that carry advertising as well as other information and entertainment.**

**5. AIDA: A sequence of steps in various forms of promotion, notably personal selling and advertising, consisting of Attention, holding Interest, arousing Desire, and generating buyer Action.**

**6. Marketing Plan: A written document that presents the master blueprint for a year's marketing activity for a specified organizational division or major product.**

**7. Automatic Vending: A form of nonstore retailing where the products are sold through a machine with no personal contact between the buyer and seller.**

**8. Banner Ad: A boxed-in promotional message often appearing at the top of a web page.**

**9. Behavioural segmentation**: Market segmentation based on consumers' product-related behaviour, typically the benefits desired from a product and the rate at which the consumer uses the product.

**10. Brand:** A name and/or mark intended to identify and differentiate the product of one seller or a group of sellers.

**11. Brand mark**: The part of a brand that appears in the form of a symbol, design, or distinctive colour or types of lettering.

**12. Brand Name**: The part of a brand that can be vocalized-words, letters, and/or numbers.

**13. Broker**: A middleman who brings buyers and sellers together and provides market information to either party and that ordinarily neither physically handles products being distributed nor works on a continuing basis with those sellers or buyers.

**14. Business Analysis**: It is one of the stages in the new product development process which consists of several steps to expand a surviving idea into a concrete business proposal.

**15. Buying Motive**: The reason why an individual or an organization buys a specific product or makes purchases from a specific firm.

**16. Channel Conflict**: A situation in which one channel member perceives another channel member to be acting in a way that prevents the first member from achieving.

**17. Comparative Advertising**: A form of selective-demand advertising in which an advertiser either directly (by naming a rival brand) or indirectly (through inference) points out the differences among competing brands.

**18. Consumer buying-decision process**: The series of logical stages, which differ for consumers and organizations, that a prospective purchaser goes through when faced with a buying problem.

**19. Cost-plus pricing**: A major method of price determination in which the price of a unit of a product is set at a level equal to the unit's total cost plus a desired profit on the unit.

**20. Countertrade**: An arrangement under which domestically made products are traded for imported goods.

**21. Culture**: A complex of symbols and artifacts created by a society and handed down from generation to generation as determinants and regulators for human behaviour.

**22. Customer Relationship Management (CRM):** An ongoing interaction between a buyer and a seller in which the seller continuously improves its understanding of the buyer's needs, and the buyer becomes increasingly loyal to the seller because his needs are being so well satisfied.

**23. Decline stage**: The fourth, part of a product life cycle during which the sales of a product drops.

**24. Delphi Method:** A forecasting technique, applicable to sales forecasting, in which a group of experts individually and anonymously assess future sales, after which each member has the chance to offer a revised assessment as the group moves toward a consensus.

**25. Demand Forecasting**: The process of estimating sales of a product during some future period.

**26. Demographic segmentation**: Subdividing markets into groups based on population factors such as size, age, and growth.

**27. Department store**: A large-scale retail institution that has a very broad and deep product assortment, tries not to compete on the basis of price, and offers a wide array of customer services.

**28. Diffusion**: A process by which an innovation spreads throughout a social system over time.

**29. Direct distribution**: A channel consisting only of producer and final customer, with no middlemen providing assistance.

**30. Direct marketing**: A form of nonstore retailing that uses advertising to contact consumers who, in turn, purchase products without visiting a retail store.

**31. Direct selling: A form of nonstore retailing in which personal contact between a sales person and a consumer occurs away from a retail store. Sometimes called in-home selling.**

**32. Discount store: A large-scale retail institution that has a broad and shallow product assortment, low prices, and few customer services.**

**33. Distribution channel: The set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business user.**

**34. Drop shipper: A merchant wholesaler that does not physically handle the product being distributed, but instead sells merchandise for delivery directly from the producer to the customer. Same as desk jobber.**

**35. Early adopters: A group of consumers that includes opinion leaders, is respected, has much influence on its peers, and is the second group (following the innovators) to adopt an innovation.**

**36. Economic environment: A set of factors, including the business cycle, inflation, and interest rates, that affect the marketing activities of an organization.**

**37. 80-20 principle: A situation in which a large proportion of the total orders, customers, territories, or products account for only a small share of the company's sales or profit, and vice-versa.**

**38. Electronic Commerce: The buying and selling of goods and services through the use of electronic networks.**

**39. Family branding: A strategy of using the company name for branding purposes.**

**40. Family-life-cycle stage: The series of life stages that a family goes through, starting with young single people, progressing through married stages with young and then older children and ending with older married and single people.**

**41. First – mover advantage: Strategy of entering a market during the introductory stage of a product in order to build a dominant position; also called pioneer advantage.**

**42. Focus group: A preliminarly data gathering method involving an interactive interview of 4 to 10 people.**

**43. Franchising: A type of contracatual vertical marketing system that involves a continuing relationship in which franchiser (the parent company) provides the right to use a trademark plus various management assistance in return for payments from a franchisee (the owner of the individual business unit).**

**44. Gray marketing: Practice of buying a product in one country, agreeing to distribute it in a second country but diverting it to a third country; also called export diversion.**

**45. Geographic segmentation: Subdividing markets into groups based on geographic locations.**

**46. Label: The part of a product that carries information about the product and the seller.**

**47. Laggards: A group of tradition-bound consumers who are the last to adopt an innovation.**

**48. Leader pricing: A pricing and promotional strategy in which temporary price cuts are made on a few items to attract customers.**

**49. Mail survey: A method of gathering data by mailing a questionnaire to potential respondents, and asking them to complete it and return it by mail.**

**50. Market-aggregation strategy: A plan of action under which an organization treats its total market as a single segment – that is, as one mass market whose members are considered to be alike with respect to demand for the product – and thus develops a single marketing mix to reach most of the customers in the entire market. Same as mass market strategy and undifferentiated market strategy.**

**51. Market penetration strategy: A strategy in which the initial price of a product is set low in relation to the target market's range of expected prices.**

52. Market potential: The total sales volume that all organizations selling a product during a stated time period in a specific market could expect to achieve under ideal condition.

53. Market segmentation: The process of dividing the total market for a good or service into several smaller groups, such that the members of each group are similar with respect to the factors that influence demand.

54. Market share: The proportion of total sales of a product during a stated period of time in a specific market that is capturedby a single firm.

55. Market-skimming pricing: A strategy in which the initial price of a product is set high in relation to the target market's range of expected prices.

56. Nonstore retailing: Retailing activities resulting in transactions that occur away from a retail store.

57. Odd pricing: A psychological pricing strategy that consists of setting at uneven (or odd

58. Packaging: All the activities of designing and producing the container or wrapper for a product.

59. Perception: The process carried out by an individual to receive, organize and assign meaning to stimuli detected by the five senses.

60. Personal selling: The personal communication of information to persuade somebody to buy something.

61. Personal selling process: The logical sequence of prospecting, preapproach, presenting, and postsale services that a sales person takes in dealing with a prospective buyer.

62. Physical distribution: All the activities involved in the flow of products as they move physically from producer to consumer or industrial user. Same as logistics.

63. Positioning: A product's image in relation to directly competitive products as well as other products marketed by the same company. Alternatively, a firm's strategies and actions related to favourably distinguishing itself from competitors in the minds of selected groups of consumers. Same as product positioning.

64. Price: The amount of money and/or other items with utility needed to acquire a product.

65. Price competition: A strategy in which a firm regularly offers products priced aslow as possible, usually accompanied by a minimum of services.

66. Price war: A form of price competition that begins when one firm decreases its price in an effort to increase its sales volume and/or market share, the other firms retaliate by reducing prices on competing products, and additional price decreased by the original price cutter and/or its competitors usually follow.

67. Product life cycle: The aggregate demand over an extended period of time for all brands comprising a generic product category.

68. Product line: A broad group of products intended for essentially similar uses and having similar phyical characteristics.

69. Promotion: The element in an organisation's marketing mix that serves to inform, persuade, and remind the market of a product and/or the organization selling it in the hope of influencing the recipients' feelings, beliefs, or behaviour.

70. Promotional mix: The combination of personal selling, advertising, sales promotion, public relations, and publicity that is intended to help an organization achieve its marketing objectives.

71. Psychographic segmentation: Subdividing markets into groups based on personality dimensions, life-style characteristics, and values.

72. Publicity: A special form of public relations that involves any communication about an organization, its products, or its policies through the media that isnot paid for by the sponsoring organization.

73. Public relations: Communication efforts that are designed to favourably influence attitudes toward an

**organization, its products and its policies.**

**74. Pull strategy: Promotional effort directed primarily at end users so they will ask middlemen for the product.**

**75. Push strategy: Promotional efforts that directed primarily at middlemen that are the next link forward in the distribution channel for a product.**

**76. Reference group: A group of people who influence a person's attitudes, values and behaviour.**

**77. Repositioning: Reestablishing a product's attractiveness in the target market.**

**78. Retailing: The sale, and all activities directly related to the sale, of goods and services to ultimate consumers for personal, nonbusiness use. Same as retail trade.**

**79. Sales forecast: An estimate of probable sales for one company's brand of a product during a stated time period in a specific market and assuming the use of a predetermined marketing plan.**

**80. Sales potential: The portion of market potential that a specific company could expect to achieve under ideal condition.**

**81. Sales promotion: Demand-stimulating devices designed to supplement advertising and facilitate personal selling.**

**82. Service: An identifiable, intangible activity that is the main object of a transaction designed to provide want satisfaction to customers.**

**83. Service quality: The degree to which an intangible offering meets the expectations of the customer.**

**84. Situation analysis: The act of gathering and studying information pertaining to one or more specified aspects of an organization. Alternatively, a background investigation that helps in refining a research problem.**

**85. Social class: A division of, or ranking within, society based on education, occupation, and type of residential neighbourhood.**

**86. Societal marketing concept: A revised version of the marketing concept under which a company recognizes that it should be concerned about not only the buyers of its products but also other people directly affected by its operations and with not only tomorrow but also the long term.**

**87. Specialty store: A type of retail institution that has a very narrow and deep product assortment (often concentrating on a specialized product line or even part of a specialized product line), that usually strives to maintain manufacturers' suggested prices, and that typically provides atleast standard customer services.**

**88. Sub-culture: Groups in a culture that exhibit characteristic behaviour patterns sufficient to distinguish them from other groups within the same culture.**

**89. Supermarket: A type of retail institution that has a moderately broad and moderately deep product assortment spanning groceries and some nonfood lines, that offers relatively few customer services, and that ordinarily emphasizes price in either an offensive or defensive way.**

**90. Supply chain management: The combination of distribution channels and physical distribution to make up the total marketing system.**

**91. SWOT Analysis: It is identifying and evaluating an organisation's most significant strengths, weaknesses, opportunities and threats.**

**92. Target market: A group of customers (people of organizations) for whom a seller designs a particular marketing mix.**

**93. Telemarketing: A form of nonstore retailing in which a sales person initiates contact with a shopper and also closes the sale over the telephone.**

**94. Telephone survey: A method of gathering data by interviewing people over the telephone.**

**95. Test marketing: A method of demand forecasting in which a firm markets its new product in a limited geographic area, measures the sales, and then – from this sample – projects the comopany's sales over a larger area. Alternatively, a marketing research technique that uses this name approach to judge consumers' responses to a strategy before committing to a major marketing effort.**

**96. Trademark: A brand that has been adopted by a seller and given legal protection.**

**97. Value chain: The combination of a company, its suppliers, and intermediaries, performing their own activities to add value to a product.**

**98. Vertical Marketing System (VMS): A tightly coordinated distribution channel designed to improve operating efficiency and marketing effectiveness.**

**99. Wholesaling: The sale, and all activities directly related to the sale, of goods and services to businesses and other organizations for resale, use in producing other goods and services, or the operation of an organization.**

**100. Environmental Scanning: The process of gathering information regarding a company's external environment, analyzing it, and foreasting the impact of whatever trends the analysis suggests. Same as environmental monitoring.**

# UNIT-6

# HUMAN RESOURCE MANAGEMENT

- Business houses are made or broken in the long run not by markets or capital, patents or equipment but by men. Of all the resources manpower is the only resource which does not depreciate with the passage of time. This resource is called human resource.
- Human resource refers to the total knowledge, skills, creative, abilities, talents & aptitudes f an organization workforce as well as the values, attitudes & beliefs.
- It includes both quantitative & qualitative measurement.
- Human resource are also called human assets or human capital.
- Human resource is wider than the term personnel.
- Human resource management is the planning, organizing, directing & controlling of the procurement, development, compensation, integration, maintenance & reproduction of human resource to the end that individual, organizational & societal objectives are accomplished.
- Characteristics of Human resource Management-

1) Comprehensive function (covers all types of people at all levels in the organization).
2) People oriented.
3) Action oriented.
4) Individual oriented.
5) Development oriented.
6) Pervasive functions (at all levels such as production, marketing, finance).
7) Continuous process.
8) Future oriented.
9) Challenging function, science as well arts, staff function, young discipline, interdisciplinary and nervous system.

- HRM is a staff function but a line responsibility it means staff will advise and managers will be responsible for doing work through employees.
- Human resource system transforms input (people) in to output (productive) human resources in collaboration with other subsystems.
- Human resource system seeks to achieve following objectives-

1) High productivity
2) Better quality of life for all employees.
3) An agent of change & progress.

- Functions of Human Resource Management

| 1) Managerial functions | 1) Operating functions |
|---|---|
| ➢ Planning<br>➢ Organizing<br>➢ Staffing<br>➢ Directing/leading<br>➢ controlling | ➢ Procurement function<br>1) Job analysis<br>2) Human resource planning<br>3) Recruitment<br>4) Selection<br>5) placement<br>6) induction/ orientation<br>➢ Development function |

1) performance appraisal
2) training
3) Executive development
4) Career planning & development
- Compensation function
1) Job evaluation
2) Wage & salary administration
3) Bonus
- Integration function
- Maintenance function

- Scope of Human Resource Management

1) Labour or human resource aspects.

2) Welfare aspects

3) Industrial relations aspects

- Evolution of human resource management

1) Commodity concept (guild system- a closely knit group concern with selection, training, reward and maintenance)

2) The factor of production concept

3) The paternalistic concept (welfare schemes)

4) Humanitarian concept (human problems)

5) Human resource concept (employees as valuable assets of organization)

6) Emerging concept

- Human resource department is established as a staff department to advise all other departments and the top management on human resource matters.
- Human resource manager as the head of the human resource department exercise line authority over his own staff but in relation to other department he is a staff expert expected to provide advice & information on human resource matters.
- Human resource management is a line management responsibility but a staff function.
- HRM department creates & maintains the environment in which employees can work effectively to accomplish organizational goals & at the same time satisfy their personal needs.
- The recognition that employees are central to achieving competitive advantage has to the emergence of new discipline known as strategic human resource management.
- Strategic Management is that set of managerial decisions and actions that determine the long term performance of a corporation. It includes environmental scanning, strategy formulation, strategy implementation & evaluation & control.
- Strategic HRM is defined as the integration of HRM with the strategic goals and corporate strategy so as to improve business performance & achieve organizational goal.

## HUMAN RESOURCE PLANNING

- The process by which management determines how an organization should move from its current manpower position to its desired manpower position. Through it management strives to have the right number and right kind of people at the right place at the right time, doing things which result in both the organization & the individual receiving, maximum long range benefit.
- The basic purpose of human resource planning is to make optimum utilization of an organization current & future human resources.
- It has both quantitative and qualitative aspects.
- With the help of human resource planning, areas of surplus manpower can be anticipated & timely action can be taken it is known as redeployment.

# JOB ANALYSIS

- Job analysis is defined as the process of determining by observation and study the tasks which comprise the job, the methods& equipment used and the skills and attitudes required for successful performance of the job.
- Job- it is a group of task positions involving same duties, responsibility, knowledge & skills. Each job has definite title & is different from other jobs.
- Positions- it implies a collection of tasks & duties regularly assigned to one person.
- Occupation- it implies a group of jobs which are similar as to the type of work & which contain common characteristics.
- Duty- it means a related sequence of tasks.
- Task- it refers to distinct work activity with an identifiable beginning & end.
- Job Family- it implies a similar type of jobs.
- Job classification- it means grouping of jobs in to certain categories on some specified basis.
- Job evaluation- it implies determining the worth of a job to an organization by comparing it with other jobs within the organization & with job market outside.
- Job is impersonal whereas position is personal. Objectives of Job Analysis-

1) Job redesign – job may be analyzed to simplify the process & methods involved in it. Such work simplification helps to improve productivity.

2) Work standards

- **Uses of job Analysis**- 1) Organizational design 2) HR planning 3) Recruitment & selection 4) Placement & orientation 5) Training & development 6) Performance appraisal 7) Career path planning 8) Job design 9) Job evaluation, labour relations, employee counselling, health & safety.
- **Process of job Analysis**- 1) Organizational analysis 2) Organizing job analysis programme 3) Deciding the uses of job analysis information 4) Selecting representative jobs for analysis 5) Understand job design 6) Collection of data 7) Developing a job description 8) Preparing job specifications.

- **Job Analysis**- the process of obtaining all pertinent facts about a job.
- **Job description**- A factual statement of tasks and duties involved in a job.
- **Job specifications** – A statement of the minimum qualifications required for the job
- **Job Evaluation** – the process of ascertaining the relative worth of a job.
- **Techniques of job analysis**- 1) Job performance 2) Personal observation 3) Interview 4) Critical evidence 5) Log records
- Job descriptions/ position descriptions- it is a functional description of what the job entails. It is a written record of the appropriate & authorized contents of a job. It is factual and organized statement describing the job in terms of its title, location, tasks, and duties, responsibilities, working conditions, hazards & relationship with other jobs. It tell us what is to be done, how is to be done & why?
- Job duties & responsibility is the heart of job descriptions.
- Job analysis is a process where as job description & job specifications is a Statement.
- Job specifications/ position specifications- it is a statement of the minimum acceptable human qualities required for the proper performance of a job. It is a written record of the physical, mental, social, psychological & behavioral characteristics which a person should possess in order to perform the job effectively.
- Job design- it is the process of deciding on the contents of a job in terms of its duties & responsibilities on the methods to be used in carrying out the job, in terms of techniques, systems and procedures & on the relationships that should exist between the job holder & his superiors, subordinates & collegues.
- **Methods of Job design-**

1) Job rotation

2) Job enlargement

3) Job enrichment

- **Job rotation**- it implies the shifting of an employee from one job to another without any change in the jobs. It relieves the employee from the boredom. It broaden the knowledge & skills of an employee. It improves the self respect & personal worth of employee.

- **Job enlargement**- It is a process of increasing the scope of a job by adding more tasks to it. The related tasks are combined. The widened & more complex job is expected to satisfy the higher order needs of employees. It reduces monotony & boredom by providing the employee a more complete or whole job to do. It also helps to increase interest in work & efficiency. Horizontal loading of jobs. More task of similar nature are added to the job.
- **Job enrichment**- it involves designing a job in such a way that it provides the worker greater autonomy for planning & controlling his own performance. It is based on the assumption that in order to motivate employees the job itself must provide opportunities for achievement, recognition, responsibility, advancement & growth. Through job enrichment a job is made more interesting and challenging thereby removing the functions of narrow specialization. It involves vertical loading of job and quality of jobs are improved.

## RECRUITMENT

- It is the process of searching for prospective employees & stimulating & encouraging them to apply for jobs in an organization.
- Recruitment needs are of three types-

1) Planned recruitment – it arises from change in organization & retirement policy.

2) Unexpected recruitment – when resignations, deaths, accidents occurs.

3) Anticipated recruitment- When an organization predicts by studying trend in the internal & external environment.

- **Features of Recruitment**- 1) It is a process or series of activities. 2) It is linking activity between employer & employees. 3) It is a positive function. 4) It is a pervasive function as all organizations engage in recruitment. 5) It is a two way process. 6) It is a complex process. 7) It aims to create a large pool of candidates.
- Recruitment process begins with human resource department.
- The human resource requisitions contain details about the position to be filled, number of persons to be recruited the duties to be performed, qualifications required from the candidate, terms & conditions of employment and the time by which the person should be available for appointment.
- Lower level staff is recruited centrally whereas middle & top level executives are recruited in a decentralized manner.
- Sources of Recruitment –

| 1) Internal sources (within an organization). | 2) External sources (outside an organization) |
|---|---|
| ➢ Promotions.<br>➢ Transfer.<br>➢ Up gradation.<br>➢ Retired & retrenched (employees who want to come).<br>➢ Dependent of disabled or deceased employees. | ➢ Press advertisement.<br>➢ Educational institutions/ campus recruitment.<br>➢ Executive search agencies/placement agencies/head hunter.<br>➢ Employment exchanges act 1959.<br>➢ Labour contractors.<br>➢ Unsolicited applicants.<br>➢ Employee recommendations.<br>➢ Recruitment at factory gate/ gate recruitment/ direct recruitment.<br>➢ Similar organizations. |

- **Casual callers** – Due to unemployment many job seekers visit the offices of well - known companies on their own also called unsolicited visitors mainly for lower level jobs.
- **Similar organizations**- Experienced employees can be recruited by offering better benefits to the people working in similar organizations also called poaching or raiding for talent.
- **Technique of recruitment-**

1) Direct recruitment (campus recruitment)

2) Indirect recruitment (advertisements in TV, journal, newspaper)

3) Third party (Consulting firm)

4) Internet recruitment (online)

- Tempting or hiring is used for same word.

# SELECTION

- It is the process of choosing the most suitable persons out of all the applicants.
- It is the process of matching the qualifications of applicants with the job requirements.
- It is a process of weeding out unsuitable candidates and finally identify the most suitable candidates.
- Difference between Recruitment & selection

| Recruitment | Selection |
|---|---|
| 1) It is the process of searching for prospective candidates & encouraging them to apply for jobs. | 1) It is the process of choosing the right candidates |
| 2) It is positive process | 2) It is a negative process |
| 3) It aims to create large pool of candidates | 3) It aims to identify & reject unsuitable candidates |
| 4) It always preceeds selection | 4) It always succeeds recruitment |
| 5) It does not result in contract of service | 5) It leads to a contract of services between the employer & selected candidates. |
| 6) It involves searching. | 6) It involves comparison & choice |

- **STEPS IN SELECTION PROCESS**
- The hurdles or screens are designed to eliminate an unqualified candidate at any point in the selection process. This technique is called successive hurdlestechniques.
- Hiring process consists of go no go gauages – It means candidates who qualify hurdles go to the next stage while those who do not qualify are dropped out.
- Steps are – 1) Preliminary interview 2) Application blank (biodata / curriculum vitae) 3) Selection test (psychological test – behavior/ attitudes/ performance) 4) Employment interview 5) Medical examination 6) Reference checks 7) Final approval
- **Selection tests**

1) Psychological test- It is based on the assumption that no two individuals are equal in terms of intelligence, attitudes & personality, behavior. This test is used to judge the ability of a candidate is a given job situation.

2) Aptitude or potential ability test- It measures the latent ability or potential of a candidate to learn a new job. It includes 1) mental or intelligence test (IQ) 2) mechanical or aptitude tests 3) psycho-motor or skill tests (ability to perform specific job)

3) Achievement or proficiency test- It measures the proficiency in typing, shorthand etc. it includes job knowledge test or trade test and sample test (a Candidate is given a piece of work to judge how efficiently he does)

4) Personality test – These are call pen & paper test. It measures the ability of adjustment of employees in stress of everyday life. It shows all round picture of a candidate personality. It includes objective test, projective test, and situation test.

5) Interest test- These tests are inventories of a candidates like & dislikes in relation to work.

- **Validity**- It means the degree to which a test measure what it is designed to measures. A test cannot be valid unless it measures with reasonable accuracy the future job performance of a candidate
- **Reliability** – Test should be used only when found reliable. Test reliability implies the ability of a test to give consistent results. Test reliability is the consistency of scores obtained by the same person when re- tested again & again.

# INTERVIEW

- Interview is a process of face to face interaction between two persons for a particular purpose.
- Types of interview-

1) Informal interview (interview may take anywhere)

2) Formal interview (pre-planned and held in formal atmosphere)

3) Patterned or structured interview (also known as directed or guided interview, preplanned to a high degree of accuracy & precision)

4) Non directed or unstructured interview (unplanned/ candidate is allowed to his mind freely)

5) Depth interview – it is a semi-structured approach wherein details concerning one key areas are sought. To examine the candidates proficiency in his area of special interest. To get a true picture of candidate through deep probing into his mind.

6) Group interview

7) Stress interview (how candidate behaves in a stressful situation)

8) Panel or board interview (Interview is conducted by a group of interviewers.

- Group discussion is a useful means of judging the leadership ability & social traits of candidates.
- Competency mapping – Also known as competency modelling it is the process of describing skills, traits, knowledge & experience required for a person to be effective in job.

# PLACEMENT, INDUCTION, ORIENTATION

- Putting the right man at the right job is as important as hiring the right person.
- Placement is the process of assigning a specific job to each one of the selected candidates.
- Placement involves assigning a specific rank & responsibility to an individual.
- Matching the requirements of a job with the qualifications of a candidate.
- Familiarizing of employee with the job and the organization is known as induction or orientation or indoctrination or assimilation.
- Orientation or Induction is the process of receiving and welcoming an employee when he first join a company and giving him the basic information he needs to settle down quickly & happily & start work.
- Orientation is therefore the process of indoctrination, welcoming, acclimatization, acculturalization & socialization.
- No show means candidates accepting job offer but do not join duty.
- Little difference between induction and orientation is that induction is only for new employees but orientation if for both new and existing employees.
- Induction reduces labour turnover, absenteeism, anxiety and employee grievances.
- The essence of indoctrination is to convince the employee that he is working for a good company and for a good cause.
- Socialization – It is the process of adaptation. It is the process by which new employees attempt to learn and inculcate the norms and values of work roles in an organization.
- There is a difference between Induction and Socialization as induction is confine to new recruits whereas socialization also covers cases of transfer and promotion.

# TRAINING

- Employee training and executive development are main areas of human resource development.
- Training is the process of increasing the knowledge and skills for doing a particular job.
- The purpose of training is basically to bridge the gap between job requirements & present competence of an employee.
- Training aimed at improving the behavior and performance of a person as it is a never ending or continuous process.
- Difference between training and education- training is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased on the other hand education is the process of increasing the general knowledge & understanding of employees.

| Education | Training |
|---|---|
| **1) Broad & general** | **1) Narrow & specific** |
| **2) Pure & theoretical** | **2) Applied & practical** |
| **3) Long duration** | **3) Short duration** |
| **4) Person oriented** | **4) Job oriented** |
| **5) Delayed & in apparent result** | **5) Quick & apparent results.** |

- Difference between training and development

| Training | Development |
|---|---|
| 1) Employee training | 1) Manager development |
| 2) Short duration | 2) Long duration |
| 3) Technical & mechanical operations | 3) Conceptual& philosophical concepts |
| 4) Non managerial personnel | 4) Managerial personnel |
| 5) Specific job related skills | 5) Total personality development |
| 6) management external motivation | 6) Individual internal motivation |
| 7) Reactive process to meet current need | 7) Proactive process to meet future needs |

- When new & inexperienced employees require detailed instruction for effective performance then remedial training is given.
- New employees need to provide orientation training
- Existing employee's need refresher training.
- **Importance of training-** 1) Higher productivity 2) Better quality of work 3) Less learning period 4) Cost reduction 5) Reduced supervision ( self-reliant) 6) Low accident rate 7) High morale 8) Personal growth 9) Organizational climate
- **Types of training**-

1) **Orientation training**- To adjust newly appointed employees to the work environment also known as pre job training.

2) **Job training**- To increase the knowledge & skills of an employee for improving the performance on the job.

3) **Safety training**- To minimize accidents & damage to machinery.

4) **Promotional training**- To perform higher level jobs

5) **Refresher training**- Use of new methods & techniques when existing techniques become obsolete. It is designed to revive and refresh the knowledge & to update the skills of the existing employees. Refresher or re-training programmers are conducted to avoid obsolescence of knowledge skills.

6) **Remedial training**- To overcome the shortcomings in the behavior & performance of old employees. This training is conducted by psychological experts.

- The overall aim of training programme is to fill the gap between the existing & the desired pool of knowledge, skills & aptitudes.
- Objectives of training express the gap between the present & the desired performance levels.
- Methods & techniques of training-

| | |
|---|---|
| On the job training (OJT)( the trainee learns under the guidance & supervision of the superior or an instructor.<br>- The trainee learns by observing & handling.<br>- It is learning by doing<br>- Coaching , job rotation, committee, assignments | Off the job training ( the trainee learns outside the organization & devotes full time on learning)<br>- Vestibule training<br>- Apprenticeship training<br>- Classroom training<br>- Internship training<br>- E- learning |

- A popular form of on the job training is JIT (Job instruction training) or step by step training.
- Vestibule training – A training center called vestibule is set up & actual job conditions are duplicated or stimulated in it.
- Apprenticeship training- Theoretical instruction & practical learning are provided to trainees in training institutes. A stipend is paid, also called earn when you learn. It combines both theory and practical. It is the oldest method of training.
- Classroom training- lectures, case studies, group discussion, audio-visual aids are used to explain knowledge & skills to trainees. Also useful for orientations & safety training programme.
- Internship training- It is a joint programme of training in which educational institutions & business firms co- operate ( theory and

practice)

- E-learning-It includes training through internet, intranet, CD ROM, satellite, broadcasts, virtual classroom. Also known as long trait learning.
- Training Effectiveness is the degree to which trainees are able to learn & apply the knowledge and skills acquired in the training programme. It depends on the attitudes, interest, values & expectation of the trainees & the training environment. A training programme is likely to be more effective when the trainees want to learn are involved in their jobs, have career strategies.
- Improvement in productivity, quality improvement, cost reduction, accident reduction, reduction in labour turnover & absenteeism are the best criteria for evaluating training effectiveness.
- Reinforcement-B.F Skinner has given this behavior modification model, when behavior is repeatedly rewarded, it becomes a permanent part of one's personality.
- Learning is more effective when there is reinforcement in the form of reward and punishment. Reward like promotions, pay rise, praise and punishment like demotion.
- Retraining is the process of providing training to persons who underwent training earlier in the job. Are generally arranged for employees who have long been in the service of an organization. It may be required at all levels.
- When an organization gets its employees trained by an outside agency it is called training process outsourcing.

# EXECUTIVE DEVELOPMENT

- Executives (managers) are the most valuable assets of any organization.
- Executive development or management development is a systematic process of learning &growth by which management personnel gain & apply knowledge, skills, attitudes & insights to manage the work in their organizations effectively & efficiently. It is a educational process.
- Management development includes the process by which managers & executive acquire not only skills & competency in their present jobs but also capabilities for future managerial task of increasing difficulty & scope.
- Features of executive development are as follows-

1) It is a planned & organized process of learning.
2) Its ongoing or never ending exercise.
3) It is a long term process.
4) It is guided self -development
5) Preparing managers for better performance and t use full potential.

- Objectives of executive development is to improve performance of managers at all levels.
- Methods and Techniques of executive development

| On the job technique | Off the job technique |
|---|---|
| 1) Coaching. | 1) Lectures. |
| 2) Understudy. | 2) Case studies. |
| 3) Position rotation. | 3) Group discussion. |
| 4) Project assignment. | 4) Conferences. |
| 5) Committees. | 5) Role playing. |
| 6) Multiple management. | 6) Management games. |
| 7) Selected readings. | 7) In basket exercise. |
| | 8) Sensitivity training. |
| | 9) Programmed Instructions. |

**1) Coaching**-In this method superior guides and instructs the trainee as a coach. The coach or counsellor sets mutually agreed upon goals, suggest how to achieve these goals, periodically reviews the trainee's progress and suggest chances required in behavior & performance. It is a learning by doing.

**2) Understudy** – An understudy is a person selected and being trained as the heir apparent to assume at a future time the full duties & responsibilities of the position presently held by his superior.

**3) Position rotation**- It involves movement or transfer of executives from one position or job to another on some planned basis. It is also known as job rotation. Aim is to broaden the knowledge, skills & outlook of executives. It is a horizontal process.

**4) Project assignment** – A number of trainee executives are put together to work on a project directly related to their functional area. The group called project team or task force will study the problem & find appropriate solutions.

**5) Committee assignment-** A permanent committee consisting of trainee executives is constituted & all the trainees participate in the deliberations of committee.

6 **Multiple management-**) This technique is developed by Charles Mc cormick. Under it a junior board of young executives constituted and major problems are analyzed in the junior board which makes recommendations to the board of directors.

**7) Selective readings**- By reading selected professional books and journals, managers can keep in touch with the latest research findings, theories & techniques in management.

**8) Lectures-** These are formally organized talks by an instructor on specific topics. It is a one way communication as listeners are passive.

**9) Group Discussion** – under it, paper is prepared and presented by one or more trainees and presented by one or more trainees on the selected topic and followed by critical evaluation.

**10) Case study**- under it, a real or hypothetical business problem or situation demanding solution is presented in writing to the trainees. They are required to identify & analyse the problem, suggests & evaluate alternative course of action and choose the most appropriate solution.

**11) Conference method**- it is a formal meeting conducted in accordance with an organized plan, problems of common interest are discussed. The participants pool their ideas & experiences to deal with the problems effectively.

**12) Role playing** – In this method the trainees act out a given role as they would in a stage play. Two or more trainees are assigned parts to play before the rest of the class. Thus it is a method of human interaction which involves realistic behavior in an imaginary or hypothetical situation. It involves simulation i.e creating an environment similar to real work situation, two other methods based on simulation are inbasket & management games.

**13) In basket exercise-** In this method, the trainee is provided with a basket or tray of papers files related to his functional areas. He is expected to carefully study these & make his own recommendation on the problem situation. The recommendations, observations of different trainees are compared & conclusions are arrived at.

**14) Management games**- Management or business games are designed to be representative of real life situations. These are classroom simulation exercise in which teams of individuals compete against one another or against an environment in order to achieve a given objectives.

**15) Programmed Instructions**- This method incorporates a pre- arranged and proposed acquisitions of some specific skills or general knowledge. Information is broken into meaningful units & these units are arranged in proper way to form a logical & sequential learning package. The package involves presenting questions, allowing learners to respond and instant feedback is given to indicate the accuracy of answers.

**16) Sensitivity training –** This method is also called T-group training and laboratory training. The purpose is to increase self- awareness, develop interpersonal competence & sharpen teamwork skills. It was developed by Kurt lewin. It is a group experience designed to provide maximum possible opportunity for the individuals to expose their behavior give and receive feedback, experiment with new behavior and develop awareness of self & of others.

## CAREER PLANNING

➢ It is the systematic process by which one selects career goals & the path to the goals. It is the process of matching career goals and individual capabilities with opportunities for their fulfillment.

# MANPOWER PLANNING

- Manpower planning provides valuable information to facilitate career planning. It provides information on the human resources available within the organization for expansion, growth & technology innovations. But career planning only tell us who could succeed in case of retirement, death, resignation.

# SUCCESSION PLANNING

- Succession planning is the process of ensuring that qualified persons are available to assume key managerial positions whenever these fall vacant due to untimely deaths, premature, firing, resignations and retirements.
- Career planning covers all levels of employees whereas succession planning is generally required for higher level executives.
- Career planning, manpower planning, succession planning are complementary & interdependent.
- Career counselling- guiding & advising people on their possible career path & what they must do to achieve promotions.
- Mentoring- The process wherein an executive or senior employee serve as a teacher, advisor, guide, friend, philosopher & confident to the new entrant.
- Career anchor – The basic drives that give the urge to take up a central type of career.
- Career plateau- It is a position from which someone unlikely to move to a higher level of work responsibility.
- Career development- It is essential for implementing career plans. It consists of activities undertaken by the individual employees and the organization to meet career aspirations and job requirements. The most important requirement is that every employee must accept his/her responsibility for development.

# HUMAN RESOURCE DEVELOPMENT

- **Six sigma**- Motorola corporation introduced the concept of six sigma. Its purpose is to improve the quality and reduce costs so as to increase customer satisfaction. Its ultimate target is zero defect products & process. It goes at the root of the problems and helps to remove it totally.
- **Methodology of six sigma**- DMAIC ( D= Define, M= Measure, A= analyze, I= improve, C= control)
- Business process Re-engineering – It means the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service & speed.
- **Bench marking**- It is developed by Xerox Corporation. It is the process of identifying, studying and building upon the best practices in the industry or in the world so as to match or even surpass the best competitors.
- **Kaizen**- It means continuous improvement with the involvement of everybody in the organization so as to generate value for customers. It is based on the belief that there will be no progress if you keep on doing things exactly the same way all the time .kaizen stresses upon process oriented thinking as opposed to result oriented. The message of kaizen strategy is that not a day should go by without some kind of improvement being made somewhere in the organization.
- Innovation involves a drastic improvement in the status quo as a result of a large investment in new technology and/or equipment on the other hand kaizen means small improvement on an ongoing basis.
- **Steps of kaizen are** – straighten up (identify) > put things in order> clean up> personal cleanliness (healthy mind in healthy body)> discipline.
- **Quality circle**- A quality circle is a small group of employees from the same work area which meets regularly to identify, analyze & solve quality & other work related problems.
- **TQM (Total quality Management)** – It is a continuous process of improvement in all aspects of an organization with the involvement of everybody. It is a total systems approach and an integral part of corporate strategy. It is about changing the way things are done so as to prevent failures. It is a comprehensive effort to enhance an organsations efficiency.
- Special tools & techniques for improving quality- 1) value added analysis, benchmarking, outsourcing, reducing cycle times, ISO 9000: 2000 and ISO 14000, statistical control, six sigma.
- **Implementation of TQM** – W. EDWARD Denning has suggested PDCA Cycle, P= Plan, D = Do , C= check , A= act cycle for implementing TQM in any organizations.
- **Mentoring**- A mentor is an individual who systematically develops another persons abilities through intensive tutoring, coaching & guidance. Mentoring is essentially an emotional kind of support provided by an experience person to younger people through teaching, coaching, counselling & guiding.
- **Emotional quotient** – In controlled economy intelligence quotient ( IQ) were popular but now emotional quotient has become the buzzword. Emotional intelligence states that a managers effectiveness in a corporation depends more on his emotional intelligence which means his ability to manage his emotions in the work place & calmy deal with stressful corporate situations.

- **Human capital** – It is the economic value of job, relevant skills, knowledge, ideas, energies & commitments.
- **Employee counselling**- counselling is a two way process in which a counsellor, usually a superior provides advice and assistance to his subordinates. Employee counselling may be formal & informal. It plays a both curative & preventive role.
- Counselling is the process of advising and employee so as to enable him to overcome his emotional problems.
- Counselling means discussion of an emotional problem with an employee with the general objectives of minimizing it.
- Counselling involves discussion in which the counsellor listens sympathetically to the problems of employees. It is a method of understanding and helping people who are upset emotionally.
- Counselling is concerned with emotional problem, it has no concern with other job problem such as technical.
- The main objective of counselling is to understand and minimize emotional difficulty of an employee.
- Need for counselling arises- stress, conflict & frustrations.
- Emotional tension- catharsis.
- Reorientation- counselling performs the functions of reorientation which involves a change in the employees psychic self through change in basic goals & values.
- Human resource development- It is an organized learning experience aimed at matching the organizational need for human resource with the individual need for career growth & development.
- **Difference between human resource management & human resource department.**

| HRM | HRD |
|---|---|
| 1) It is an independent functions with independent sub functions<br>2) It is a service and reactive function<br>3) It seeks to improve the efficiency of people and administration<br>4) It focuses on salary, economic reward.<br>5) It is considered to be the responsibility of human resource manager<br>6) It considers improved satisfaction and morale as the cause of improved performance | 1) It is an integrated system consisting of inter dependent sub systems<br>2) It is a proactive function<br>3) It seeks to develop the total organization and its culture<br>4) It focuses on autonomous work groups, job challenges & creativity for motivating people<br>5) It is the responsibility of all managers<br>6) It considers improved performance as the cause of improved satisfaction |

# EMPOWERMENT

- Empowerment means allowing a person to run the show by himself.
- Empowered employees become self -directed and self -controlled.
- There must be mutual trust between the superior& subordinates.
- Empowerment may be defined as providing employees at all levels the authority & responsibility to make decisions on their own.
- There is difference between delegation of authority and empowerment as delegation is actioned by manager whereas empowerment is actioned by the subordinates. In delegation the superior exercise control but in empowerment the subordinate exercise self- control.

# PERFORMANCE APPRAISAL

- Earlier performance appraisal is known by different name as man to man rating, rating scores, merit rating.
- Performance appraisal is the systematic, periodic and impartial rating of an employee excellence in matters pertaining to his present job& his potential for a better job.
- Performance appraisal and merit rating used as synonymously but performance appraisal is a wider term than merit rating.
- Merit rating- To decide salary increment.
- Performance appraisal- Focus on the performance & future potential of employee.
- **Features of performance appraisal**- 1) It is a series of steps. 2) It is a systematic examination. 3) It is a scientific & objective study 4) It is an ongoing or continuous process. 5) It secure information for making correct decisions. 6) It aims at both Judgementals & development efforts.
- **Process of performance appraisal-** 1) Establishing performance standards 2) Communicating the standards 3) Measuring

performance 4) Comparing the actual with the standard performance 5) Discussing the appraisal 6) Taking corrective actions.

➢ Problems in performance appraisal-

**1) Errors in rating-** a) Hallo effect- It is the tendency to rate an employee consistently high or low on the basis of overall impression. b) Stereotyping- This implies forming a mental picture of a person on the basis of his age, sex, caste or religion. c) Central Tendency- It means assigning average ratings to all the employees in order to avoid commitment or involvement. d) Constant error- some evaluators tend to be lenient so performance is overrated (leniency norms) some are strict so performance is underrated (strictness error) e) Personal Bias- performance appraisal depends on rater likes or dislikes. f) Spill-over effect- This arises when past performance affects assessment of present performance. Recent behavior or performance of an employee may be used to judge him this is called recency.

**2) Lack of reliability-** Reliability implies stability & consistency in the measurement.

**3)** Incompetence- Raters may fail to evaluate performance accurately due to lack of knowledge & experience.

**4)** Negative approach

**5)** Multiple objectives

**6)** Resistance

**7)** Lack of knowledge

➢ Essentials of an effective performance appraisal system 1) Mutual trust 2) Clear objectives 3) Standardization 4) Training 5) Job relatedness 6) Documentation 7) Feedback & participation 8) Individual differences 9) Post appraisal interview, review & appeal.

➢ Methods or Techniques of performance appraisal

| Traditional method | Modern method |
|---|---|
| 1) Confidential report.<br>2) Free form &essay.<br>3) Straight ranking.<br>4) Paired Comparison.<br>5) Forced distribution.<br>6) Graphic rating scales.<br>7) Checklist method.<br>8) Critical incidence.<br>9) Group appraisal.<br>10) Field review. | 1) Assessment center.<br>2) Human resource accounting.<br>3) BARS (Behaviorally anchored rating scales.<br>4) Appraisal through MBO.<br>5) 360" Degree appraisal. |

➢ **Confidential Report** – It is a report prepared by the employee's immediate superior. It covers the strengths & weakness, achievement & failure of employee. It is descriptive appraisal used for promotions & transfers of employees. As appraisal is based on impression rather that data.

➢ **Free form or essay method**- under this evaluator writes a short essay on the employee's performance on the basis of overall impression.

➢ **Straight ranking method-** The evaluator assigns relative ranks to all the employees in the same work unit doing the same job. Employees are ranked from the basis of overall performance. Oldest & simplest method.

➢ **Paired comparison method –** modified of form of straight ranking each employee is judged better than the other determines his rank. Comparison is made on the basis of overall performance N (N-1)/2.

➢ **Forced Distribution method** – The rates is required to distribute his ratings in the form of a normal frequency distribution. The purpose is to eliminate the rater's bias of central tendency based on the questionable assumption that all groups of employees have the same distribution of good & performance.

- **Graphic rating scales**- It is a numerical scale indicating different degrees f a particular trait. The rates is given a printed form for each employee which contains several characteristics relating to the personality & performance of employees. The numerical points given to an employee are added up to find out his overall performance a standing in the group. Two scale- 1) continuous scale (0 to 5) 2) discrete or discontinuous scale (in the form of square box).

- **Checklist method –** A checklist is a list of statements that describe the characteristics & performance of employees on the job. The rater checks to indicate if the behavior of an employee is positive or negative to each statement. The performance of an employee is rated on the basis of number of positive checks. There are three methods to check 1) simple checklist 2) weighted checklist 3) forced checklist.

- **Critical incidence method –** In this method the superior keeps a written record of critical events and how different employees behaved during such events. The rating of an employee depends on his positive/negative behaviors during this event.

- **Group appraisal method-** under this method a group of evaluators assesses employees. The group determine the standards of performance for the job, measures actual performance of an employee analyze the causes of poor performance and offer suggestions for improvement in future.

- **Field review method –** In this method a training officer from the human resource department interviews line superiors to evaluate their respective subordinates. The interviewer prepares in advance the questions to be asked. By answering these questions a supervisor gives his opinions about the level of performance of his subordinate, the subordinates work progress, his strengths & weakness.

- **Assessment center method**- An assessment center is a group of employees drawn from different work units. These employees work together on an assignment similar to the one they would be handling when promoted. Assessment center generally measures interpersonal skills, communicating ability, ability to plan & organize. It help to determine training & development needs of employees.

- **Human resource accounting method –** under this method a performance is judged in terms of costs, contributions of employees. Cost of human resources consist of expenditure n human resource planning, recruitment, selection, induction, training etc. difference between cost and contributions of employees will reflect the performance of employees.

- **BARS (Behaviorally anchored rating scale) –** It includes graphic rating scale + critical incidence method. The rater records the observable job behavior of an employee & compares these observations with BARS. BARS are descriptions of various degree of behavior relating to specific performance dimension. The ratings are likely to be accurate because these are done by experts. The method is more reefed=back liable & valid as it job specific & Identifies observable & measurable behavior. Behaviors used are more activity oriented than result oriented, time consuming and expensive too.

- **Performance appraisal through MBO (Management by objectives) –** The concept was developed by peter f Drucker in 1954. It is also known as management by results, self-control, working planning & review or goal setting approach to appraisal. It is a process whereby the superior and subordinates managers of an organization jointly identify its common goals, define each individuals major areas of responsibility in terms of result expected of him & uses these measures as guides for operating the unit & assessing the contribution of each of its members.
- Steps of MBO- set organizational objectives> define performance targets> performance review> feedback.
- 360' Appraisal- In order to make appraisal more objective, transparent & participative concepts such as self-appraisal, peer-

appraisal, subordinates- appraisal, superior appraisal were introduced. It involves evaluation of managers by everyone. Structured questions are used to collect responses about a manger from his bosses, peers, Subordinate.

# JOB EVALUATION

- Pay is related with the nature & worth of the job.
- The relative worth of a job can be judged with the help of job evaluation.
- Job evaluation is an orderly and systematic technique of determining the relative worth of the various jobs within the organizations so as to develop an equitable wage & salary structures.
- Job evaluation is different from job analysis & performance appraisal. Job analysis is the pertinent facts about the job whereas job evaluation is related to find out the worth of a job.
- Job evaluation begins with job analysis.

| ➢ Job evaluation | ➢ Performance appraisal |
|---|---|
| 1) It is the assessment of various jobs to find out their relative worth.<br>2) It takes into consideration the requirements of different jobs<br>3) Its purpose is to identify the basis for fixing wages, salary.<br>4) Its rate the jobholder not the job<br>5) It is done before an employee. | 1) It is the assessment of performance of different employees performing the same job.<br>2) Its takes into considerations the performance of different individuals<br>3) Its purpose is to identify the basis for decisions concerning pay raise, promotion, training and transfer.<br>4) It rates the job not the job holder<br>5) It is done after an employee joins and perform the job |

- **Objectives of job evaluation-**

1) To determine equitable wage differentials between different jobs in the organizations.

2) To eliminate wage inequities.

3) To develop a consistent wage policy.

4) To establish a rational basis for incentive & bonus scheme.

5) To provide a framework for periodic review and revision of wage rates.

6) To provide a basis for wage, negotiations with trade unions.

7) To minimize wage discrimination on the basis of age, sex, caste, region, religion.

- Two methods of job Evaluation-

1) Non quantitative method a) Ranking or job comparison b) Grading or job classification

2) Quantitative method-a) Point method b) Factor method.

- Employees moves from one job to another within an organization through transfers, promotions & demotions such movement is known as internal mobility.
- Employees leaves the organizations due to resignation, retirement and termination is called external mobility.
- **Transfers**- It refers to a horizontal or lateral movement of an employee from one job to another in the same organization without any significant change in status & pay.
- **Promotion**- It refers to advancement of an employee to a higher post carrying greater responsibility higher status & better salary. It is the upward movement of an employee in the organization hierarchy.
- When an employee is assigned to a higher level job without increase in pay it is called a dry promotion.
- Up gradation implies movement of an employee to higher pay scale without change of job.
- **Demotion** – It implies the assignment of an employee to a job of lower rank with lower pay it refers to downward movement of an employee in the organizational hierarchy with lower status & lower salary.
- **Resignation**- Resignation or quit is a voluntary separation initiated by the employee himself. An employee may resign on

grounds of ill health, marriage, pregnancy better opportunities in other organizations.

- **Retirement**- It is the main cause of separation f employees from the organizations. Compulsory retirement – after attaining specified age. Pre mature retirement- retire before attaining the specified age because of ill health, family problem etc. voluntary retirement- when an organizations want to cut down its operations or to close forever, it may give an option to its employees with a certain minimum service for voluntary retirement in return for a lump sum payment. It is called golden handshake scheme.
- **Layoff**- It implies temporary removal of an employee from the payroll of the organization due to circumstances beyond the control of the employer.
- **Retrenchment** – It means permanent termination of an employee's service for economic reasons in a going concern.
- **Dismissal**- It refers to terminating the service of an employee by way of punishment, misconduct or unsatisfactory performance.
- **Exit interview**- It is an interview held with an employee who is leaving the organization voluntarily. The purpose of an exit interview is to find out the reasons why the employee is leaving.
- **Outplacement**- It is a human resource programme used to help separated employees deal with the emotional stress of job loss & to provide assistance in finding a new job.
- **Absenteeism** – It means the failure of a worker to report for work when he is scheduled to work. Absenteeism is unauthorized, avoidable & wilful absence from duty.
- **Labour turnover (attrition)** – It refers to the rate of change in the workforce of an enterprise during a given period. The time to time changes in the composition of the workforce that result from hiring, release & replacement of employee. It is a measure of extent to which old employees leave & new employee enter the service of a concern.

# HEALTH AND SAFETY HEALTH

- It is a state of a complete physical, mental & social well- being and not merely the absence of disease.
- Ill health leads to high rate of absenteeism & Labour turnover.
- Factor's affecting workers health 1) Cleanliness 2) Lighting 3) Temperature & ventilation 4) Freedom from noise 5) Dust control 6) Working space and seating arrangements
- Health – factories act 1948
- Protection against health hazards 1) Preventive measures 2) Curative measures
- Preventive measures- It means pre-employment and periodic medical examination and removal of health hazards to the maximum possible extent & training of first aid staff, educating workers in health & hygiene.
- Curative measures- It consist of treatment for the affected workers.
- Prevention is always better than cure.

# SAFETY

- According to the factories act 1948 accident is an occurrence in an industrial establishment causing bodily injury to a person which makes him unfit to resume his duties in the next 48 hours.
- Accident is an unexpected and sudden event arising out of & in the course of employment. Self- inflicted injuries, injuries inflicted with the consent of person cannot be regarded as accidents.

| Employee health | Employee safety |
|---|---|
| 1) Physical, mental and social well-being. | 1) Protection against all types of hazards & accidents. |
| 2) If not taken care then disease & ill health. | 2) If not taken care then injury & death. |
| 3) To avoid ill health, good habits & proper working conditions to be adopted. | 3) To avoid accidents precaution & safety measures to be adopted. |

- Survey and studies reveals that wherever safety measures are good, Labour productivity is high. This is so because employees can concentrate on their work with confidence & without fear.
- Two ratios are there to measure accidents are

1) Frequency measures 2) Severity measures

- Frequency measures- It is the number of time lost accidents or injuries per employee per 1000000 man hours worked.
- Accident severity rate- It means the total number of days charged or lost because of accidents per 1000000 man hours worked.
- 4E'S – Education , engineering, enforcement and encouragement ( in this accidents prevention depends)

- National safety council 1966
- **SAHARA-** Safety & health accidents reduction plan
- Employee fitness & wellness programmes help to improve employee morale, to reduce employee absenteeism & Labour turnover.

# EMPLOYEE WELFARE

- Labour welfare means the efforts to make life worth living for workmen.
- Labour welfare means anything done for the comfort & improvement, intellectual or social of the employees over and above the wages paid which is not a necessity of the industry.
- Committee on Labour welfare 1969
- Such facilities as canteens, rest & recreation facilities, arrangements for travel to end from work & for the accommodation of workers employed at a distance from their homes.
- Labour investment committee 1946
- Employee welfare measures also known as fringe benefits.
- Central government has made elaborate provisions for health, safety & welfare of workers under Factories act 1948 and Mines act 1952.
- Plantation Labour act 1951, motor transport workers act 1961, employee state insurance act 1948.
- **Types of welfare services**-1) Intramural – facilities within the establishment includes washing, bathing, crèches, canteen and rest room. 2) Extramural-facilities outside the establishment such as housing (industrial housing scheme 1952) 3) Education 4) Transportation 5) Recreation 6) Consumer co-operative stores
- **Statutory provisions for employee welfare are** – 1) The factories act 1948 2) The plantation labour act 1951 3) The mine act 1952 4) The motor transport workers act 1961 5) The contract labour ( regulation & abolition act 1970)

# SOCIAL SECURITY

- Social security act 1953 this act introduce the old age pension scheme.
- Social security is the protection which society provides for its members through a series of public measures, against the economic & social distress. It is a measure of ensuring social justice.
- Social security schemes are of two types- 1) Social insurance- under it, workers & employers make periodical contributions and the funds so collected are used to provide benefits like provident fund, group insurance. 2) Social assistance- under it, the cost of benefits provided is financed fully by the government. Example old age pension.
- Social insurance is provided through the following Labour laws-

1) **The workers compensation Act 1923-** The objective of this act is t improve an obligation upon employers to pay compensation to workers for accidents arising out of and in the course of employment.

2) **The Employee's state insurance Act 1948-** This act provides medical facilities & unemployment insurance to industrial workers during their illness. Its objects is to provide social insurance for workers. It is a compulsory & contributory health insurance scheme.

3) **The employee's provident funds Act 1952-** This act provides for retirement benefits in the form of provident fund, pension & deposits insurance and this act doesn't apply to cooperative socities.

4) **The Maternity benefit act 1961-** The main purposes of this act are to regulate the employment of women in certain establishments for certain specified periods before and after child birth, to provide for the payments of maternity benefits to women worker's and to provide certain benefits in case of miscarriage, premature birth or illness arising out or pregnancy.

5) **The payment of gratuity Act 1972-** The act is applicable to all factories, mines, oilfields, plantations, ports, railways, ships or establishment in which 10 or more workers are employed. Gratuity is payable on retirement, death, disablement or termination after 5 years of continuous service.

- Group Insurance is a scheme which provides insurance cover n the lines of several persons under one insurance policy or contract. It is generally provided to the employees working under one employer. A contract between insurance company & employer & policy is master contract

# MORALE

- Morale is a mental condition or attitudes of individuals and groups which determines their willingness to co-operate.
- Morale is a state of mind or willingness to work which in turn affects individuals & organizational objectives.
- Morale is psychological feeling, intangible, influences human behavior & performance, aggregate of attitudes feelings, emotions & sentiments & subjective concept.
- Impact of Morale on Productivity-

1) High morale-high productivity-this situation is likely to occur when employees are motivated to achieve high performance through financial & non- financial rewards.

2) High morale – low productivity- This situation arises when employees spend their time 7 energy in satisfying their personal objectives inspite of company's goal.

3) Low morale – high productivity- This situation can occur for a temporary period due to fear of loss of job, exceptionally good supervision.

4) Low morale – low productivity- This is a normal relationship in long run low morale is likely to result low productivity.

- Job enrichment & job rotation also helps to improve employee morale.

## INDUSTRIAL RELATIONS AND INDUSTRIAL DISPUTES

# INDUSTRIAL RELATIONS

- Industrial relations means the relationships between employers & employees in industrial organizations.
- Features of industrial relations are as follows-

1) Relationship between employer and employee.

2) Industrial relations include both individual & collective relations. Individual relations is a relations between employer & employee. Collective relations is a relations between employer's association & employee's trade union as well as the state in regulating these relations.

3) The concept of industrial relations is complex & multidimensional

4) It is a dynamic & developing concept

5) Industrial relations do not work in vacuum.

6) Industrial relations is an integrated part of social relations.

- Main purpose of industrial relations is to maintain harmonious relations between management & Labour. Scope of it is very wide.
- **Main issues relating to industrial relations are-** 1) Grievances & their redressal 2) Workers participation in management.3) Ethical code & discipline 4) Collective bargaining 5) Standing orders 6) Machinery for the settlement of industrial disputes.
- **Objectives of Industrial relations**- 1) To maintain harmonious relations for higher productivity 2) To safeguard the interest of Labour as well as management. 3) To maintain industrial democracy 4) To avoid all conflicts so as to ensure peace by providing better working & living standards to workers 5) To rise productivity by reducing absenteeism & Labour turnover 6) To bring about government control over those industrial units which are running on loss 7) To ensure a healthy & balanced social order.
- **Approaches of Industrial relations-**

**1) Psychological approach**- In this different perceptions of employees give rise to problems which leads to strike, lockout, gherao etc. because of low pay, dissatisfaction of work.

**2) Sociological approach**- Because of difference in individual's attitudes & behavior creates problems of conflict & co-operation.

**3) Human relations approach-** As given by **ELTON MAYO**, when employees treated as an inanimate object the conflict arises.

**4) Giri approach**- given by V V Giri, collective bargaining & mutual negotiations between management & labour should be used to settle industrial disputes. Giri approach to industrial relations implies the encouragement of mutual settlement of disputes, collective bargaining & voluntary arbitration.

**5) Gandhian approach**- It is based on the fundamental principles of truth, non-violence & non-possession. It employer follow the principle of trusteeship, there is no scope for conflict of interest between than & labour. Workers can use non- cooperation/satyagraha to have their grievance redressal.

- Causes of poor industrial relations- 1) Economic causes 2) Organizational causes 3) Social causes 4) Psychological causes.
- Measures for improving industrial relations- 1) Sound human resource policies 2) Constructive attitudes (positive) 3) Collective bargaining ( it refers to a process by which employees on the one hand & representatives of employees on the other attempt to arrive at agreement covering the conditions under which employees will contribute & be compensated for their services. 4) Participative management 5) Responsible unions 6) Employee welfare 7) Grievance procedure

# INDUSTRIAL DISPUTES

- Industrial disputes act1947
- Industrial disputes means any dispute or difference between employers & employees or between employers & workmen or between workmen & workmen's which is connected with the employment or non- employment or terms of employment or with the conditions of labour of any person.
- Industrial disputes is not a personal disputes of any one.
- Industrial disputes taken place in several forms- 1) Strikes- a stopping of work by a body of persons employed in any industry or refusal of work. Types of strike 1) sit down strike, stay in strike, tools down/ pen down strike, token or protest strike, hunger strike, cat call/ lightning strike, go slow, boycott and picketing. 2) Gherao- It means encircling the employer or his representative to restrict the movement of person so as to put pressure for accepting the demands. 3) Picketing- workers are dissuades from reporting for work by certain persons stationed at gate of factory. 4) Lockout- It means the closing of a place of business of employment or the suspension of work or the refusal by an employer to continue to employ any number of persons employed by him
- **Causes of industrial disputes-** 1) Wages & allowance 2) Bonus 3) Personnel & retrenchment 4) Leave & hours of work 5) Indiscipline
- **Various Methods of Settlement of Disputes are –**

**1) Conciliation-** It is the process by which representatives of workers & employers are brought together before a third party with a view to persuade them to arrive at an agreement through mutual discussion between them.

**2) Arbitration-** It is a process in which a neutral third party listens to the disputing parties, gather information & then takes a decision which is binding on both the parties. Difference between conciliation & arbitration as conciliation involves compromise whereas arbitration is quasi-judicial process. The conciliation simply assists the parties to come to a settlement whereas an arbitrator listens both the parties and then gives his judgement.

**3) Adjudication**- It Is the ultimate legal remedy for the settlement of industrial disputes. It means intervention of a legal authority appointed by the government to make a settlement which is binding on the parties.

- Trade union is a voluntary organization of workers formed to promote & protect their interests by collective actions. Trade unions act 1926.

# WORKERS PARTICIPATION INMANAGEMENT

- It is also known as self- management ( Yugoslavia)
- It is also known as co-determination ( Germany)
- Participation refers to the mental & emotional involvement of a person in a group situation which encourages him t contribute to groups goals & share in the responsibility of achieving them. It is a process by which authority & responsibility of managing industry are shared with workers.
- Workers participation in management based on the theory that a worker invests his labour and ties his fate to his place of work.
- workers participation in management may be formal and informal.
- workers participation should be distinguishing from collecting bargaining the former is based on mutual-trust, information sharing & mutual problem solving. While collective bargaining is essential based on power play pressure tactics & negotiations.
- **There can be four levels of participation** 1) shop floor 2) plant 3) department 4) corporate levels.
- **Four degrees of participation**- 1) communication 2) consultation 3) code-termination 4) self-management.

- **Importance of workers participation in management-** 1) Mutual understanding 2) Higher productivity 3) Industrial harmony 4) Industrial democracy 5) Less resistance to change 6) Creativity & innovation
- **Forms of workers participation in managements are as fallows** - 1) Suggestions schemes 2) Works committee (at shop floor level) 3) JMC (Joint management council at plant level) 4) Workers directors co-partnership
- Satisfaction is the end feelings of a person after performance.
- **Joint Consultation** – It is the process whereby employer consults the workers either directly or through their representatives & seeks their opinion on various issues while retaining to himself the right of taking final decisions. It is a popular form of labour participation in management. It is a stage prior to joint decision making. It includes matters not covered in collective bargaining. Workers training, productivity & quality improvement schemes, grievances, disciplinary problems, safety measures & incentive schemes can be covered under it.
- **Work committee**-Deals with matter of day to day functioning at the shop floor level.
- Joint management council-establish in 1958, it consist of equal representatives of management & workers, not exceeding 12 at the plant level. It includes works of collective bargaining, wages & salary, grievances are outside of it.
- **Shop councils-** It includes member less than 12, term is 2years, at plant level. It includes all decisions shall be on the basis of consensus. Its functions is to improve productivity, health & safety. Meet frequently once in a month.
- **Joint councils-** It includes 500 workers or more, its term 2 years, it has chairman and vice chairman and meet once in quarterly, its decisions are based on the Consensus. Its functions are those which are not solved by the shop council. It is at enterprise level.

## WAGE AND SALARY ADMINISTRATION

- Administration of employee compensation is called compensation management or wage & salary administration.
- It involves formulation & implementation of policies & programmes relating to wages, salaries & other forms of employee compensation.
- It includes job evaluation, wage & salary survey, profit sharing & other incentives.
- The basic purpose of wage & salary administration is to establish and maintain an equitable wage & salary structure & equitable cost structure.

| Base compensation | Supplementary compensation |
|---|---|
| 1) It means wages & salary paid to employees.<br>2) Wages & salary paid in cash.<br>3) Wages & salaries are paid to compensate employees for their services.<br>4) Wages & salary determining on the basis of job evaluation. | 1) It means fringe benefits paid in addition to wages & salary.<br>2) Fringe benefits paid in kind.<br>3) It is paid to retain employees & to increase their efficiency.<br>4) Fringe benefits depend mainly on company policies. |

- **Objectives of wage & salary administration are as follows-** 1) To establish a fair & equitable remuneration 2) To attract competent personnel 3) To retain the present employees 4) To improve productivity 5) To control cost 6) To establish job sequences lines of promotion wherever applicable. 7) To improve union management relatives 8) To improve public image of the company
- **Moonlighting-** moonlighting or double jobbing is the practice when employees take up part time jobs or business simultaneously with their original jobs.
- **ESOP –** Employee Stock Option Plans
- **Discipline –** It means orderliness or the absence of disorder, chaos & confusion in human behavior & action.
- **Grievance –** it means any real or imaginary feeling of dissatisfaction & injustice which an employee has about his employment relationship.
- **Human Relations**- It is an area of management practice which is concerned with the integration of people into a work situation in a way that motivates them to work productivity, co-operatively & economic, psychological & social satisfaction.

# STRESS

- It derived from the Latin word stringers which means to draw tight.
- Stress is different from anxiety which a state of uncertainty. It is also different from agitation which is physical part of anxiety.
- Stress also differs from frustration which is blocked goal attainment.
- Stress is an internal phenomenon & a mental attitude. Stress is mental, emotional or physical reaction resulting from individual response to environmental pressure & similar stumili.

- Hans selye- father of stress.
- Burnout- It is a syndrome wherein a person breaks down physically and emotionally due to continuous over work a long period of time. Work addicts or work aholic are suspetible to burnout. SOME IMPORTANT THEORIES-
- Subsistence theory- DavidRicardo
- Wage Fund Theory- Adam Smith/ J S Mill
- Surplus Value theory- Carl Marx
- Residual Theory- Francis A walker
- Marginal Productivity Theory- Philip Henery, Wicksteed, John Bater & Clark
- Bargaining Theory- JohnDavidson
- Behaviorial theory- Mark Simon, Robert Dublin, Eliot Jacques.

# MISCELLANEOUS POINTS:-

**Human Resources**

The total knowledge, skills, creative abilities, talents and aptitudes of an organisation's workforce, as well as the value, attitudes and beliefs of individuals involved

**Human Resource Management (HRM)**

HRM refers to a set of programmes, functions and activities designed and carried out in order to maximise both employee as well as organisational effectiveness.

Human Resource Management is a function of guiding human resources into a dynamic organisation that attains its objectives with a high degree of morale and to the satisfaction of those concerned.

HRM is that phase of management which deals with the effective control and use of manpower as distinguished from other sources of power.

The management of human resources is viewed as a system in which participants seeks to attain both individual and group goals.

The objective of HRM is to understand what has happened and is happening and to be prepared for that will happen in the area of working relationships between the managers and the managed.

**Manpower/Human Resource Planning**

It is the process of determining manpower requirements and the means for meeting those requirements in order to carry out the integrated plan of the organisation."

**Job Analysis**

Job analysis is the process of determining, by observation and study, and reporting pertinent information relating to the nature of s specific job. It is the determination of the tasks which comprise the job and of the skills, knowledge, abilities and responsibilities required of the worker of a successful performance and which differentiate one job from all others

**Job Description**

It is an organised, factual statement of the duties and responsibilities of a specific job. In brief it should tell what is to be done, how it is done and why? It is a standard of function, in that it defines the appropriate and authorised content of a job.

**Job Specification**

Job specification or man specification or employee specification is a statement of the minimum acceptable human qualities necessary to perform a job properly. In contrast to the job description it is a standard of personnel and designates the qualities required for acceptable performance.

**Job Evaluation**

Job evaluation is an attempt to determine and compare demands which the normal performance of a particular job makes on normal workers without taking into account the individual abilities on performance of the workers concerned."

**Absenteeism**

Absenteeism means the failure of a worker to report for work when he is scheduled to work.

**Labour Turnover**

Labour turnover refers to the rate of change in the workforce of an enterprise during a given time period.

**Recruitment**

Recruitment is the process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organisation.

**Recruitment Policy**

Recruitment policy specifies the objectives of recruitment and provides a framework for the implementation of the recruitment programme.

**Selection**

Selection involves picking for hire a subset of workers from the total set of workers who have applied for the job.

**Interview**

Interview is a face-to-face, observational and personal appraisal method of evaluating the applicant where the interviewer who is higher in status is in a dominant role.

**Placement**

It is a decision to place a selected individual in one job than in another.

**Induction**

It is the process of inducting a new employee into the new social setting of his work.

**Promotion**

A promotion takes place when an employee moves to a position higher than the one formerly occupied.

**Dry Promotion**

When there is no increase in the employee's pay as a result of promotion it is called as a dry promotion.

**Demotion**

It is a downward movement of an employee in the organisational hierarchy with lower pay, status or responsibilities.

**Transfer**

A transfer implies a lateral movement of an employee in the hierarchy of positions with the same pay and status.

**Training and Development**

The organised procedure by which people learn knowledge and/or skill for a definite purpose is training.

**Job Rotation**

This type of training involves the movement of the trainee from one job to another.

**Management Development Programme**

It is a systematic process of growth and development by which the managers develop their abilities to manage.

**Career**

It is a sequence of separate but related work activities that provides continuity, order and meaning in a person's life.

**Motivation**

It is defined as any idea, need, emotion or organic stage, that prompts a man to an action.

**Job Satisfaction**

It refers to the feelings and the emotional aspects of individuals experience towards his jobs,

**Performance Appraisal**

It is the systematic, periodic and an impartial rating of an employees' excellence in matters pertaining to his present job and his potential for a better job.

**Management By Objectives (MBO)**

It is a process whereby the supervisor and subordinate managers of an organisation jointly identify its common goals, define each individual's major areas of responsibility in terms of unit and assessing the contributions of each of its members.

**Trade Unions**

It is a voluntary organisation of workers formed to promote and protect their interests by collective action.

**Collective Bargaining**

It refers to a process by which employers on the one hand and representatives on the other, attempt to arrive at agreements covering the conditions under which employees will contribute and be compensated for their services.

**Workers Participation in Management**

It is a process by which authority and responsibility of managing industry are shared with workers.

**Job Design**

It is the process of deciding on the contents of a job in terms of its duties and responsibilities, on the methods to be used in carrying out the job, in terms of techniques, systems and procedures and on the relationships that should exist between the job holder and his superiors, subordinates and colleagues.

## Important terms in Consumer Behaviour

1. **Absolute Threshold:** The lowest level at which an individual can experience a sensation.
2. **Acculturation:** The learning of a new or foreign (other country's) culture.
3. **Actual Self-Image:** The image that an individual possess as a certain kind of person with certain characteristic traits, habits, behavior etc.
4. **Advertising Wearout:** Overexposure to repetitive advertising that causes individuals to become satiated and their attention and retention to decline.
5. **Advetorials:** Print ads which are laid out to resemble editorial material making it difficult for the readers to distinguish between the two.
6. **Affective Component:** It is a part of tri-component attitude model which reflect the consumer's emotion or feeling with regard to an object or a person or an idea.
7. **Affinity Group Marketing:** A type of cause-related marketing targeted to members of a specific group.
8. **Affluent Consumers:** The consumers with household incomes which provide them with a disproportionate large share of all discretionary income.
9. **AIOs:** These are the psychographic variables that focus on Activities, Interests, and Opinions often referred to as Lifestyle.
10. **Arousal of Motives:** The motives which are often aroused on the basis of physiological, emotional, cognitive or environmental factors.
11. **Attitude:** It is the learned predisposition to behave in a favourable or unfavourable with regard to a particular thing.
12. **Beliefs:** These are the mental or verbal statements that reflect an individual's knowledge and assessment about certain things.
13. **Benefit Segmentation:** A basis of segmentation which is based on the kinds of benefits that consumers seek for in a product or service.
14. **Brand Equity:** The value associated with a brand.
15. **Brand Loyalty:** Consistent preference and/or purchase of the same brand.
16. **Brand Personification:** Specific "personality-type" traits or attributes ascribed by consumers for different brands.
17. **Cause-related Marketing:** A form of corporate promotion in which companies try to motivate socially-aware consumers to buy their products by promising to contribute a portion of the sale to a specific cause.
18. **Cognitive Component:** A part of the tri-component attitude model which represents the knowledge, perception, and beliefs that a consumer has with respect to an idea or an object.
19. **Cognitive Dissonance:** The dissonance or discomfort that consumers experience as a result of conflicting information.
20. **Compliant Individual:** The individual who moves towards others and want to be loved, wanted, and appreciated by others.
21. **Conative Component:** A part of the tri-component attitude model which reflects a consumer's likelihood or tendency to behave in a particular way with regard to an attitude-object.

22. **Concentrated Marketing:** It is targeting a product or service to a single market segment with a unique marketing mix.
23. **Conditioned Learning:** It results when a stimulus which elicits a known response that serves to produce the same response by itself.
24. **Consumer Behaviour:** The type of behavior which consumers display in searching for purchasing, using, evaluating, and disposing of products or services.
25. **Consumer Ethnocentrism:** A consumer's predisposition to accept or reject foreign-made products.
26. **Consumer Learning:** The process by which consumers acquire the purchase and consumption knowledge and experience they apply to future related behavour.
27. **Consumer Profile:** Socio-economic/Demographic/Psychographic profile of actual or proposed consumers for a specific product or service.
28. **Counter segmentation:** It is a segmentation strategy in which a company combines two or more segments into a single segment to be targeted with an individually tailored product or promotion campaign.
29. **Cross-Cultural Consumer Analysis:** Research to determine the extent to which consumers of two or more nations are similar in respect to specific consumption behavior.
30. **Cues:** Stimuli that give direction to consumer motives.
31. **Culture:** The sum total of learned beliefs, values, and customs which serve to regulate the consumer behaviour.
32. **Demographic Segmentation:** The division of a total market into smaller subgroups on the basis of such characteristics such as age, gender, marital status, education, occupation and income.
33. **Detached Personality:** An individual who moves away from others.
34. **Differentiated Marketing:** Targeting a product or service to two or more segments, using a specifically tailor-made product, promotion appeal, price etc.
35. **Diffusion Process:** The process by which the acceptance of an innovation is spread by communication to members of a social system over a period of time.
36. **Ego:** The part of personality that serves as the individual's conscious control. It functions as an internal monitor that balances the impulsive demands of the id and the socio-cultural constraints of the superego.
37. **Elaboration Likelihood Model (ELM):** A theory which suggests that an individual's level of involvement during message processing is a critical factor in determining which route to persuasion is likely to be effective.
38. **Evoked Set:** The specific brands a consumer considers in making a purchase choice in a particular product category.
39. **Family Life Cycle:** Classification of family units into significant groupings like Bachelorhood, Honeymooners, Parenthood, Postparenthood, and Dissolution.
40. **Geographic Segmentation:** It is dividing the market based on geographical territories.
41. **Green Marketing:** Marketing activity that involves environmental claims.
42. **Halo Effect:** A situation in which the perception of a person on a multitude of dimensions is based on the evaluation of just one or few dimensions.
43. **Ideal Self-Image:** It is how individuals like to perceive themselves.
44. **Inert Set:** Brands that a consumer is indifferent towards because they are perceived as having no particular advantage.
45. **Infomercial:** These are thirty minute commercials that appear to the average viewer as documentatires and thus command more attentive viewing than obvious commercials would receive.
46. **Instrumental Conditioning:** A behavioural theory of learning based on a trial-and-error process, with habits formed as the result of positive experiences resulting from certain responses or bahaviours.
47. **Just Noticeable Difference:** It is the minimal difference which can be detected between two stimuli.
48. **Market Segmentation:** Dividing the heterogeneous market into homogeneous clusters.
49. **Motivation:** The force which drives an individual for an action.
50. **Opinion Leader:** A person who informally gives product information and advice to others.
51. **Perception:** It is the process by which an individual selects, organizes and interprets stimuli into meaningful and coherent picture of the world.

52. **Positivism:** A consumer behaviour approach that regards consumer behaviour discipline as an applied marketing science. It's main focus is on consumer decision making.
53. **Post-purchase Dissonance:** The cognitive dissonance which occurs after a consumer has made a purchase commitment.
54. **Reference Group:** A person or group which serves as a point of comparison for an individual in the formation of either general or specific values, attitudes, or behaviour.
55. **Social Marketing:** The use of marketing concepts and techniques to win adoption of socially beneficial ideas.
56. **Social Self-Image:** It is how individuals feel others see them.
57. **Stimulus:** Any unit of input to any of the senses.
58. **Superego:** The part of personality that reflects society's moral and ethical codes of conduct.
59. **Use-related Segmentation:** Popular and effective form of segmentation that categorizes consumers in terms of product, service, or brand image characteristics such as usage rate, awareness and degree of brand loyalty.
60. **Use-situation Segmentation:** It is segmentation which is based on the idea that the occasion or situation often determines what consumers will purchase or consume.
61. **Word-of-Mouth Communication:** It is informal conversations concerning products or services.

## Important terms in Total Quality Management

**Affinity Diagram:** It is a technique of gathering and organizing large number of data or ideas, opinion and facts relating to a problem or project, and to identify natural patterns or groupings in the information.

**Arrow Diagram:** It is a mode of presentation of activity flow, which involves planning and constructing the essential steps from start to finish of a project or problem solution.

**Appraisal Cost:** Cost for evaluation of correctness and conformance of a product or service or process after the occurrence of the event. This is the cost incurred by a company to identify the quality conformance of products after they occur. This refers to activities relating to the check for conformances within the company and before the products are shipped out.

**Audit:** It is an examination of records to check their accuracy.

**Bar Graph:** A graphical means of data presentation by bars or columns.

**Benchmarking:** The term refers to a special quality improvement technique that seeks to understand and adopt the "best practice" of others who are world-class in their fields.

**Best Practice:** It is adopted in an for achieving the benchmarked level of performance, after understanding the process of superior performance.

**Brainstorming:** It is an idea generation technique which encourages a group of people to meet for discussing a common or broad issue for identifying the course of approach, route cause, solution or any other pertaining matters or problems.

**Cause-and-Effect Diagram:** It is a technique of graphical presentation used to identify and relate causes and sub-causes with a particular effect or result.

**Continuous Improvement:** It is a term adopted by ISO 9000 standards and 2000 standards version, which refers to discontinuous but repetitive activity for improvements.

**Control Charts:** It is a graphical representation of the characteristic of a process around the central line and one or more control limits.

**Cost of Quality:** It is the measure of cost incurred for not doing things 'first time right' in order to meet the customers' total requirements. It is the difference between the actual cost of making and selling the products or services and the cost if there were no failures during manufacturing or use of the same and no possibility of failure either.

**Creativity and Innovation:** Creativity is the ability of a person to discover a new relationship or ideas that has not existed before, and innovation refers to the new method or approach by which the new idea can be implemented.

**Critical Path Method (CPM):** It refers to the measurement of critical path in the arrow diagram analysis of a project work, where the critical path is the longest path through the network in terms of time dimension.

**Cycle Time:** It refers to time performance i.e., time required to fulfill the commitments or to complete the tasks.

**Defect:** It refers to any non-conformance of the product or service with that of agreed parameters or customer requirements. Defect is an attribute, and expressed as attribute data.

**Economic Value Addition (EVA):** It is a performance indicator in terms of cost of capital employed versus the earnings of a company. It includes the interest outgo for the capital (i.e., the interest that would have been paid had the entire capital been borrowed from the market at a market rate) and earnings mean net profit after taxes and other payables, which can be distributed to stakeholders.

**Flow Chart:** It is a graphical representation, which symbolically shows the sequential flow of activities in a process that produces an output. Flow charts can be of different types, like Process flow chart, Work flow diagram, Resource deployment flow chart etc.

**Histogram:** It is a vertical bar chart that displays the data in an arranged way to illustrate the frequency distribution of the measured data values.

**Inspection:** It is a method of examining, and measuring when necessary, for identification of any defects or short coming of any features or tolerances in a product.

**ISO 9000:** It is a set of quality system standards that define and guide basic elements of quality systems that companies should use to ensure their products and services meeting or exceeding, customer expectations. The standards cover the specific requirements in areas of quality of design, production, installation, testing and inspection, and services. Standards under ISO-9000 banner call for documentation of all processes affecting quality and compliance of the documented systems and procedures.

**Just-in-Time:** It is a management philosophy applied in production methods and manufacturing with a view to incorporating systems of producing 'what is needed when it is needed'. This approach implies the production of exactly what is needed, at the time when it is needed, and not maintaining any extra or safety stocks in the production processes.

**Kaizen:** It is a Japanese concept that means continuous improvement. Kaizen philosophy is based on the belief that a great number of small improvements over a time will lead to substantial cumulative improvement in organisation's performance.

**Non-conformance:** Attributes or measured units of data on a given product or part that do not meet the specification limits.

**p-Chart:** It is a control chart used to evaluate performance of a produces outcome based on the fraction or percentage defective in a sample whose size is either constant or varying.

**Pareto Chart:** A vertical bar chart that displays the relative importance of categories of problems under study or the conditions. The items are arranged in descending order from left to right, and help to separate the vital few important items from the less important trivial ones. The plot and the concept of identifying vital few gave rise to the important statistical distribution rule of 80:20.

**P-D-C-A Cycle:** This is the cycle of sequential activities of Plan-Do-Check-and Analyse that are used for problem solving or process improvement. Essence is to plan from present data and information about what one needs to do, implementation by doing the planned activities, analysis of results by study, evaluation and monitoring, standardization of actions and processes for consistency of results, and then repeating the cycle for continuous improvement. This is also known as 'Deming Cycle' after the name of its enunciator. It is also termed as P-D-S-A i.e., Plan, Do, Study and Act.

**PERT (Programme Evaluation and Review Technique):** This is a time-event network analysis system in which various events in a project are identified with a planned time frame for each. These events are shown in the network depicting relationship of each event with the other events.

**Poka-Yoke:** It is a mistake-proofing system that uses automatic devices or methods to avoid the consequences of simple human error. The idea is to avoid repetitive tasks or actions that depend on memory or vigilance efforts by people, and instead allow people to apply their mind and creativity to value adding jobs.

**Process:** This refers to linked activities combining the people, equipment, materials, methods and environment with the purpose of producing a product or service for customers within or outside the company. In other words, a process converts the inputs to acceptable value-added outputs for customers.

**Process Owner:** A person assigned responsibility for a process because of his or her capability to lead a team and personal influence to contribute and make decisions or any one whose performance is measured in terms of success of the process. Process owners are specially trained and empowered employee of the company.

**Productivity:** It refers to the output to input ratio within a time period and with due consideration for quality. The term is widely used in industries in context of getting higher output for creating profit through productive operations. Productivity is often taken as the measure of efficiency of the use of resources.

**Quality:** The totality of features and characteristics of a product or services that bear on its ability to satisfy the customer needs and expectations.

**Quality Assurance:** This has been defined by ISO as: the procedure consisting of all planned and systematic activities implemented within the quality system, and demonstrated as needed, to provide adequate confidence that an entity will fulfill requirements for quality. The quality assurance procedures aim for prevention or detection of non-conformance at the earliest stages, and as such, involve control of quality vendor items, methods and tools planning, in-process control by using simple statistical tools (control charts), analysis for improvement, and audits of outgoing products or services.

**Quality Control:** This refers to methodology to control the quality of outgoing products as per stipulated specification by means of inspection and sampling technique. Quality control procedure is primarily concerned with the inspection and certification of outgoing quality by checking at specific points within the process.

**Quality Council:** A senior management team responsible for establishing quality improvement items, policies and plans in the organisation, and then facilitating the quality improvement programmes by resource allocations and monitoring.

**Quality Circle:** It refers to a self-motivated group of workers who choose to work out solution of common quality problems or an improvement project by regularly meeting together and sharing responsibility.

**Quality Function Deployment (QFD):** It is a methodology used to ensure that customers' requirements are met throughout the processes of product design, process design and operation of production systems.

**Quality Manual:** It is the principal document that describes a company's quality policy, quality system, quality commitment, and documentation structure. This is a relatively short document that affirms the management's quality commitment, and functions as the 'quality system guide' in the organisation for examining adherence and conformance to ISO-9000 standard.

**Quality Policy:** It is a policy statement of an organisation's commitment to quality by stating what, why and how it intends to achieve the stated level of quality. It is a statement that goes into the design of quality system for customer satisfaction.

**Quality Procedure:** It is functional document under ISO-9000 system that set forth the policy, responsibility and obligation for quality related tasks that affect quality performance within the quality system.

**QS-9000:** This is a 'Quality System Requirement' system defining the fundamentals of a quality system that must be adhered to ensure defect prevention and the reduction of variations and waste in the supply chain of internal and external suppliers of production and service parts and materials. It emphasizes on defect prevention and continuous improvement.

**R Chart:** A control chart that plots the range of sample data values as a function of time, sequence or lot number.

**Re-engineering:** It is a fundamental rethinking and radical redesign of business processes in order to achieve dramatic improvement in areas of critical performance, such as quality, cost, service and efficiency.

**Restructuring:** It refers to the reorientation an dredesign of an organisation's work structure from function based to process based, running across other functions.

**Run Chart:** It is a graphical plot of a measurable characteristic of a process versus the time.

**Six Sigma:** It is a quality matrix that counts the number of defects per million opportunities (DPMO) at six 'Sigma levels'.

**Statistical Process Control (SPC):** It is a method of measuring the variability of a process by using control charts, and determining the capability of the process to produce a particular part.

**Statistical Quality Control (SQC):** It is a method of measuring and controlling the process outputs in terms of the specification by adopting statistical techniques, such as sampling and sampling error measurement, run chart, calibrations of equipment and measuring gauges, statistical analysis of results, cause-and-effect studies etc.

**Standards:** It is an agreed document that includes the stated and implied requirements and expectations of customers, which should be implemented and adhered to in practice for performance.

**Standardisation:** It refers to the process of setting or adopting standards for meeting the requirements of consumers.

**Stakeholeders:** They are individuals or parties who have some interest or stake in the well-being or performance of a company. They can be in the form of customers, employees, suppliers, shareholders, society etc.

**Steering Committee:** It is a management team (mostly drawn from middle or senior management) assigned with the responsibility of guiding a task and deploying measures for achieving a set objective.

**Supplier:** They are the source of supply of materials, goods or services to a company.

**Supply Chain Management:** It refers to the process management where suppliers, sub-contractors and the customer company are linked up in the chain of activities that relate to production, value-addition and delivery of goods and services with a view to satisfying the customers' needs.

**Total Quality Management (TQM):** It is an integrated system approach of customer-focused management where all employees are drawn into the process of continuous improvement an dcustomer satisfaction by redesigning the processes and integrating the processes and activities into a chain of quality delivery processes, including the supply chain and internal customer chain, in order to achieve superior business performance.

**Tree Diagram:** It is a management tool used for analysis and planning where issues, activities or ideas are systematically broken down until an actionable solution emerges from the analysis.

**Value Analysis:** This refers to a step in product design for customers where function of every component of a product is analysed to determine how it might be improved in the most economical way.

**Value chain:** It refers to a series of activities or processes that are designed and managed in an organisation in order to add value to the product or service at each stage so that the sum total of result help the company to earn better margin.

**World class:** This term is used in terms of describing the quality standard of a product or service as the best in its class, considering the global availability.

**X-bar Chart:** This is a variable data control chart that plots the mean of data values as a function of lot number or time or sequence.

**X-R chart:** A pair of charts used to plot individual data values, x1 and the range between data values R. It is also known as individual or moving average control chart.

**Zero-Defects:** This refers to a concept of preventing the occurrence of defects to a very low level, approaching to zero level.

## OTHER IMPORTANT POINTS:-

**Attitude: The cluster of beliefs, feelings and behavioural intentions towards an object.**

**Behaviour Modification: A theory in behavioural science that explains learning in terms of the antecedents and consequences of behavior.**

**Behavioural Audit: A diagnosis of cultural relations between companies prior to a merger and determination of the extent to which cultural clashes are likely to occur.**

**Brainstorming: A freewheeling face-to-face meeting where team members are not allowed to criticize but are encouraged to speak freely in order to generate as many ideas as possible for building on the ideas of others.**

**Change agent**: Anyone who possesses enough knowledge and power outside the group by pooling the resources and power of its members.

**Cognitive Dissonance**: A psychological tension that occurs when people perceive an inconsistency between their beliefs, feelings and behavior.

**Conflict**: The process in which one party perceives that its interests are being opposed or negatively affected by another party.

**Emotional Intelligence**: The ability to perceive and express emotion, assimilate emotion in thought, understand and reason with emotion, and regulate emotion in oneself and others.

**Emotions**: Psychological episodes toward an object, person, or an event that create a state of readiness.

**Employability**: An employment relationship in which people perform a variety of work activities (rather than holding specific jobs) and are expected to continuously learn skills that will keep them employed.

**Employee Assistance Programmes (EAPs)**: Counselling services that help employees overcome personal or organizational stressors and adopt more effective coping mechanisms.

**Employee Involvement**: The degree to which employees influence how their work is organized and carried out.

**Employee Stock Option Plan (ESOP)**: A reward system that encourages employees to buy shares of an organization.

**Empowerment**: A psychological concept in which people experience more self-determination, meaning, competence, and impact regarding their role in the organization.

**Extroversion**: A “Big Five” personality dimension that characterizes people who are outgoing, talkative, sociable, and assertive.

**Goals**: The ultimate objective that employees try to accomplish in an organization.

**Goal Setting**: The process of motivating employees and clarifying their role perceptions by establishing performance objectives.

**Grapevine**: An unstructured and informal communication found in an organization.

**Group**: two or more people with a unifying relationship.

**Impression Management**: Practice of actively shaping one’s public image.

**Informal Groups**: Two or more people who form a unifying relationship based on personal rather than organizational goals.

**Introversion**: A “Big Five” personality dimension that characterizes people who are quiet, shy and cautious.

**Intuition**: the ability to know when a problem or opportunity exists and select the best course of action without conscious reasoning.

**Johari Window**: the model of personal and interpersonal understanding that encourages disclosure and feedback to increase the open area and reduce the blind, hidden, and unknown areas of oneself.

**Knowledge Management**: Any structured activity that improves an organisation's capacity to acquire, share, and use knowledge in ways that improve its survival and success.

**Learning**: A relatively permanent change in behavior that occurs as a result of a person's interaction with the environment.

**Locus of Control**: A personality trait referring to the extent to which people believe events are within their control.

**Machiavellian Values**: the belief that deceit is a natural and acceptable way to influence others.

**Management by Objectives (MBO)**: A participative goal-setting process in which organizational objectives are cascaded down to individual employees.

**Management By Walking Around (MBWA)**: A communication practice in which executives get out of their offices and learn from others in the organization through face-to-face interaction.

**Mental Imagery**: Mentally practicing a task and visualizing its successful completion.

**Motivation**: The force operating within an individual that affect his or her direction, intensity and persistence of voluntary behavior.

**Myers-Briggs Type Indicator (MBTI)**: A personality inventory designed to identify individual's basic preferences information.

**Need for Achievement** : A learned need in which people want to accomplish reasonably through their own efforts.

**Need for Affiliation**: A learned need in which people seek approval/conformation from others for their wishes and expectations.

**Need for Power** : A learned need in which people want to control over other others.

**Need**: Deficiencies that energize or trigger behavior.

**Negotiation**: Two or more conflicting parties attempt to resolve their divergent goals by redefining the terms of their interdependence.

**Organisational Behaviour**: The study of what people think, feel, and do in an organisation.

**Organisational Culture**: The basic pattern of shared assumptions, values and beliefs governing the way employees within an organisation think about and act on problems and opportunities.

**Organisational Design**: The process of creating and modifying organisationa structure.

**Organisational Politics**: Behaviours that people perceive as self-serving tactics for personal gain at the expense of others in an organisation.

**Organisational Structure**: The division of employees and the pattern of co-ordination, communication, work flow, and forma power that direct an organisation's activities.

**Organisation**: Groups of people who work interdependently toward attainment of common objectives.

**Perception**: The process of receiving information about and making sense of the world around us.

**Personality**: The relatively stable pattern of behaviours and consistent states that explain a person's behavioural tendencies.

**Positivism**: A view held in quantitative research in which reality exists independent of perceptions and interpretations of people.

**Power**: The capacity of a person, team, or organisation to influence others.

**Process Consultation**: Helping an organisation to solve its problems on its own by making it aware of organizational processes, the consequences of those processes, and the means by which they can be changed.

**Punishment**: A means of decreasing the frequency or future probability of a behavior through the introduction of a consequence.

**Referent Power**: The capacity to influence others based on the identification and respect they have for the power holder.

**Refreezing**: The latter part of the change process in which systems and conditions are introduced that reinforces and maintains the desired behavior.

**Role Ambiguity**: A lack of clarity and predictability of the outcomes of one's behavior.

**Role Conflict**: Incompatibility of expectations associated with a person's role.

**Role Perception:** A person's beliefs about the specific task assigned to him or her, their relative importance, and the preferred behavior to accomplish those tasks.

**Self-Efficacy**: A person's belief that an individual has the ability, motivation, and resources to complete a task successfully.

**Stakeholer**: They include the shareholders, customers, suppliers, Government and other groups with a vested interest in the organisation.

**Stereotyping**: The process of assigning traits to people based on their membership in a social category.

**Stress**: An individual's adaptive response to a situation that is perceived as challenging or threatening to the person's well-being.

**Team Building**: Any formal activity intended to improve the development and functioning of a team.

**Utilitarianism:** The moral principle stating that decision makers should seek the greatest good for the greatest number of people when choosing among alternatives.

**Valence:** The anticipated satisfaction or dissatisfaction that an individual feels toward an outcome.

**Values:** Stable, long-lasting beliefs about what is important in a variety of situations, which guide our decisions and actions.

**Workaholic:** A person who is highly involved in work, feels compelled to work, and has a low enjoyment of work.

**Workplace Bullying:** Offensive, intimidating, or humiliating behavior that degrades, ridicules, or insults another person at work.

## OTHER MOST IMPORTANT POINTS-

**Communication:** It is the process by which information is transmitted between individuals and/or organisations so that an understanding takes place.
Internal Communication: It is the communication which takes place within an organisation.

**External Communication:** It is the communication which takes place between an organisation and outside agencies like Govt., distributors, retailers, customers etc.

**Written Communication:** It includes the message communicated through letters, circulars, memos, telegrams, reports minutes, forms, questionnaires etc.

**Oral Communication:** It includes the face-to-face conversation, conversation that takes place through telephone, radio broadcasts, interviews, group discussions, meetings, conferences and seminars.

**Visual Communication:** It encompasses the gestures and facial expressions, tables and charts, graphs, diagrams, posters etc.

**Audio-Visual Communication:** It encompasses television and cinema films.

**Computer-based Communication:** It includes the message sent through e-mails, voice mails, mobile communications etc.

**Downward Communication:** It flows from a superior to a subordinate. It includes, orders, individual instruction, policy statements, circulars etc.

**Upward Communication:** It flows from a subordinate to a superior. It includes providing feedback, constructing suggestions etc.

**Horizontal Communication:** It is the communication which takes place between departments or people belonging to the same level in an organisation.

**Grapevine:** It is an informal channel that operates in an organisation. It follows no set lines, nor any definite rules, but spreads like grapevine in any direction, anywhere, and spreads fast.

**Single Strand grapevine communication:** It involves passing of information through a long line of persons to the ultimate recipient.

**Gossip: Here, an individual actively seeks and tells everyone. It operates like a wheel.**

**Probability grapevine communication: It is the chain in a random process in which an individual transmits the information to others in accordance with the laws of probability and then these others tell still others in a similar manner. The chain may also be called random chain.**

**Cluster grapevine communication: Here, an individual tells selected persons who may in turn relay the information to other selected individuals. Most of the information communication follows this chain.**

**Business Letter/ Correspondence: It is the formal communication that takes place between organisations or between an organisation with its customers or between and organisation and its stakeholders.**

**Meeting: The formal or informal assembly of individuals for discussion is referred to as a Meeting.**

**Minutes of Meeting: The written recording of an official proceeding is referred to as Minutes of Meeting.**

# UNIT-7

# MARKETING

## MARKETING INTRODUCTION

- Market- A market consist of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want.
- Potential customers are those we say who has the ability to pay and willingness to buy.
- Deprivation – someone not having enough things necessary for life.
- Needs, wants, Demand. Need are feelings of deprivation, the basic necessities of life e. g food, shelter, cloth. Wants arises when need get satisfied and wants are backed by purchasing power. Demands are wants of some products and services and backed by ability to pay and willingness to buy.
- Purchasing power – ability to pay and willingness to buy
- Products (goods, services, ideas)
- Product a bundle of utility. Anything that can be offered to customer for satisfaction of their wants.
- Customer satisfaction is the main motive of Marketing.
- Value, cost, satisfaction – value means that the Customer's estimate of the products overall capacity to satisfy their wants. When the cost is minimum and the benefits are more we may say that it create value of that product and satisfaction both (cost < benefits)
- Exchange process is the essence of marketing because without exchange there will be no marketing.
- Marketing creates four utilities – time, place, form, possession utility.
- It is marketing which has created yesterday's luxuries into today's necessities.
- Different functions of marketing includes buying , assembling , selling and dividing , transportation , storage and warehousing, financing , risk taking , standardization , grading , branding , labelling , packaging , advertising , sales promotions, personal selling, publicity and market information.
- There is a difference between buying and assembling. As buying involves transfer of ownership of goods and assembling means collection of goods purchased from different sources.
- Caveat emptor – let the buyer beware
- Caveat vendor – let the seller beware
- A prospects is a person who is identified by the marketer that they are willing to buy and able to pay for the products.
- Nature of marketing includes as it is consumer oriented , process , dynamic( can change) pervasive( at all level of management) science as well art , system , goal oriented , human activity , universal activity, socio economic activity.
- Scanning of internal environment reveals strength and weakness whereas scanning of external environment reveals opportunities and threat.
- SWOT- Strength weakness opportunities threat ( In planning)
- Marketing includes both profit as well as non -profit organizations as example of nonprofit organizations is social marketing like family planning , education, communal harmony and national integration.
- Standardization of product is considered as ethical basis of marketing.
- Core of marketing is product/services.
- Marketing is that economic process by which goods and services exchange between buyers and sellers and their values are determined in terms of money.
- Demand = Ability to pay + willingness to buy
- Relationship marketing – building long term satisfying relationships
- Merchandising function – product planning.
- 4 p's – product, place, promotion, price (given by Mc Carthy)
- 4 C's – customer , channel , competitors , characteristics
- Marketing is surrounded by customer needs.

- Process of marketing – identification of customer needs- probable features of the product- portable form of product- modification in the product- final product
- Marketing myopia concept given by Theodore Levitt.
- Philip Kotler given the concept of Marketing Mix
- Philip Kotler has given the 7's concept(product, price, place, promotion, people, physical evidence(packaging), process)
- 3 p's given by Broom Bitwler ( people, physical evidence, process)
- Mega marketing concept- Philip Kotler
- Business aims at profit .To realize profit, a sale has to be made. To make the sale, a customer has to be created. To create a customer, he must be satisfied. To satisfy the customers, his needs have to be met. To meet the customer needs, marketing is essential. Marketing is said to be the eyes and ears of business because it keeps the business in close contact with its environment and informs of events that can influence its operations.

## EVOLUTION OF MARKETING CONCEPT

Traditional ideas of marketing is that the goods are available at any places where they were needed. But now the ideas shifted from exchange to customer satisfactions. Traditional concepts are replaced by modern concepts of Marketing.

Steps from where marketing started-(evolution stages)-

1) Self-sufficient stage – Basically Nomads people started agriculture and they produce only what they want to consume. Marketing is totally absent.

2) Exchange oriented stage – barter system started as exchange of goods in place of goods when surplus productions arises. Market come in existence.

3) Production oriented exchange – Products of high quality and reasonable in price. More focus on production rather than consumption. (Make what you know how to make)

4) Sales oriented stage – (get rid of what you have) focus on hard core selling only rather than customer satisfactions.

5) Marketing oriented stage- (have what you can get rid of) here the aim of marketing is to know and understands the customers so well that product and services fits him and sells itself.

6) Consumer oriented stage – (have what you can get rid of with responsibility) customer satisfactions

7) Management oriented stage

## MODERN CONCEPTS OF MARKETING

1) Production concept – Products that are widely available and of low cost.( Technology )

2) Product concept – Products that are of various quality and features. This concept create (Marketing Myopia given by Theodre levitt)

3) Selling concept - Hardcore selling only( know customer so well that the product fits himself and sell) 4) Marketing concept – design product according to the needs of customers. Customer satisfactions. 5) Societal concepts – Produce those products which are safe for the society.

## SOME OF THE MATCH (same answers).

1) Effective distribution – production concept

2) Large scale selling & promotional effort – selling concept

3) Produce what consumers want – marketing concept

4) Product improvement – product concept

5) Improve societal wellbeing – societal concept

**Societal marketing** – Marketing concept that based on human service and serve the ecological needs. (Social and ethical both) Integrated Marketing – All marketing activities are co-ordinate to achieve the desired results.

**De-marketing –** A situation which may come about as a result of temporary shortages occasioned by short term excess demand for a company's product. Management of excess of demand or reducing the demand to match the supply.

**Remarketing –** New uses of users for an existing product. It creates new satisfaction for the customers. Over marketing – Increased sales while neglecting quality control, production efficiency and cash flow management.

**Meta Marketing-** Given by Eugene J Kelly. It focus on all scientific, social, ethical and managerial experiences of marketing. Example - family planning or non- business org like temple NGOs etc. and develops a long term relationship with the clients, based on the interrelationships between mental and physical process to supplement the facts. Meta means beyond.

## Basic difference between Marketing and selling

| | |
|---|---|
| Marketing Selling 1) Focus on consumer needs 2) Customer enjoys supreme importance 3) Match products with the market 4) Long term goals 5) Consumers needs in to product 6) Caveat vendor(let the seller beware) 7) Profit through customer satisfaction | 1) Focus on sellers needs 2) Products enjoy supreme importance 3) Hardcore selling 4) Immediate sales gain 5) Products into cash 6) Caveat emptor (let the buyer beware) 7) Profits through sales volume as focus on sales only |

## . MARKETING ENVIRONMENT

- According to Philip Kotler Marketing Environment refers to external factors that affect the company's ability to develop and maintain successful transactions and relationships with its target customers.
- Marketing environment divided in to two parts –

1) Internal environment (controllable)

2) External environment (uncontrollable) it divides into Micro and Macro.

- Internal environment which is controllable includes all 7ps such as product, price, place, promotion, physical distribution/packaging, process, people, mission/objectives, human resources and shareholders.
- External environment includes Micro and Macro. Micro includes suppliers, market intermediaries, customers, competitors and public. Macro includes technology, economic, legal, political, socio-cultural, demographic, Competitors.
- Demographic includes size and growth of population, composition in terms of age, sex, education, income, ethnic background, birth, marriage, and death- rate, racial.
- Economic includes nature of economic system, structural anatomy of economy, factor endowment, economic plans and policies, markets.
- Socio-cultural- caste structure, customs and traditions, social institutions, beliefs and values etc.
- Political-legal includes political system and structure, stability f government, laws, judiciary, foreign policy.
- Technology includes science and technology, research and development, inventions, information technology.
- Physical /natural includes natural resources, environmental concerns, ecology, Pollution-control.
- Psychographic includes personality and standard of living.
- Environmental scanning is a process of collecting information about the forces in the marketing environment. Scanning involves observation, perusal of secondary sources of information such as business, trade & government publications and marketing research effort.
- Customer delight – when marketers able to know stated, unstated secret and real weeds and present the product to the customers and customers become more satisfied and happy or we may say beyond expectations when customers get the things is known as customer delight.
- Marketing environment also includes economic and non- economic environment
- Economic environment includes economic system (capitalist, socialism, mixed economy) structures, quality of economic system, economic development, fiscal, industrial, foreign trade policy, factor endowment and international economic relations.
- Non-economic system includes all the parts of Macro environment such as demographic, socio-cultural, legal, political, educational & cultural practices both interact with one another.

# CONSUMER BEHAVIOR

➢ The fact of buying changes the dynamics of the relationships. The buyer views the sales as a favor conferred on the seller and in effect debits the seller accounts. A healthy relationships requires a constant and conscious fight against the forces of decline. One of the surest signs of bad relationships is the action of complains. The customer is either not being candid or not being contacted. Probable both.

➢ Ostrowsmith has defined Consumer behavior on an actions of consumers in the market place and the underline motives for those actions.

➢ The study of consumer behavior is the study of how individuals make decisions to spend their available resources on consumption related items. It includes the study of what they buy, how they buy, where they buy, why they buy.

➢ Buying behavior is the decision process and acts of people involved in buying and using products.

➢ **Consumers decisions behavior includes-**

1) Routine Response behavior- It is usually found in the case of frequently purchased and low cost unit items. Decision effort needed is only minimum.

2) Limited decision making- In this case of purchase made by the consumers less frequently. Costs are relative high. Example buying of television sets. A moderate time for gathering & deliberation.

3) Extensive decision making- It required when consumer wants to purchase unfamiliar products which is totally new, having high unit value & bought prefer once in life. Spends much time, high cost example car.

➢ Hedonistic – when the purchase is capable of providing a high degree of pleasure, involvement is high.

➢ Factors affecting consumers buying behavior are as follows

1) Personal factors such as demographic, life styles and situation

2) Social factors such as roles and family, consumer socialization – The process through which a person acquires the knowledge and skills to functions as a consumer is known as consumer socialization. Reference group, opinion leader, social classes, cultural & sub- cultures.

3) Psychological factors such as perception, motives- that influence where a person buys products on a regular basis are known as patronage motives. Learning, attitudes, personality and self -concept.

➢ **Consumer buying decisions process** – the process through which consumers proceed while making their buying decisions is known as the consumer buying decisions process. It includes stimulus> problem awareness> information search> evaluation alternatives> purchase decisions> post purchase behavior.

➢ Those brand which initially comes to mind when considering purchase are called evoked set.

➢ Post purchase behavior- satisfaction or dissatisfaction shortly after purchasing expensive product a buyer doubts whether he made the right decisions. This is called cognitive dissonance.

➢ **Buying motives of consumers** – A buying motive means what induces a customer to buy a product. There are two types of motive 1) internal motive 2) external motive.

➢ Internal buying motives are inherent in the minds of consumers. They arise from the basic needs like hunger, safety, comfort, pleasure. These are rational or emotional.

➢ External buying motives- It is those which a customer learn or acquires from his environment example status and cultures.

➢ **Rational motive** – Rational buying motives are those which are based on logical reasoning and considerations of economic consequences. These includes cost, durability & dependability of product.

➢ **Emotional motives**- These motives are based on personal feelings. These motive includes ego, prestige, love & affection, status, pride.

➢ **Product motives**- this explains why people buying certain products. Product motive results directly from the needs of the customers.

➢ Impulsive customers are those who buy things without any thinking he market & pick the product.

➢ **Primary motive**- these motives arise directly from customer needs & wants. It includes health, beauty, knowledge, relaxation & recognition

➢ **Secondary or selective buying motive**- It induce consumers to buy certain kinds of products. These include desire for convenience, dependability, durability, economy, versatility.

➢ **Patronage motive**- this cause customers to buy products from a particular manufacturers or retailer. Important patronage motive are those concern with fashion, exclusiveness, dependable, after sale service, convenience of location, quality, price, reliability of seller.

- Loyal customers buys a product from the same locations.

## MARKETING MIX

- The idea of marketing mix was conceived by Prof Neil h Borden of the Harvard business school.
- According to Stanton Marketing mix is the term used to describe the combination of the four inputs which constitute the core of company's marketing system, the product, the price structure, the promotional activities and the distribution system.
- Mc Carthy givens the concept of 4ps.
- Philip Kotler has given the marketing mix
- Philip Kotler has given 7ps
- Broom Bitwler has given 3ps
- Marketing mix is a dynamic concept as it changes according to the environment.
- Elements of marketing mix includes- 1) Product 2) Price 3) Place 4) Promotion 5) People 6) Physical evidence 7) Process
- Factors determining marketing mix includes- 1) Nature of the product 2) Stage of the product life cycle 3) Degree of competition 4) Efficiency of channel 5) Availability of funds.

## MARKET SEGMENTATION/TARGETING AND POSITIONING

- Market segmentation is a process of taking the total heterogeneous market for a product and dividing it into several sub markets or segments, each of which tends to be homogenous in all significant aspects. It is the process of dividing the potential market into distinct subgroups of consumers with common needs and characteristics. Market segments are large identifiable groups. It is possible that a market creates a niche.
- Niche is a narrowly defined group of customers that have a distinct and complain set of needs.
- Process of dividing a market into segments is called market segmentation.
- Segmentation is much more than chopping up a market into one or more divisions.
- Bases or methods of market segmentation- 1) Geographic- region, urban, suburban, rural, market density, climate, terrain, city size, country size, state size. 2) Demographic- age, gender, race, ethnicity, income, education, occupation, family size, family life cycle, religion, social class, nationality, marital status. 3) Psychographic- personality, motivation, lifestyles, perception and standard of living. 4) Behavioristic – volume usage, end use, benefit expectations, brand loyalty, price sensitivity, user status, user rate, readiness stage, purchase occasion. 5) Socio-economic segmentation- social-class, working class, middle income group, ability to buy.
- Value based- the marketing concept prescribes that segmentation should be the outcome of a match between the product features and customer needs. The marketers should really be segmenting their customers so as to isolate those who contribute most of their profit.
- Product segmentation- when the segmentation of markets is done on the basis of product characteristics that are capable of satisfying certain special needs of customers, such a method is known as product segmentation.
- Where the products involved show great differences this method is called rational approach.
- **Requirements of effective market segmentation-**

1) Substantiality 2) Measurability 3) Accessibility 4) Representability 5) Nature of demand 6) Reponses rates Levels of segmentation/ market segmentation strategies

1) **Undifferentiated marketing (mass marketing)-** when organization do not permit the division of market into segments, they conceive of the total market concept. Substitutes are not available fully standardized products. In this firm adopt mass marketing & mass advertising methods. Example coco cola.

2) **Differentiated marketing-** It is a market coverage strategy in which the company goes for proper market segmentation as depicted by its analysis of the total market the company therefore goes for a several products or several segments approach which cause for preparing different marketing mixes for each of the market segments. Differentiated marketing is sales oriented it should be borne in mind that it is costly affair for the organizations.

3) **Concentrated marketing**- It is a market coverage strategy in which company follows one product one segment principle, the company tries to positions its products in the middle of the segment to attract maximum client (this strategy can also help the small

company to stand against the large corporations because the small company can create niche in its one products one segment approach by providing maximum varieties

4) **Local market concept-** The producers has no option but to concentrate on particular localities only (transport & communication developed)

5) **Mass market concept**- In a developed economy where transport & communication systems are comparatively developed. It includes all persons who could be reached by transportation facilities & the mass media. Homogenous market (single product/ single market) (short gun or market aggregation)

6) **Segmented market concept**- In this product preferences are great making segmentations of market deeper. In this product preferences are great making segmentations of market deeper. In this variables of shampoo suitable for day, for oily & for normally hour. (One market different products)

7) **Global market concept** – This concept is made possible by the development of international transportation & communication system & liberalization policies adopted by many countries new.

8) **Single segment concentration-** the marketers refers higher returns & therefore it is possible that the competitors might be attracted to find their place in the segment (e.g. Reebok)

9) **Selective segment specialization**- this is also known as multi stage coverage because different segments are sort to be captured by the company. (E.g. Bata)

10) Market segmentation – one market different products

11) Product specialization – different products one market

12) Full coverage- All product, all markets, it is difficult to serve all segments of the market only big companies can go for full coverage.

- Micro marketing is the practice of tailoring products & marketing program to suit the tastes of specific individuals and locations.
- Mass customization is the ability of a company to prepare on a mass basis individually designed products, services, programs & communication to meet each customers requirement e.g. dell, Levis.
- A target market is defined as a set of buyers sharing common needs or characteristics that the company decides to serve. Develop measure of segment attractiveness.
- Market positioning means setting the competitive positioning for product with specific marketing mix. PRODUCT
- A product is defined as bundles of utility consisting of various features and accompanying services is called a product.
- The term product does not mean only the physical product but the total product including brand, package, labels, status of manufactures & services offered to the customers.
- Theodore Levitt statement that people do not buy products they buy the expectations of benefits. It is the synthesis of what the seller intends & the buyer perceives.
- Levels of products are as follows-

**1) Core products** – It means the fundamental benefits or service which the customers is buying. Eg rest and sleep is the core benefit in case of hotel.

**2) Basic products**- It means the physical dimension of a product. In case of a hotel room bed, bathroom, towels, desk, dresser & closet constitute the basic product.

**3) Expected product**- It means a set of attributes & conditions that buyer normally expect when they buy the product. For eg a hotel customer expects a clean bed, fresh towels, working lamp & a quiet room.

**4) Augmented product-** It means something beyond the customer expectations. A remote control Tv, fresh flowers, fine dining & room service are parts of augmented product in case of hotel room.

**5) Potential product-** The last level of the products is the potential part i.e. all the unexpected change in the technology, attributes, features, styles, color, grade, quality etc. that might change the structure & character of industry. (Unexpected changes both in tangible & intangible)

- A policy taken in regard to the development of a new product or for retaining an existing product in the market is known as product policy.
- Product policy includes both new products and old products – 1) Product mix 2) Product line 3) Product standardization 4) Product identification (brand) 5) Product style 6) Product packaging

## PRODUCT MIX

- Product mix or product portfolio is the combination of all products offered for sale by a company.
- Product mix is of four dimensional— 1) Product line- It refers to a group of products that are closely related because they satisfy a class of needs are used together, are sold to the same customer groups are marketed through the same type of outlets or fall within given price range. 2) Product width- The width of a product mix of a firm is determined by the number of different products line offered by a firm. 3) Product depth- The depth of a product line depends upon the number of product items offered in a line. 4) Product consistency – The considerations in developing a marketing strategies are wide & vary consistently refer to how closely related the product lines are in there end us, product on requirement & distribution channel.
- **Product Item**- It refers to a specific model, brand or size of a product that a company sells. E.g. Videocon refrigerator.
- **Product modification**- It is the process by which the existing products are modified to suit the changing demand on account of fashion change. (Maturity stage)
- **Product elimination-** There are some products which cannot be improved or modified to suit the market needs. The profitable alternative would be to withdraw the product. The process of withdraw is technically known as product elimination or simplification.

## PRODUCT LINE MODIFICATION/ALTERATION

- Product line contraction- This is also known as contraction of product mix. It is a method by which a fat & long product line is thinned out. It is also termed as simplification
- Product line expansion- It referred to expand breadth & depth of its product line. The expansion is undertaken by increasing the lines or items of products. It is also referred to as diversification.
- Diversifications- It is a product which may be entirely distinct & different from the existing products. Eg wholeseller dealing in engineering goods starts selling simultaneously confectionary items.
- Change styles and models of existing products
- Quality variations- produce different qualities of a particular product. TRADING UP / TRADING DOWN
- Trading up- The process of introducing a higher quality products by a manufacturer whose low quality products are famous & higher quality products with a higher price too. It is called trading up. ( skimming)
- Trading down- It happens when a manufacturer of high quality products starts selling a low quality products with a low price. (penetrating)

## PRODUCT STANDARDIZATION

- Standardization includes the establishment of standard, the sorting & grading of products to conform to these standards, replacing, breaking up larger quantities into smaller units of desirable size & product inspection.
- Standardization of goods, facilitates the goods because customer knows that the goods are of certain standard. They can purchase the goods of that standard which satisfy their requirement for instance manufactures product with ISI mark are very popular because of their quality standard or quality assurance.
- Grading- It is great help to the producer or manufactures, it enables them to higher process for higher products or higher grade of product. Grading helps in directing the goods of different quality towards the market suitable.
- Different marks and certifications are as follows-

1) **ISI Mark** (Indian standard institutes) It is a certification mark for industrial products in India. It is developed by BIS (Bureau of Indian Standard) 1986.

2) **FPO mark** (Food processing order) It is a certification mark mandatory on all processed fruits products sold such as packaged fruit beverages, fruit jams, crushes and squash, pickles, dehydrated fruit products& fruits extracts. Under food safety standard act of 2006. Also known as food product ordinance.

3) **AG Mark**- It is a certification mark employed on agriculture products in India approved by directorate of marketing & inspection. The AGMARK is legally enforced in India by the Agricultural produce (grading and marking) act of 1937(amended in 1986). It cover 205 commodities pulses, cereals, oils, fruits & vegetables, vermicelli.

4) **ECO MRAK**- It is a certification mark issued by BIS to products to set a aimed at the least impact on the Ecosystem (1991)

5) Standard mark- It has been developed for about 1250 products including agriculture, implements, baby food, electrical goods, food stuff, drugs, cosmetics, utensils, textiles, furniture, sports goods, paints , carpets & detergents.

6) **Pac Mark**- It will cover building materials, product & components which are out of the ambit of ISI certification.

7) **Non-polluting vehicle** – It is a mandatory certification mark required on all new motor vehicle sold in India (validity 1 year)

8) **BIS hallmark**- It is for gold & silver certifying to the purity of metal.

9) **India organic**- It is a certification mark for organically formed food products manufactured in India, certifies that an organic food product conforms to the national standards for organic product established in 2000.

## TYPES OF PRODUCTS

- Non-durable goods- These goods are tangible goods that are consumed with one or few uses e.g. sweets (one time use)
- Durable goods- These products are tangible which remain in use months after months, years & years. E.g. fridge, washing machine.
- Services – These are activities or benefits that provide satisfaction to the consumer's
- Consumers goods are as follows-

**1) Convenience goods-** Easy & quickly to buy. These includes items which the consumers buys frequently with minimum shopping efforts eg grocery, toiletries.

**2) Shopping goods**-Comparisons includes customer involvement furniture, Jewellery. These includes items which the consumers selects & buy after making comparisons of substitutes on such criteria as quality price style & suitability.

**3) Speciality goods** – The consumer have to make a special purchasing effort to purchase this speciality goods. Items like which possess unique features or have a number of brand names or both. (eg coin collection) (personal interest)

**4)** Unsought goods- They are the products which do not fall in any of the above category but are important for the customer eg solar cooker, BMW, solar buses, insurance. (selling concept)

- **Producers or Industrial goods-**

**1) Raw Material –** They are those industrial goods which will become part of another physical product and which have not been processed except for their physical handling (e.g. egg, fruits, cotton, wheat, pulses)

**2) Fabricating material-** These are partial or complete items which become part of the final products. They have already been processed to some extent e.g. pig iron going into steel, yarn being move into cloth, leather to shoes.

**3) Accessories equipment** includes industrial goods usually less expensive & having shorter life than installations. They are required for the manufactures of fixed product though they do not form part of finish products e.g. hand tools, portable drills, lubricants.

**4) Operating suppliers**- They are short life & low priced items usually purchase with minimum of efforts they are basically convenience goods of industries e.g. pen, pencils, paper, and screw.

- Product planning consists of activities which enables producers to determine what should constitute a company line of product.
- Product positioning- It means to the placement of the production such a way that the customer is able to recognize the utility or the purpose for which they are buying.
- Product differentiation- Making ones product different in some manner from those of the competitors no matter how the small differentiations may be.
- Market aggregation- A single product item or limited product line has only one market. It is assumed that we have only one demand curve for the product. Market aggregation is the standardization of marketing policy.

## PACKAGING, BRANDIND AND AFTER SALE SERVICE

- Packaging is rapping, compressing, filling or creating of goods for the purpose of protection of goods and there convenient handling.
- Legal dimension of packaging- government has laid down specific packaging material for certain products, consumer's

protection, transportation of hazardous cargo. The most pervasive among these are the regulation relating to the information a manufacture is obliged to provide in the package itself on the product. (Labelling) (Price, weight, expiry date, manufacturing date, contents)

## LABELLING

- Labelling means putting identification marks on the package the label is an important feature of a product. It is that part of product which contains information about the producer of the product ( it is a part of packaging)
- A good label helps a potential buyer to make his decision by providing relevant and correct information.
- A part from the information which must be statutory given the label should provide.
- It includes the followings- 1) Picture of the product 2) Description of raw product 3) Direction for use 4) Possible adverse effect

**5)** Brand name 6) Statutory warning 7) Date of manufacturing & expiry

## BRANDING

- It is the process of stamping a product with some identify name or mark of combination or both. Business firms generally use 3 types of branding.
- It includes 1) symbol and mark 2) special names 3) name of the product.
- Types of branding such as individual branding and umbrella branding.

## TRADE MARK

- It is a legal term it refers to a brand which is registered with the government under the trade & merchandises mark act 1958.
- According to sec 2 (1)(5) of the trade & merchandise mark act 1958 includes a register trade mark or a mark. A mark has been defined to include a device, brand, heading, label, ticket, name signature, word, logo, letter or numerical or any combination thereof.
- Product mix is also known as product assortment.
- All trademarks are brand but a brand can be as a trademark only when it is legally protected and has been appropriated by one seller.
- When a brand is registered it becomes trademark and such trademark is shown by displaying the letter ®

## AFTER SALE SERVICE

- Purpose of after sale service are as follows- 1) Warranty 2) Repair 3) Service warranty execution 4) Customer dissonance
- The goal of any business unit is to have constant inflow of consumer on return basis after the purchase of the product, the buyer commits to one alternative self-introspection & doubt or anxiety may generate post purchase dissonance. Thus dissonance is natural consequence of purchase because the purchaser gives up the alternative features of the rejected alternatives.

## PRODUCT DEVELOPMENT

- Product development includes a number of decisions namely what to manufacture or buy or how to have its packaging, how to fix its price & how to sell it.
- New product development consist of creation of new ideas, with evaluation in terms of sales potential and profitability, production facilities, resources available, designing & production testing & marketing of the product
- Stages in new product development includes 1) Generation of product ideas/Ideas generation 2) Screening of Ideas 3) Commercial feasibility or business analysis (idea finally selected) 4) Product development (idea on paper, product on hand) 5) Test marketing (pilot study) (post launching) 6) Launching of the product

## PRODUCT LIFE CYCLE (PLC)

- The product life cycle is generally term as product or market life cycle because it is related to a particular market. The product life cycle concept indicates as to what can be expected in the market for a new product at various stages i.e introduction, growth, maturity, decline, abandonment of product.
- Stages in the product life cycle are as follows-

1) Introduction stage- Under this stage competition is almost non-existence, prices are relatively high, markets are limited and the product innovation is not known much. Growth in sales volume is at a lower rate because of lack of knowledge on the part of customers, difficulties in making a product available to the customer, to introduce the product successfully the following strategies

may be adopted- advertisements & publicity, attractive gifts given to customer, selective distribution & attractive discounts to dealer, higher prices of the product to earn a greater profit during a initial stages. This is called as a skimming pricing policy.

2) Growth stage- The demands expands rapidly, prices are low, sale gets increase, profit increase. Followings strategies adopted in this are product is heavily advertise, new version of the product Is introduced, channels of distribution are strengthen so that the product is easily available wherever required, brand image of the product is created through promotional activities, the price of the product is competitive whereas greater emphasis on customer service.

3) Maturity stage- the product enters in to maturity stage as competition intensity further and market gets stabilize, profit at apex, sales at high, competition high. Strategies are product may be differentiated from the competitive products & brand image may be emphasis more, warranty period may be extended, reusable packaging may be use, new markets may be develop, new uses of the product may be develop.

4) Decline stage- this stage is characterized by either the product gradual displacement by some new products or change in consumer buying behavior. The sales fall down sharply and the expenditure on promotion should be cut down. The decline may be rapid with the product soon passing out of market or slow if new uses of the product are found. To avoid sharp decline in sales following strategies are used new features may be added to the product and its packaging may be made more attractive, economy packs or models may be introduce to revive the market , the promotion of the product should be selected to reduce distribution cost.

5) Abandonment of product- The demands of the people change and new innovations comes to the market to takes place of the abandonment product.

- Laggards are consumers who are bounded by traditions (did not accept innovations quickly)
- Complex pricing decisions are taken in maturity stage.

## PRICING

- Price is the only element in the marketing mix that generates revenue.
- Demand ceiling of price
- Cost floor price.
- This chapter is already mentioned in ECONOMICS part .please read it from there.

## PROMOTIONS

- Promotion is a process of communication with potential buyers involving information persuasion & influence. It includes all types of personal or impersonal communication with customers and middlemen.
- Elements of communications are as follows- sender> message> encoding> channel> receiver> decoding> feedback
- Promotion mix includes 1) Advertising 2) Publicity 3) Public relations 4) Personal selling 5) Sales promotion
- **Advertising-** paid form, mass communication, impersonal, identified sponsor, less expensive, feedback slow, long term. It is only the medium through which consumers could know the various uses of the product, public mode of communication and pervasive (repetition)
- **Personal selling-** also known as salesmanship, it does a complete selling job, personal selling is like a hunter who shoots the particular prey while advertising is like a fishermen who casts his net on to water in the hope that some fish will bite it, personal face to face, interpersonal communication, spoken words, personal appeal, expensive most, immediate feedback, long plus short term both.
- **Sales promotions-** direct to customer to buy, interpersonal or mass communication, immediate sales, increase sales, short term, free samples, premium offer, price reductions.
- **Publicity-** it is both positive and negative, short term , news and media, mostly not controlled, inexpensive method. It is more powerful than advertising & sales promotion.
- **Expensive**- personal selling, can be expensive- sales promotion, less expensive advertising, inexpensive- publicity.
- Publicity refers to the generations of news about a person, product, service or organizations that appears in broadcast or print media.
- **Public relations** means the management function which evaluates public attitudes, identifies the policies and procedures of an organization with the public interest and executes a programme of action. It is credibility, low cost, image building, positive, long term and controlled.
- Hierarchy of effects includes awareness> knowledge> liking> preferences> conviction> purchase.

- Kinds of promotion includes informative promotion, persuasive promotion, reminder promotion, buyer behavior modification.
- Approaches of promotion 1) AIDA concept- attention, interest, desire & action also known as three stages approach. Cognitive, affective, conative. 2) Hierarchy of effects- awareness>knowledge>liking>preference>conviction>purchase.
- Two promotional strategies are push strategy and pull strategy
- Pull strategy – firm adopting this spend more on advertising and sales promotion. This effort pull the customers towards manufactures, basically in consumer goods, high brand loyalty, end users, fast.
- Push strategy- It emphasis on personal selling. It would tend to push the product through middlemen. Low brand loyalty, basically in industrial goods, slow.

## ADVERTISEMENT BUDGET

Advertisement budget- it includes 1) Market share approach 2) Arbitrary allocation 3) Percentage of sales method 4) Tasks & objectives method 5) Competitive comparison method 6) Funds available method 7) Incremental method 8) Fixed sum per unit method Evaluating media alternatives 1) Cost per contact (cpm- cost per million) also called milline rate 2) Duplication 3) Market selectivity Media scheduling Determining size & timing of advertising messages Message decisions Message effectiveness 1) pre - test 2) protest Keying advertisement follow up system.

# DISTRIBUTION

- A distribution channel consist of set of people firms involved in the transfer of the title to a product as a product moves to or from producer & the final user of the product as well as mercantile agents and merchant middlemen engaged in the transfer of title of goods &services.
- Three types of flow 1) Product flow (downward from producer to consumer) 2) Cash flow (upward from consumers to producers) 3) Marketing information flow both the sides.
- Types of distributions channels for consumer goods and industrial goods.
- **For consumer goods there are five types of channel of distributions-** 1) Producer-consumers 2) Producer-retailer- consumers 3) Producer- wholesaler- retailers- consumers 4) Producer- agent- retailer- consumers 5) Producer- agent- wholesaler- retailer – consumers
- For industrial goods there are four types 1) Producer- industrial- user 2) Producer- industrial- distributor- user 3) Producer- agent- user 4) Producer- agent- industrial – distribution-user
- Direct selling- channel/ zero level channel- door to door sales person, retail outlets by manufactures, catalog selling, tele- marketing, online marketing or internet/ web marketing.
- **Manufactures to customers**- This is a shortest & simplest channel, direct sale of goods & services, no middlemen or intermediary. Wholesaling- It includes all activities involved in selling of goods or services for those who buy for re-sell and business uses. Wholesalers excludes manufactures and farmers because they are engaged primarily in production and as well as it excludes retailers. The middlemen who are engaged in wholesaling are known as wholesalers.

Types of middlemen are--

1) Mercantile agents – they are also known as agent middlemen or functional middlemen. It includes commission agent, factor, auctioneer, broker.

2) Merchant middlemen- they are also known as merchants, are the dealers in goods & services who purchase & sell in their own name for a margin of profit. They assume title of ownership to the goods in all cases though physical possession of the goods may not take place in all the cases. Marketing logistics- planning, implementing & controlling the physical flows of materials, final goods and related information from point of origin to pint of consumption to meet customer's requirement of profit. It means getting the right product in the right quantity to the right customer at the right place in the right time

## RECENT TRENDS IN MARKETING

- **Social marketing-** According to Philip Kotler social marketing is the design, implementation and control of program seeking to increase the acceptability of a social idea cause or practice among a target group. Non- profit organizations, charitable donations. The success of social marketing cannot be measured in financial terms. Number of clients served, quality of service, benefits provided are some criteria that can be used to judge efficiency of social marketing.
- **Direct marketing-** It is an interactive marketing system that uses one or more advertising media to effect a measurable response and transaction at any location one to one marketing, use of mails, telephone, fax, email. Direct marketing is used for both

consumer marketing & business to business marketing.

- Face-to-face selling also called direct selling or door to door selling mainly in industrial, insurance & stock brokers.
- Direct mail marketing (mail send offer on address) it is also known as direct response marketing.
- **Catalogue Marketing-** Under this form of direct marketing, a company mails one or more product catalogues to selected persons who have a high likelihood of placing an order.
- **Telemarketing-** It is the performance of marketing related activity by telephone. ADRMPS (Automatic dialing & recorded message players). Teleshopping- It means shopping through internet. The buyer places the purchase order through telephone or website of the seller by mail or the sales representative goods are deliver at door mainly at FMCG.
- **Automated vending machine** – These are coin operated machines which automatically vend (sell) merchandise without the aid of any sales assistants. ATMs (Automated teller machine).
- **Kiosk marketing-** These are customer order placing machines called Kisoks in contrast to vending machines which dispense actual products in airports, stores etc.
- **Television home shopping-** In this directs marketing products are presented to television viewers who buy them by calling a toll free number and paying with credits cards. Clothing, housewares, electronics.
- **Online marketing-** online marketing may be defined as the process of building and maintaining customer relationships through online activities to facilitate the exchange of ideas, products & services that satisfy the goals of both the seller & buyer. It is also known as internet marketing & web marketing.
- **Relationship marketing-** according to Peter F Drucker the basic purpose of a business is to create customers & retain them. It is the process of building long term trusting win relationship with customers, distributors, dealers & suppliers. It requires mutual trust and rapport between business & its customers. Outcome of relationship marketing is the building of a unique company asset called a marketing network. Long term & trusting relationships with the conscious aim to develop & manage long term & trusting relationships with customers, distributors, suppliers.
- **CRM customer relationship management-** It is the process of building & maintaining profitable relationships with customers by delivering superior customer value & customer satisfaction. If a seller loose an entire stream of purchase of a life time of patronage it is called customer life time value. A customer delights creates an emotion relationship with a product or service.
- **Green marketing-** It means the development, pricing, promotion & distribution of products that do not harm the environment. It is also known as environmental marketing & ecological marketing. It involves the study of positive & negative aspects of marketing activities on pollution, energy depletion & non-energy depletion.
- **Marketing ethics-** Marketing ethics may be defined as principles that define acceptable conduct in marketing. It is necessary to codify ethical standards into meaningful policies so as to spell out what is and is not acceptable behavior.
- **Database marketing**- It is the process of building, maintaining & using customer database for the purpose of contacting & transacts. A customer database is an organized collection of comprehensive data about individual customers or prospects that is current, acceptable & actionable for marketing purposes such as lead generations like hotels, banks and airlines.
- Customer delights means doing something that feels special to customer exceeding his/her expectations. To please the customers, continuous improvement is mandatory.

# MISCELLANEOUS POINTS:-

## (1) NEED/ WANT/ DEMAND:

- **Need**: It is state of deprivation of some basic satisfaction. eg.- food, clothing, safety, shelter.
- **Want**: Desire for specific satisfier of need. eg.- Indians needs food – wants paneer tikka/ tandoori chicken. Americans needs food- wants hamburger/ French fries.
- **Demand**: Want for a specific product backed up by ability and willingness to buy. eg.- Need – transportation.

## (2) PRODUCTS- GOODS/ SERVICES/ PLACE.

Product is anything that can satisfy need/ want.

Product component-

1. Physical Good.
2. Service.
3. Idea.

**eg.** Fast food- burger/ pizza.

- **Physical Good** – material eaten.
- **Service** – purchase of raw material/ cooking
- **Idea** – speed of computer/ processing power.

Importance of product lies in – Owning them (minor); Obtaining them (major). Hence, products are really a via- media for services. Hence, in marketing, focus is on providing/ satisfying service rather than providing products.

**Marketing Myopia**: Focus on products rather than on customer needs.

## (3) **VALUE/ COST/ SATISFACTION**:

- Decision for purchase made based on value/ cost satisfaction delivered by product/ offering.
- Product fulfills/ satisfies Need/ Want.
- Value is products capacity to satisfy needs/ wants as per consumer's perception or estimation.
- Each product would have a cost/ price elements attached to it.

Eg. – Travel from city A to city B.

- Need – to reach B ( from A)
- Method/ Products- Rail/ air/ road or train/ plane.
- Satisfaction – Estimated in terms of time lead & travel comfort.

**VALUE**– Products capacity to satisfy.

**COST**– Price of each products.

## (4) **EXCHANGE/ TRANSACTION**:

To satisfy need/ want, people may obtain the product through

- Self Production
- By force or coercion

- Begging
- Exchange

**EXCHANGE**: – The act/ process of obtaining a desired product from someone by offering something in return. For exchange potential to exist, the following conditions must be fulfilled.

1. There must be at least two parties.
2. Each party has something of value for other party.
3. Each party is capable of communication & delivery
4. Each party is free to accept/ reject the exchange offer.
5. Each party believes it is appropriate to deal with the other party.

**TRANSACTION:** – Event that happens at the end of an exchange. Exchange is a process towards an agreement. When agreement is reached, we say a transaction has taken place.

a) Barter transaction.

b) Monetary Transaction.

1. At least two things of value.
2. Condition agreed upon.
3. Time of agreement.
4. Place of agreement.
5. May have legal system for compliance.

Proof of transaction is BILL/ INVOICE.

**TRANSFER**: – It is one way. Hence, differ from Transaction.

**NEGOTIATION**: – Process of trying to arrive at mutually agreeable terms.

Negotiation may lead to

- Transaction
- Decision not to Transaction

## (5) **RELATIONSHIP/ NETWORKING**:

Relationship marketing:- It's a pattern of building long term satisfying relationship with customers, suppliers, distributors in order to retain their long term performances and business.

Achieved through promise and delivery of

- high quality
- good service
- fair pricing, over a period of time.

Outcome of Relationship Marketing is a MARKETING NETWORK.

**MARKETING NETWORK**: It is made up of the company and its customers, employees, suppliers, distributors, advertisement agencies, retailers, research & development with whom it has built mutually profitable business relationship.

Competition is between whole network for market share and NOT between companies alone.

## (6) **MARKET**:

A market consists of all potential customers sharing particular need/ want who may be willing and able to engage in exchange to satisfy need/ want.

Market Size = fn (Number of people who have need/ want; have resources that interest

others, willing or able to offer these resources in exchange for what

they want).

In Marketing terms: Sellers – called as "INDUSTRY".

Buyers – referred to in a group as "MARKET".

Types of Markets:

1. Resource Market,
2. Manufacturing Market,
3. Intermediary Market,
4. Consumer Market,
5. Government market.

## (7) **MARKETERS/ PROSPECTS**:

Working with markets to actualize potential exchanges for the purpose of satisfying needs and wants. One party seeks the exchange more actively, called as " Marketer", and the other party is called "Prospect".

Prospect is someone whom marketer identifies as potentially willing and able to engage in exchange. Marketer may be seller or buyer. Most of time, marketer is seller. A marketer is a company serving a market in the face of competition.

Marketing Management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties.

**AMA- American Marketing Association.**

It defines marketing management as the process of planning & executing the conception of pricing, promotion, distribution of goods, services, ideas to create exchanges that satisfy individual and organizational goals.

Can be practiced in any market.

Task of marketing management is to influence the level, timing, composition of demand in a way that will help the organization to achieve its objective. Hence, marketing management is essentially demand management.

States of "**DEMAND**" could be:

- Negative demand – Major market dislikes product, hence try to avoid. eg.- injections.
- No Demand – Constant unaware and uninterested in product. eg.- segway.
- Latent Demand – Need exists, not fulfilled by current products. eg.- ATM, mobile.
- Declining demand – Demand decreases over period of time. eg.- pagers, scooters.
- Irregular Demand – Seasonally. eg.- fans, raincoat.
- Full Demand – Good volume of business. eg.- tooth paste, most of FMCG items.
- Overfull Demand – Demand greater than ability to handle. eg.- VSNL sim card.
- Unwholesome Demand – Unwholesome product. eg.- cigarettes, narcotic drugs.

# UNIT-8

# INTERNATIONAL BUSSINESS

## IMF (INTERNATIONAL MONETARY FUND)

- IMF was established with IBRD (INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT) also known as world bank at the conference of 44 nations held at Bretton woods new hemisphere USA July 1944.
- IMF came into force on 27th December 1945
- Member countries is 188 last south Sudan has joined it.
- India is a founder member of IMF
- Headquarter is at Washington DC
- Managing director is Christine laggard
- ➢ IMF is controlled and managed by a Board of director's
- Each governor has got the right of 250 votes on the basis of the membership and one additional vote for each SDR 100000 of quotas. SDR ( special drawing rights)
- Voting rights depends on the quantum of quota of a particularly country
- Till 1971 amount of quotas & assistance provided were denominated in US dollar but since Dec 1971 all quotas & transactions of IMF are expressed in SDR ( special drawing rights) which is also known as paper gold
- Since 1st January 2011 the value of SDR is being determined by the basket of 4 currencies- 1) Euro- 34% 2) Japanese yen- 11% 3) Pound sterling- 11% 4) US Dollar- 44%
- IMF financial year is from 1st May to 30th April
- Various facilities like extended fund facility, standby facility, contingent credit lines, compensatory facility.
- Poor countries helped by poverty reduction and growth facility
- ➢ India's 8th place in IMF general quota
- India to be the 8th largest shareholders in IMF
- India is a founder member of the IMF
- The finance minister is the ex-officio governor in IMF board of governors
- India participates in FTP (Financial transactional plan) of the IMF 2002
- ESAF (enhanced structural adjustment facility) was established in 1987 to help low income and debt burden countries
- Main objectives of IMF- 1) To promote international monetary co-operation 2) To ensure balanced international trade 3) To ensure exchange rate stability 4) To eliminate & minimize exchange restrictions by promoting the system of multilateral payments 5) To grant economic assistance to member countries for elimination the adverse imbalance in BOP ( balance of payment) 6) To minimize imbalances in quantum & duration of International trade
- IMF was established to provide short term assistance to correct the balance of payment disequilibrium
- IMF fund regarded as guardian of good conduct in area of balance of payment
- IMF controlled and managed by board of governors, executive board, managing director, IMF secretariat, Interim committee, development committee.

## IBRD (INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ) OR WORLD BANK

- IBRD and its associates institutions as a group are known as world bank
- In 1945 it was realized to concentrate on reconstructing the war affected economies
- IBRD was established on 5th December 1945 with IMF on the basis of the recommendations of the Bretton wood conference. That is the reason why IMF& IBRD are called Bretton wood twins.
- IBRD started functioning in June 1946
- World bank and IMF are complementary institutions
- Aims to reduce poverty in middle Income& creditworthy poorer countries by promoting sustainable development

- The World Bank group today consist of five closely associated institutions propitiating the role of development in the member nations in different areas. These five are

1) IBRD (International bank for reconstructions and development)

2) IDA (International development association)

3) IFC (International finance corporations)

4) MIGA (Multilateral investment guarantee agency)

5) ICSID (International center for settlement of investment disputes)

6) BIPA (Bilateral investment protection & promotion agreement)

- India is a member of four constituents of the world bank group i.e IBRD, IFC, IDA & MIGA
- Objective of World Bank are as follows-

1) To provide long run capital to member countries for economic reconstruction & development (for rehabilitate war ruined economies % peace requirement)

2) For assuring balance of payment equilibrium & balanced development of International trade

3) To promote capital Investment

4) To provide guarantee for loans granted to small & large units and other projects member countries

5) To ensure the implementation of development project so as to bring about a smooth transference from a war time to peace economy

- Difference between IMF and IBRD are world bank provides long term loans for promoting balanced economic development, while IMF provides short term loans to member countries for eliminating BOP disequilibrium
- The eminent world economist George Schultz had suggested in American economic association conference in Jan 1995 for the merger of IMF & world bank
- Every country of the IMF automatically becomes the member of world bank
- If a country leaving the membership of IMF can continue its membership with world bank if 75% members of their banks give their vote in its favor
- **Similarities between IMF % WORLD BANK are as follows**-1) Owned & directed by the government of member nations 2) Almost every country on earth is a member of both Institutions 3) Both concern themselves with economic issues 4) Both focus on broadening & strengthening the economies of their member nations 5) Hold joint annual meeting 6) Headquarter is at Washington DC 7) Share joint task forces sessions & research efforts 8) India is a founder member of IBRD 9) The voting rights of member countries is determined on the basis of member country's share the total Capital of the Banks
- Each member has 250 votes plus one additional vote for each 100,000 shares of the capital stock held.
- World bank also provides technical services to the member countries for this, bank has established the Economic Development Institute & staff college in Washington
- In 1958 bank played an important role in establishing India Aid club for providing special economic assistance to India now its called India Development forum
- India borrow from IBRD & IDA
- PESTEL- Political, economic, socio-cultural, technological, environment & legal
- CAGE- Cultural, administrative, geographic & Economic
- Organization structure are Board of governors, executive directors, president act as a chairman of executive directors
- World bank provides 30% of total loans to power sector, 30 % to transport sector and remaining 40% to agriculture, fisheries, mining, forestry, Industrial sector, technical assistance, population control, tourism, urbanization drainage etc.

## ADB (ASIAN DEVELOPMENT BANK)

- It was established in Dec 1966 on the recommendations of ECAFE (European commission for Asia & far east)
- Aim of this bank is to accelerate economic & social development in Asia & pacific region
- Started its functions on 1st Jan 1967

-  Headquarter is at Manila Philippines
-  Georgia is the 67th and newest member having joined ADB effective feb2, 2007
-  Asian development Bank constituted Asian development fund in 1974 which provides loans to Asian countries on concessional interests rate
-  OCR- ordinary capital resources
-  ADB aid to India for Infrastructure, solar power development through PPP (Public private partnership)
-  ADB is a multilateral development financial institutions

## IFC (INTERNATIONAL FINANCIAL CORPORATIONS)

-  It was established in July 1956
-  Main objectives were 1) To provide loan to private sector without any government guarantee 2) To co-ordinate capital & management 3) T induce capitalist countries to invest in developing countries

## MIGA (MULTILATERAL INVESTMENT GUARANTEE AGENCY)

-  It was established on 1st April 1988
-  Its mission is to promote FDI (foreign direct investment) in to developing countries to help support economic growth, reduce poverty and improve people lives.

## ICSID (INTERNATIONAL CENTER FOR SETTLEMENT OF INVESTMENT DISPUTES)

-  It was established on 18th March 1965
-  Came into force on 14th Oct 1966
-  The primary purpose is to provide facilities for conciliation & arbitration of international Investment disputes
-  ICSID is considered to be the leading international arbitration institution devoted to investor state dispute settlement

## SAARC (SOUTH EAST ASIAN ASSOCIATION OF REGIONAL CO-OPERATION)

-  India , Maldives, Pakistan, Bangladesh, Sri-lanka, Bhutan, Nepal and Afghanistan constituted an organization known as SAARC
-  On the recommendations of Dhaka conference on 7th /8th Dec 1985
-  Headquarter has been established at Kathmandu, Nepal
-  Idea of SAARC mooted in 1979 by Zia-Ur-Rahman the then president of Bangladesh
-  Objectives of SAARC are as follows-

1) To promote the welfare of the peoples of south Asia and to improve their quality of life

2) To accelerate economic growth social progress and cultural development in the region & to provide all individuals the opportunity to live in dignity& to realize their full potential

3) To promote & strengthen collective self- reliance, among the countries of south Asia

4) To contribute to mutual trust, understanding & appreciation of Another's problem

5) To promote active collaboration and mutual assistance in the economic, social, cultural, technical & scientific fields

6) To strengthen co-operation with other developing countries

7) To strengthen co-operative among themselves in international forums on matters of common interests

8) To co-operate with International& regional organization with similar aims & purposes

-  16th SAARC summit Thimpu Bhutan 2010- Thimpu silver jubilee declaration towards a green & happy south Asia
-  Organizational structure are summit meetings of the heads of the state or governor, council of ministers/ foreign ministers, standing committee, technical committee, action committee
-  17th SAARC summit held in Audacity Maldives 2011 Nov
-  18th SAARC summit held in Kathmandu Nov 2014 the theme of 18th SAARC summit was deeper integration for peace & prosperity, focused on enhancing connectivity between the member states for easier transit transport across the region
-  19th SAARC summit will be held in Islamabad Pakistan in 2016

➢ SAARC important years are –

1) 1990- year forgirls

2) 1991- year forhouse

3) 1992- year forenvironment

4) 1993- year forhandicap

5) 1995- year for poverty removal

6) 1996- year forliteracy

7) 1991-2000- decades forgirl

8) 2005- year of south Asia tourism

9) 2008- year of good governance

## ASEAN (ASSOCITAION OF SOUTH EAST ASIAN NATIONS)

- Indonesia, Philippines, Malaysia, Singapore and Thailand constituted this association on 8th August 1967
- The object of ASEAN is to promote economic co-operation in south east Asia & also to ensure economic stability in the region
- Headquarter is at Jakarta
- 10 member countries
- ASEAN summit motto- one vision, one identity, one community
- 13th summit of ASEAN 2007 theme One ASEAN at the heart of the dynamic Asia
- 23rd July 1996 ASEAN gave advisory status to India
- Sign blueprint for the proposed ASEAN economic community that will take effect in 2015
- ASEAN recent summit- 25th summit at Nay Pyi Taw Myanmar Nov 2014, 24th summit at Nay Pyi Taw Myanmar may 2014, 23rd summit at Brunei Oct 2013, 22nd summit at Brunei April 2013, 21st summit Phnom Penh Cambodia Nov 2012, 20th summit at Phnom Penh Cambodia April 2012
- 1st summit at Bali , Indonesia Feb 1976

## NAFTA (NORTH AMERICA FREE TRADE AREA)

- On 12th August 1992 a trilateral agreement between USA, Canada, Mexico took place which declared North American region as Free trade Area
- It came in to force on 1st Jan 1994
- It was constituted to meet the challenges of EEC (European economic community) and Japanese economic policies
- Rule of origin was developed, which implied that the economic resources of the countries in the political region should be utilized for economic development of people belonging to that country only
- NAFTA is a free trade area among the United States of America, Canada & Mexico.
- This is the largest and most important trading bloc of the world.
- In 1989 NAFTA agreement between Canada & USA
- NAAEC- North America agreements on environment co-operation
- NAALC- North America agreements on labor co-operation

## SAFTA (SOUTH ASIAN FREE TRADE AGREEMENT)

- 12TH summit of SAARC Islamabad 2004 gave rise to SAFTA
- It came into force 1st Jan 2006 replacing SAPTA (South Asian preferential trade agreement) which was operative among SAARC countries in 7th summit Dhaka 1993 , operative since Dec 1995
- SAFTA Presupposes abolition of all kinds of trade & tariffs restrictions.

## EFTA (EUROPEAN FREE TRADE AGREEMENT)

- It was established at Stockholm on 3rd may 1960
- It was established with a view to curtails custom duties & other tariffs among member countries.
- Headquarter is at Geneva

## IDA (INTERNATIONAL DEVELOPMENT ASSOCIATION)

- IDA is an associate institution of world bank known as soft loan window of world bank
- It was established on 24th Sep 1960
- IDA provides loan to the member countries and no interest is charged on these long term loans
- These soft loans are provided to the poor countries of the world

## IFAD (INTERNATIONA FUNDS FOR AGRICULTURE DEVELOPMENT)

- Established in 1977
- India is a member country

## URUGUAY ROUND & DUNKEL PROPOSAL

- The 8th round of GATT Popularly known as Uruguay round
- Established in 1986
- Mr. Arthur Dunkel, director general of GATT compiled a very detailed document popularly known as dunkel proposal(15th Dec 1993, signed 15th April 1994)
- Uruguay round contained the mandate to have negotiations in 15 areas

Part 1) 14 areas 1) Tariffs 2) Non tariffs 3) Tropical products 4) National resource based products 5) Textiles & clothing 6) Agriculture 7) GATT articles 8) Safeguards 9) Multilateral trade agreement & arrangements 10) Subsidies 11) Dispute settlements 12) TRIPS & TRIMS 13) GATT function

Part 2 1) Trade in services 2) Market access 3) Agriculture 4) Textiles 5) TRIMS (TRADE RELATED INVESTMENT MEASURES) 6) TRIPS (TRADE RELATED INTELLECTUAL PROPERTY RIGHTS) 7) Institutional matters

## BENELX

- Belgium, Netherland & Luxemburg
- 1958
- Headquarter is at Brussels, Belgium.
- To promote mutual commercial co-operation among three member countries.

## GATT (GENERAL AGREEMENT ON TRADE & TARIFFS).

- 8th round of GATT known as Uruguay round which gave birth to World Trade Organization.
- On 30th Oct 1947, 23 countries at Geneva signed an agreement related to tariffs imposed on trade. This agreement is known as General Agreement on trade & tariffs
- Came in to force on 1st Jan 1948
- Headquarter is at Geneva
- On 12th Dec 1995, GATT was abolished and replaced by world trade organization which came into existence on 1st Jan 1995
- Objectives- To provide equal opportunities to all countries in international market for trading purpose without any favor.
- GATT also introduced MFN (most favored nations clause) according to which every members country was considered as MFN country.
- 5th round of GATT- Dillion Round
- 6th round of GATT- kenedy Round
- 7th round of GATT- Tokyo round
- 8th round of GATT- Uruguay round

## UNCTAD- UNITED NATIONS CONFERENCE ON TRADE & DEVELOPMENT

- Established on 1964
- Headquarter is at Geneva
- Allec Irwin present chairman
- UNCTAD has its session after every 4 years
- To look after all trade and development

# EUROPEAN UNION

## ECSC- EUROPEAN COAL AND STEEL COMMUNITY

- It was established on 10th Aug 1952
- On the basis of Paris Agreement made on 18th April 1951
- Aim if this community was to improve employment and better living conditions in member countries by ensuring co-operative attitude for coal & steel trading EUROPEAN UNION
- Treaty of Rome gave birth to European Union in 1957
- European economic community & European common market both are same
- Inner six countries (France, Federal Republic of Germany, Italy, Belgium, Netherlands and Luxemburg formed into European Economic community by the Treaty of Rome 1957
- Came into force on 1st Jan 1958
- Its headquarter is at Brussels Belgium
- The aim of European Economic Community was to ensure complete free trade among member countries.
- After joining Croatia on 1st July 2013, the membership of European Union became 28.
- It is the largest commercial community of the world
- CAP- Common agriculture policy
- CFP- Common fisheries policy
- RDP- Regional development policy to promote regional development of member countries by reducing regional disparities by developing rapidly the backward region.
- European Investment Bank-1958
- On 1st Jan 1999 one of the largest steps towards European Unification took place with the introduction of the Euro as the official currency
- Euro Bank notes & coins 1st Jan 2002
- Euro 3- It is related to pollution environment
- ECB- European central bank 1st Jan 1998
- The treaty of Maastricht in 1993 stands out as an important moment, it's when the real economic union was created
- Croatia recent member, but Iceland, Macedonia, turkey for next membership.
- EU countries signed the Treaty of Lisbon, it is designed to make the EU more democratic, efficient & transparent & to tackle global challenges, such as climate change, security & sustainable development.
- EEA- European economic area on 1st Jan 1994
- European governance are as follows- 1) European council 2) European commission 3) European parliament 4) Council of European union 5) Court of justice
- Biggest advantage of EU membership is the monetary union
- Euro has become the second largest reserve currency behind the US dollar
- Europa- official website of EU
- The Europe 2020 strategy put forth by the European commission sets out a vision of the EU'" social market economy for the 21st century. It shows how the EU can came out stronger from this crisis & how it can be turned into a smart, sustainable & inclusive economy delivering high levels of employment, productivity & social
11 cohesion. It calls for stronger economic governance in order to deliver rapid & lasting results.

## APEC- ASIA PACIFIC ECONOMIC CO-OPERATION

- Founded in Nov1989
- Institutionalized in 1992 June
- It's a commercial group like NAFTA EU
- It was constituted on the initiative of Australian Prime minister Mr. Bob Hawk who called APEC as voice for the Asia pacific in world affairs

## ACU- ASIAN CLEARING UNION

- It was established in 1974 with a view to provide the clearing facilities in current international transactions among Asian countries.
- Headquarter is in Tehran (Iran)

ASEM- ASIA EUROPE MEETING 1996 MERCOSUR-

It is a trading bloc of Latin America, established on 1st Jan 1995. Pan American Nations- 34 countries of north- south and middle America , which was known as Pan American Region also declared to make a free trade area in the western hemisphere by 2005 AD . US president has called it historical event.

# IORARC-INDIAN OCEAN RIM ASSOCIATION FOR REGIONAL CO-OPERATION 1997

# FAO- FOOD AGRICULTURE ORGANISATION

- It was established on 16th oct 1945
- Headquarter is at Rome (Italy)
- It organize world food summit

## OPEC- ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES

- Founded in Baghdad
- Sept 1960
- To control the production & price of petroleum so as to safeguard the interest of oil exporting countries.
- Headquarter is at Vienna (Austria) India is not a member of G-7/G-8 India is a member of G-5/G-20/G-15/G-24

## OECD- ORGANIZATION FOR ECONOMIC CO-OPERATION & DEVELOPMENT

- Earlier it was organization of European economic co-operation & development.
- Headquarter is in Paris (France).
- Welfare of economies.

## BRICS- BRAZIL RUSSIA INDIA CHINA AND SOUTH AFRICA

- With a view to strengthen banking c-operation
- 16th May 2008 established
- 6th BRICS Summit was held at Fortaleza Brazil 2014, it marked it first full BRICS summit. Inauguration of New Development Bank and KV KAMNATH going to be a chairman of it will be opened at Shanghai.
- 7th BRICS summit will be going to host in July 2015 in Russia

### INTERNATIONAL LIQUIDITY

- It is also known as international reserve
- It includes- 1) Bullion 2) International borrowings 3) Commercial credit operations 4) Hard currencies 5) Foreign securities 6) SDRs 7) Gold 8) Foreign exchange surplus 9) Private holdings 10) Borrowed funds

## THERORIES OF TRADE

1) **Mercantilism-** one of the oldest trade theories. This theory stated that a country's wealth was determined by the amount of its gold & silver holdings

- Mercantilist believed that a country should increase its holdings of gold& silver by promoting exports & discouraging imports.

**2) Absolute Advantage Theory-**

- 1776 by Adamsmith
- Wealth of nation's
- Absolute advantage is there where country produces goods with less labour cost.
- It focused on the ability of a country to produce a good more efficiently than another nation
- He stated that trade should flow naturally according to market forces
- If A country could produce a good cheap or faster/ or both than country B, then country A had the advantage and could focus on specializing on producing that good.

**3) Comparative Advantage theory-**

- 1817 by David Ricardo
- A person or country will specialize in doing what they do relatively better

- He talked about opportunity cost i.e the next best forgone cost.
- A country has comparative advantage in producing a good if the opportunity cost of producing that goods is lower at home than in the other country
- Ricardo has uses the main differences with Adam smith is in technological difference.

**4) Hechscher Ohlin theorem/ two factor/ factor proportion theory/ factor endowment theory**

- Hechscher Ohlin Samuelsson theory states that if country like India is abundant in labor then India would mainly specialize in labor intensive goods that would form a large share of its export basket. In the same vein India would import capital intensive goods from countries that are capital abundant.
- The ration of aggregate endowment of capital to the aggregate endowment of labor is used to define relative factor abundance between countries.
- We can say that US is a capital abundant relative to India & India is a labor abundant relative to US.
- According to H-O Model trades take place in a gainful manner with important effects upon prices, wages & rents (factor prices)
- H-O theorem states that a capital abundant country will export the capital intensive goods while the labor abundant country will export the labor intensive goods.
- Difference between Ricardo & Hecksher ohlin

| ➢ RICARDO | ➢ HECKSHER-OHLIN |
|---|---|
| 1) Difference in technology in comparative advantage | 1) He talks about same technology |
| 2) One factor of production ( labor) | 2) Two factor production ( capital & labor) |
| 3) No factor mobility | 3) Factor mobility ( free between industries) |
| 4) It talks about opportunity cost & comparative advantage | 4) It talks about resource endowment & factor intensity |

- One of the most notable empirical critiques of H-O theorem is well known as the Leontief paradox
- Loentief in his study 1953, states that despite the USA was a capital abundant country , it was exporting importantly labor intensive products which is against as according to H-O theorem. It depicts the situation of factor intensity model
- Because whatever labor it was exported it was more skilled one labor.

# BALANCE OF PAYMENT

- Balance of payment is a double entry system of record of all economic transactions between the residents of a country and the rest of the world carried out in a specific period of time.
- Balance of trade takes into account only the transactions arising out of the export and import of visible items. It does not take into account the exchange of invisible items like services of banking sector, insurance sector, transport sector, tourism industry, interest payments and receipts and dividend payments.
- Balance of trade is a narrow term whereas balance of payment is a wider term includes both visible & invisible items.
- Components of Balance of Payment are as follows- 1) Current account ( it includes both visible and invisible items) 2) Capital account (private capital, banking capital, official capital) 3) Unilateral payment account (when there is a single sided transactions) 4) Official settlement account
- Export= import = 0 then we said that it is balanced equilibrium
- Balancing items include official reserve, error omission, statistical error
- Balance of payment = balance of current account + balance of capital account
- Causes of disequilibrium of balance of payment- when the demand for and supply of foreign currency of a country are equal , it is viewed that the balance of payments of that country is in equilibrium position
- Some countries enjoys a surplus position( supply of foreign currency is more than that of the demand for foreign currency. Both the surplus and deficit positions represent the disequilibrium in balance of payments

- Causes are 1) Economic factors- development disequilibrium , cyclical disequilibrium, secular disequilibrium, structural disequilibrium 2) Political factors like internal disturbances and war 3) Social factors like the additions and drops of different cultures

# METHODS OF CORRECTION OF DISEQUILIBRIUM

- If BOP disequilibrium is due to surplus balance, the country enjoys the positions as it would be most desirable but the countries worry when their balance of payment show deficit. In case of disequilibrium due to deficit, the countries take measures to eliminate deficit.

1) Automatic corrections- devaluation of domestic currency in terms of foreign currency then export will be cheaper and import will be costlier

2) Deliberate measures – these measures are taken by the government to control deficit BOP, it includes monetary measures and trade measures. Monetary measures include reduction in money supply, devaluation of money and exchange control. Trade measures include export promotion measures and import substitutions measures

3) Miscellaneous measures includes loan in foreign currency, attracting foreign investments, attracting NRI deposits, development of tourisms. These measures help in reduction of imports & enhancing export thus contributes for the reduction of deficit BOP.

- There are several measures to control or manage BOP crisis- 1) Import control 2) Export promotion 3) Attraction of NRI deposits, loans & advances 4) Liberalized exchange rate of Management 5) Unified exchange rate 6) Current account convertibility- under this system exchange rate was unified & transactions on current account were freed from exchange control in March 1993 7) Liberalized export policy 8) Development of import substitution and to reduce import burden

## WTO (WORLD TRADE ORGANIZATION)

- 8TH round of Uruguay ( 1986-1993) gave birth to world trade organization
- Members of GATT signed on an agreement of Uruguay round on 15th April 1994 in Morocco for establishing a new organization named WTO
- WTO was officially constituted on January 1st 1995 which took place of GATT as an effective formal organizations.
- On 12th Dec 1995 GATT was abolished and replaced by World Trade Organization which came into existence on 1st Jan 1995
- Its headquarter is at Geneva
- WTO is a permanent organization which has been established on the basis of an international treaty approved by participating countries
- WTO is not an agency of UNO
- WTO has a general council for its administration which includes one permanent representative of each member nation. Generally it has one meeting per month which is held at Geneva
- The highest authority of policy is WTO ministerial conference which is held after every 2 years.
- India is founder member of both GATT & WTO
- WTO has recent 160th member countries .latest Yemen country has joined it in 9th ministerial conference at Bali 2013
- 161st member country which will join WTO will be Seychelles on 26th April 2015 at 10th ministerial conference which will be going to held at Nairobi, Kenya Dec 2015
- WTO is designed to play the role of watchdog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights.
- The basic purpose of WTO is to promote international trade among member countries without any discrimination

➢ There are number of important committees for administration of WTO, out of which two committee play the pivotal roles in WTO 1) DSB – (Disputes settlement body)- it considers the complains of member countries against violation of rules by any member country. This body appoints a group of experts to investigate into such complains. This body meets twice a month for such cases. 2) TPRB- (Trade policy review body)- it review the trade policy of member countries. The trade policy of all big trade powers of the world are reviewed after every 2 years. All the members of WTO are the members of TPRB. 3) Other important bodies of WTO are council for trade in goods, council for trade in services, council for trade related aspects of intellectual property rights.

- Objectives of WTO are as follows-

1) To improve standard of living of people in the member countries

2) To ensure full employment and broad increase in effective demand

3) To enlarge production and trade of goods

4) To enlarge production and trade in services

5) To ensure optimum utilization of world resources

6) To accept the concept of sustainable development

7) To protect the environment

-  **Functions of WTO** 1) To provide facilities for implementation administration and operation of multilateral and bilateral agreements of the world trade. 2) To provide a platform to member countries to decide future strategies related to trade & tariff 3) To administer the rules and processes related to dispute settlement 4) To implement rules and provisions related to trade policy review mechanism 5) To assist IMF & IBRD for establishing coherence in universal economic policy determination 6) To ensure optimum use of world resources
-  **Organization structure of WTO** are 1) Ministerial conference 2) General councils 3) Councils 4) Committees & management bodies
-  **WTO agreement includes**- 1) Agreement on agriculture 2) Agreement in trade & textiles 3) Agreement on market access 4) TRIMS (Trade related investment measures) 5) TRIPS (Trade related intellectual property rights) 6) Services and disputes settlement body
-  The highest decision making body of the WTO is the ministerial conference which has to meet at least every 2 years
-  Ministerial conference can take decisions on all matters under any of the multilateral trade agreements
-  Ministerial conferences are as follows-

1) 1st ministerial conference – held at Singapore in 1996, main focus on International labor organization (ILO), Competition in international trade of textiles and information technology, issue related to investment solved under TRIMS.

2) 2ND Ministerial conference – held at Geneva in 1998, to focus full and Faithfull implementation of existing multilateral agreements.

3) 3rd ministerial conference – held at Seatal, America in 2000, this meeting was failure as the developing nations protested against the lack of transparency and imposition of the view of rich countries on the poor countries in negotiations and slogan rises that WTO is wrong trade organizations as it exploits the developing countries for the benefit of advanced countries under the slogan of globalization

4) 4th ministerial conference – held at Doha, Qatar in 2001. Doha ministerial declaration calls for negotiations on the issues such as reductions in industrial tariffs, phasing out of agriculture export subsidies, promoting trade in services and provide special treatment to developed countries

5) 5th ministerial conference – held at Cancum, Mexico in 2003, it was failure as the developing nations jointly opposed the high agriculture subsidies in the USA and EU. Two issues are there 1) agriculture subsidies (financial assistance) and Singapore issues

6) 6th ministerial conference – held at Hong-kong in 2005, it focus on Doha Development agenda which includes negotiations on agriculture and non-agriculture market access, reductions in tariffs on thousands of products and on farm subsidies, negotiations in services.

7) 7TH ministerial conference – held at Geneva in 2009, the general theme of the conference. The WTO is the multilateral trading system and the current global environment.it was a failure conference.

8) 8th ministerial conference – held at Geneva in 2011, it covers three topics 1) importance of multilateral trading systems & the WTO 2) Trade & development 3) The Doha Development Agenda negotiations. Easter package in 2011, Pascal Lamy the director general of WTO said that the biggest stumbling block was what is called NAMA (NON-AGRICULTURE MARKET ACCESS)

9) 9TH Ministerial conference- held at Bali, Indonesia in 2013, Bali package, accepted Yemen as a new member. The round is historic because WTO reached its first ever global trade reform deal approved by 160 ministers after 12 years of negotiations. The deal seeks to lower barriers to trade worldwide through a global trade facilitation agreement (FTA) that seeks to reduce red tape, cut cost & improve efficiencies by taking measures such as digitization of procedure. Azevedo was elected to succeed Pascal Lamy.

10) 10th ministerial conference – will be held at Nairobi, Kenya in Dec 2015.

-  DFQF- Duty free quota free
-  LDC plus Package were trade facilitation and the export competition pillar of the agriculture negotiations
-  India trade policy review carried out every four Years
-  SPS- Sanitary phyto-sanitary
-  TBT- technical barrier to trade

-  The subsidies provided by the government to the agricultural sector is termed by the WTO as Aggregate Measures of support (AMS)
-  AMS is calculated in terms of product & input subsidies.
-  The WTO argues that the product subsidies (non- product) like credit, fertilizers, irrigation and power will cut the production cost of farming and will give undue advantage to such countries in their access to the world market such subsidies are called to cause distortions to the world trade.
-  Such subsidies are not permitted in one sense as they have a minimum permissible limit de minimis under the provisions which is 5% and 10% of their total agricultural output in the case of developed and developing countries.
-  Agriculture subsidies in WTO is identified by Boxes such as green box, amber box, red box, blue box and S&D Boxes
-  Amber box- all subsidies which are supposed to distort production & trade fall into the Amber box i.e all agricultural subsidies except those which fall into the blue & green boxes. These include government policies of minimum support prices. Reduction 5% to 10 %
-  **Blue box**- this is the amber box with conditions. The conditions are designed to reduce distortions. Any subsidy that would normally be in the amber box is placed in the blue box if it requires farmers to go for a certain production level. These subsidies are nothing but certain direct payments made to farmers by government in the form of assistance Programme to encourage agriculture rural development. At present there are no limit on spending on the blue box subsidies.
-  **Green box**- The agriculture subsidies which cause minimal or no distortions to trade are put under the green box. This is a very wide box and includes all government subsidies like public storage for food security, pest and disease control, research and extension and some direct payments to farmers that do not stimulate production like restructuring of agriculture, environmental protection, regional development, crop and income insurance. The green box subsidies are allowed without limits provided they comply with the policy specific criteria. It means this box is exempt from the calculations under subsidies under the WTO provisions because the subsidies under it are not meant to promote production thus do not distort trade. That is why this box is called production neutral box.
-  S & D box- The social and Development box allows the developing countries for some subsidies to the agriculture sector under certain conditions. These conditions revolve around human development issues such as poverty, minimum social welfare, health 20 support etc., specially for the segment of population living below poverty line. Developing countries provide subsidies of less than 5% of their total agriculture output.
-  The SWISS formula was proposed by Switzerland in the Tokyo round negotiations of GATT 1973-1979

# CONVERTIBILITY OF RUPEES

-  It means it can be freely converted into any other currency
-  Government of India announced partial convertibility of the rupee from 1st March 1992 in order to integrate the Indian economy with the rest of the world.
-  Under partial convertibility 40% of earnings were convertible in rupees at officially determined exchange rate & 60% at the market determined exchange rate.
-  On 19th August RBI declared Indian rupee has been made fully convertible in current account transactions related to goods & services.
-  Convertibility on current account is defined as the freedom to buy or sell foreign exchange
-  Capital account convertibility refers to the removal of the restrictions in payments relating to the capital transactions like inflow & outflow of short term & long term capital
-  Government not announcing convertibility on capital account because the crisis in south east Asian nations, brazil & Mexico made the Indian government to shelves the proposal in cold storage
-  Government on 1st March 1993 introduced a fully unified market determined exchange rate. Unification of exchange rate and floating of rupee was started in 1993- 1994.
-  Full convertibility of rupee in the current account is one of the measures taken by government for improving Balance of Payment.
-  Tarapore reports on full convertibility of capital account
-  Convertibility of money implies such a system in which country currency becomes convertible in foreign exchange & vice versa. Since August 19, 1994 Indian rupee has been made fully convertible in current account transactions related to goods and services.

## GDR (GLOBAL DEPOSITORY RECEIPT).

-  Global depository receipt is a certificate issued by a depository bank, which purchase shares of foreign companies and deposits

it on the account.
-  It represents ownership of an underlying numbers of shares.
-  Normally 1 GDR= 10 shares but not always
-  It is a negotiable instrument which is denominated in some freely convertible currency
- ➢ It is a negotiable certificate denominated in US dollars which represents non US company's publicity traded local equaity.
-  EDR- European depository receipt.

## FIIs (FOREIGN INSTITUTIONAL INVESTORS)

-  These are the foreign institutions like pension fund, mutual funds, investment trusts and portfolio managers
-  According to the regulations issued by the government of India foreign institutional investors (FIIs), non -Resident Indians( NRIs), persons of Indian origin (PIOs) are allowed to invest in the primary & secondary capital markets in India through portfolio Investment scheme.
-  The ceiling for overall investment for FIIs is 24% of the paid up capital of the Indian company & 10% /24% for NRIs/ PIOs. The limit is 20% of paid up capital in case of public sector banks.
-  Government of India issued the regulations on foreign Institutional Investors on 14th Nov 1995.

### ADR (AMERICAN DEPOSITORY RECEIPT)

-  An American depository receipt is a negotiable security represents securities of a non US company that trade in the US financial market. Securities of a foreign company that are represented by an ADR are called American depository shares.
-  First ADR was introduced by JP Morgan in 1927 for the British retailer Selfridges.

## EXIM BANK (EXPORT IMPORT BANK OF INDIA)

-  It was established under the EXIM act 1981 and on 1st Jan 1982 as a statutory corporation wholly owned by the central government.
-  It grants loans in India & outside for the purpose of exports & imports, refinances loans of banks and other notified financial situations for purposes of International trade, rediscount exports bill for banks etc.
-  It is also a coordinating agency in the field of international finance and it undertakes development of merchant banks activities in relation to export oriented industries.

**DUMPING-** It means selling of goods at higher price in domestic country & selling at low price in foreign countries

### EXIM POLICY (EXPORT IMPORT POLICY).

- ➢ It is prepared and announced by the central government (Ministry of commerce). India's export import policy is also known as foreign trade policy in general aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payment position. The commerce Minister V.P Singh has announced the EXIM policy on 12th April 1985. Initially it was introduced only for 3 years. It is also known as trade policy.

### FOREIGN TRADE POLICY 2015-2020

-  It was declare on 1st April 2015 at Vigyan Bhawan
-  Department of commerce , government of India under the Ministry of commerce& Industry.
- ➢ Highlights are 1) Export from India schemes- MEIS (Mercandise exports from India schemes) SEIS (Service exports from India scheme) 2) SFIS (Served from India scheme) is replaced by SEIS (SERVICE EXPORT India scheme) 3) CECAs- comprehensive economic co-operation agreements 4) CEPAs-comprehensive economic partnership agreement 5) EUC-End user certificate 6) Boost to Make in India 7) DEOP-Defence export offset policy 8) DGFT-Directorate general of foreign trade 9) SCOMET–special chemicals organisms materials equipments & technologies ( 12 month to 24 months now)
-  EPCG-Export promotion capital goods authorization holders shall be required to maintain records for a period of 24 years only
-  EODC- Export obligation discharge certificate
-  NEE- Net foreign exchange earning
-  Time period for LOP letter of permission for EOU/EHTP/STP/BTP revised for 2 years to enable the unit to construct the plant and machinery.
-  DFTP- Duty free tariff preference

-  CQCTD- Committee on quality complaints& trade disputes.
-  Vishakhapatnam and Bhimavaram added as towns of export excellence
-  MEIS (Merchandise export from India schemes has replaced 5 different schemes 1) Focus product scheme 2) Market linked focus product scheme 3) Focus market scheme 4) Agri infrastructure incentive scrip 5) VKGUY- vihesh krishi & gram uduog yojana.

## MNCs- MULTINATIONAL COMPANIES.

-  A Company which extends its activities in more than one country and which provides productive & service facilities outside its mother country is known as Multinational company or corporation.
-  Categories are 1) Ethnocentric (policy based on home market) 2) Polycentric (based on different countries) 3) Geocentric (takes the whole world as common) 4) Regiocentric (takes region wise)
-  Domestic company>international company>multinational company>global company>transnational company

## MISCELLANEOUS

-  PPP- purchasing power parity it is in essence, an economic theory that adjusts the exchange rate between countries to ensure that a goods is purchased for the same price in the same currency.
-  Balance of payment of a country on current account is equal to balance of payment minus capital flows.
-  A **currency crisis** is when, serious doubt exists as to whether a country's central bank has sufficient foreign exchange reserves to maintain the country's fixed exchange rate. The crisis is often accompanied by a speculative attack in the foreign exchange market. A currency crisis results from chronic balance of payments deficits, and thus is also called a balance of payments crisis. Often such a crisis culminates in a devaluation of the currency.

## OTHER IMPORTANT POINTS-

**Self- sufficiency** is the ability to provide for all of your basic needs, such as clothing, food, shelter, and water, without relying on anyone else.

**Capital-intensive** -Industries based on primary resources. A large investment of money in machinery

**Labour-intensive**
Require a large number of skilled workers.

**Semi-maufacturerd**
Intermediate goods or producer goods or semi-finished products are goods , such as partly finished goods, used as inputs in the production of other goods including final goods.

**End product**
that which is produced as the final result of an activity or process, especially the finished article in a manufacturing process.

**Primary Industries**
also called extractive industries , take raw materials from nature, process them slightly, and sell them to other businesses that use them to make other products or to provide services.

**Manufacturing Industries**
include both the processing and fabrication sectors.

**Service Industries**
provide intangibles that people need or want, such as cleaning, accommodation. entertainment, or transportation. They are also activities that are often performed by experts who can do untrained people can't do.

**Consulting servies**
one of the fastest growing sector of service industries.

**Tariffs**
a tax imposed by the local government on goods and services going into a country

**Currency exchange rate**
The rate given by one country for another country's currency

**World Trade Organization (WTO)**
deals with the global rules of trade between nations. Formerly known as the General Agreement on Tariffs and Trade(GATT)

**Protectionism**
using tariffs and duties to impede imports of foreign goods to protect domestic goods .

**Interdependence**
the reliance of two or more groups on the actions of one another to fulfill needs

**Trade shows/ Trade fairs**
allow a potential purchaser to communicate with suppliers.
.

**Public-sector investments**
involve putting money in state - or government owned assets - i.e.:part-ownership of state-owned oil and gas entities or of telecommunication companies around the world.

**Private-sector investments**
can be held in a variety of publicity held companies(those with shares traded on a stock market) or privately owned companies, or through the creation of new companies of either type

**Foreign direct investments**
usually occurs when a company in one country wishes to expand into another country . This can be done through either establishing a subsidiary operation or setting up a joint venture.

**Portfolio investments**
an investor buys a share of a foreign company but has no controlling interest and little say in how the company is run . The investor only wants to earn a share of the foreign company's profit.

**Outsourcing**
obtaining something by contracting it from another source.

**Labour turnover rate**
the frequency with which a worker leaves one job for another .

**Organization for Economic Cooperation and Development (OECD)**
is an intergovernmental economic organisation with 35 member countries, founded in 1960 to stimulate economic progress and world trade.

**Business climate**
a measure of the ease with which companies can run their businesses .

**Capital**
the money or other assets that are available for investment purposes .

**Competitive advantage**
is achieved when companies and countries outperform their competitors around then world by improved oil superior goods (better pricing, higher quality , better services, uniqueness , or profits.

**Gross domestic product( (GDP)**
is the total value of all goods and services produced in a country during a specific period.

**Economic utility**
is a product's ability to satisfy the needs and wants of then customers.

**Opportunity cost**
the value of the highest value forgone .

**Comparative advantage**
it can specialize in what it does well and at a reasonable cost .

**Absolute advantage**
if a country can produce the good at lower cost or with a higher rate of productivity.

**Standard of living**
is the way people live as measured by the kinds and quality of goods and services they can afford .

**Knowledge economy**
refers to the increased reliance of business, labour, and government on knowledge, information, and ideas - and information technology to put them to practical use.

**Intellectual capital**
is the sum of knowledge, information, intellectual property, talent, and experience within a country or an organization.

**Innovation**
constant improvements in the way businesses adopt new processes and adapt to new markets.

**Taxation**
the method used to generate the finances required to run the country.

**Rationalization**
is the process used by an organization or company to change its organization structure, its product line , or its production process to become more efficient, productive , and competitive

**Economies of scale**
refer to the tendency of the cost per item to go down when items are bought or produced in a large quantities.

**Developed nations**
tend to have high standard of living an produce a sophisticated range of products such a computers and auto mobiles.

**Developing nations**
AKA newly industrialized economies (NIEs), such as Vietnam and China, have made the transition to more sophisticated manufacturing.

**Less-developed nations**
These largely agricultural-based countries have a tendency to experience political and military instability more often.

**Total quality control (TQM)**
is a method of managing organizations with a commitment to continuously improve the products, processes , and the work habits of employees.

**Market-driven organization**
are those respond to market needs by providing customers with high quality goods and services that are low in cost and available when required.

**International Organization of Standardization (ISO)**
develop and publish International Standards.

**Transparency**
anon sharing of information within an organization or company.

**Inventions**
are totally new products that are based on a creative ideas

**Manufacturing**
the way something is being made.

**Distribution**
Transportation of products and business papers.

**Inventory Control**
a acrd system by which individual entries were recorded and kept up to date.

**Just in time (JIT)**
Is an inventory control system that schedules products (i.e., raw materials, parts, partial assemblies, and merchandise) to arrive as they are needed for manufacturing or for supply to customers.

**Big box retailers / category killers**
are stores that specialize in providing an overwhelming variety of one category of merchandise, such as books or hardware.

**Data mining**
is a way of connecting specific customer characteristics to their purchases. Effective data-mining technology can fairly accurately predict when a customer will run out of food .

**Auto Pact**
To protect automotive industry in Canada and to open up freeze trade with the United States, both government signed the Canada-United States AutomotiveProducts Agreement in 1965.

**Telecommunication**
Is communication over a distance, for example, by telephone , internet , radio, or television.

**Strategies**
Provides information on copyrights, patents, licenses, trademarks , starting a business , financing , and exporting , and research about markets , suppliers , and customers .

**DFAIT**
Provides trade data , country profiles , and market studies by sector or by country . It gives information about Team

India and other businesses development missions.

**Patent**
is a grant of property rights by law to give exclusive rights to the inventor and to protect the rights of the inventor and prevent others from making, using , or selling the invention.

**Copyright**
is a form of legal protection provided to the authors of original works, including literary, dramatic, musical , artistic , and certain other intellectual works, such a software programs.

**Licensing**
patent or copyright owners allow other organizations (individuals, governments , or companies) to use their idea or invention for a fee or royalty.

**Joint venture**
is an agreement between two or more companies or organizations to share assets and control of a new business for mutual gain.

**The World Bank Group**
owned by more than 184 member countries, is one of the world's largest sources of financial and consulting assistance fro developing countries.

**Information technology**
is the machinery of the information industry and consists of satellite and cellular communication companies , research firms, data processing software designers, information managers, anyone else whose man job consist of getting, transmitting , processing , interpreting, or organizing data.

**Kanban**
a Japanese philosophy focused on eliminating waste.

**Franchise**
is a type of a business in which a company authorizes a group or an individual to sell its goods and services.

**Strategic alliance**
two or more firms cooperate to co-develop, co-produce, co-market their products.

**Globalization**
to the growth and spread of interactive international economies and businesses around the world.

**Multinational company (MNC)**
AKA transnational company , is a business enterprise that products business in several countries. They operates worldwide on a borderless basis while still observing national regulations and policies in the countries where they operate.

**Ethnocentric MNC**
operates internationally, in much the same way as it does at home. It usually has tight control over its foreign operations from head office.

**Polycentric MNC**
understands the market differences from country to country and gives its foreign operations greater autonomy .

**Geocentric MNC**

takes a multinational approach, and seeks total integration its global operations.

**Separate international Divisions**
International staff are isolated and function separately from then company .

**Functional Divisions**
The company maintains separate departments in sales, accounting, logistics and research and development, with one or more individuals in each department responsible for handling international activities.

**Product Divisions**
International and domestic activities are separated by product groupings.

**Trading blocs**
countries agree to support mutual economic growth by opening their markets to cross-border trade and business development.

**Reciprocity**
according to the terns mutually agreed upon by countries.

**Bilateral trade**
trade between two countries

**Multilateral trade**
Trade among more than two countries

**North American Free Trade Agreement**
created a free trade zone consisting of Canada , Mexico , and the US

**The European Union (EU)**
is a political and economic alliance in Europe consisting of 15t countries, formerly known as the European Community.

**Asia-Pacific Economic Cooperation (APEC)**
is a forum for ministers and senior government officials of countries bordering the Pacific Ocean to discuss regional policy .

**Agreement on Internal Trade (AIT)**
attempts to harmonize regulations and standards from province to province in areas such as transportation and consumer protection.

**Duty free-zone**
bring goods into the country without paying duty or tax

**G20**
an international forum of finance ministers and central bank governors

**World Economic Forum (WEF)**
is an independent not for profit foundation, committed to raising the level of corporate citizenship in its member countries.

**Organization for Economic Cooperation and Development (OECD)**
Is a multinational organization of developed countries and developing countries that helps formulate social,

economic, trade, development, education, and scientific policies.

**International Chamber of Commerce (ICC)**
is a world business organization that promotes an open international trade and investment system and market economy.

**International Monetary Fund (IMF)**
is a multi governmental organization that focuses on international monetary cooperation and stability in foreign exchange.

**The Forum for International Trade Training**
is an organization that prepares training programs and services to educate businesses and individuals in ways of competing successfully in international trade .

**Export Source**
is a partnership of federal and provincial governments and other organizations that provides information and services for individuals and companies interested in international business.

**Idea Creation**
New knowledge forms around basic discoveries, extensions of existing understanding , or spontaneous creativity made possible by individual ingenuity and communication with others.

**Initial Experimentation**
Ideas are initially tested in concept by discussions with others, referrals to customers, clients, or technical experts , and/or in the form of prototypes or samples.

**Feasibility Determination**
Practicality and financial value are examined in formal feasibility studies, which identify potential costs and benefits as well as potential markets or applications.

**Final Application**
A new product is finally commercialized or put on sale in the open market , or a new process is implemented as a part of normal operating routines.

**Chief executive officiers**
are the most senior managers in the company . They are responsible for the company's attainment of business goals, performance, financial results , general conduct, and financial return to shareholders.

**Mission Statement**
should answer the question "where are we going?". It should describe a company's mission satisfy consumer needs and wants with innovative process and products.

**Request for proposal (RFP)**
outlines the cost and time guidelines for ten work to be done or the services to be provided.

**Deliverables**
refers to the solutions , services, or end products developed .

**Entrepreneur**
the person who organizes, manages, and assumes the risk of starting and running a business.

**Trend**

a general direction or movement off the marketplace that is occurring now or s expected to occur in the immediate future

**Life cycle**
method to identify whether a trend is rising or descending. It includes four stages , embryo, growth, maturity and death.

**Sunrise opportunity**
emerging trends and businesses

**Sunset opportunity**
in decline or at the end of their life cycle

**Expatriate**
someone who lives and works in a foreign country for an extended period.

**Hyper-competition**
This disruption of existing markets by flexible, creative, and fast-moving firms .

**Technological convergence**
enables companies in the telecommunications, consumer electronics , software, computer, and entertainment industries enter each other's market.

**Monoculture**
when the world appears to be merging and forming a single culture, a society that has a lack of diversity in values and beliefs.

**Demographic profile**
The income, gender and age population of your target market .

**Global brands / brand building**
Product brand names and logos represent "global banners" that are instantly recognized by millions of consumers.

**Creativity**
the use of imagination and technical know-how to solve a problem.

**Vision**
prospects for business

**Business lead**
usually shows the direction of the market and where people spend their money and time.

**Landed cost**
the cost of a product after all transportation, handling, currency exchange rates and import charges have been added.

**Hard currency**
it is widely accepted on the foreign currency exchange market and can be easily converted to another currency

**Soft currency**
refers to those that fluctuate in value and are not considered stable.

**Buy forward**

when a business purchases the foreign currency required for an order tag the time the order is placed

**Letter of credit**
assures a company that the business has enough money on deposit in a bank to complete the payment.

**Issuing bank**
where you apply for a letter of credit in the full amount of the invoice.

**Advising bank**
informs the seller that the letter of credit has arrived.

**Boycott**
organized campaigns to refuse purchasing a company's or a country's products

**Standards**
agreements to be used as guidelines

**Local market research**
investigation into consumer preferences in a specific region

**Labeling requirements**
rules governing one aspects of product packaging

**Culture**
is a reflection of the values and beliefs of a community or a nation.

**Customs**
are the ways in which cultural behaviours are performed .

**Cultural determinants**
three things that shape a country's culture : geography, history and religion.

**Negotiating styles**
the way people negotiate business relationships

**Silent language**
nonverbal communication such as body language , personal distances between people , appearance , the use of colours, and modes of greetings .

**Protocol**
rules of correct or appreciate behaviour to follow when meeting with officials or business people in another region.

**Cultural imperialism**
the imposing of cultural values by one group on another group

**Political risk**
refers to political decisions, conditions, events , or activities in a country that affect business climate.

**Economic imperialism**
the exploitation of developing countries by more developed countries

**Ownership risk**

when operation are threatened by government takeover or expropriation, owners may lose their offshore property.

**Operation risk**
government policies of the host country may impede business operations such as finance, marketing, or production

**Transfer risk**
Government policy may adversely affect currency exchange rates .

**Repatriation of earnings**
when a company creates wealth in another country, it ay be forced to return a considerable amount to that country's government .

**Economic systems**
include all the factors of production and the rules and regulations involving production and consumption of goods and services.

**Market economy**
individual companies and consumers make the decisions about how , what and for whom goods and services are produced.

**Centrally planned (command) economy**
the government regulates the amount , distribution, and the price of goods and services.

# UNIT-9

# FINANCIAL MANAGEMENT

## INTRODUCTION

-  The term financial management can be defined as the management of flow of funds and it deals with the financial decision making.
-  The objective of maximization of shareholders wealth has been taken as the primary goal of financial decision making and maximization of profit is the second main objective of financial management.
-  A firm wishes to maximize the profits may opt to pay no dividend and to reinvest the retained earnings whereas a firm that wishes to maximize the shareholders wealth may pay regular dividend.
-  Capital budgeting related to fixed assets
-  Working capital management related to current assets.
-  The dividend decisions is almost regular decision in the sense that it is taken whenever the firm wants to distribute interim dividend, final dividend or bonus to shareholders.
-  Shareholders interest put on high priority and public interest get last priority.
-  Three decisions are taken 1) financial decisions 2) investment decisions 3) dividend decisions.

## LEVERAGES

-  Leverages related to tangible assets.
-  Relationship between two interrelated variables.
-  Leverage = % change in dependent variables/ % change in independent variables.
-  Functional relationships Sales revenue (-) variable cost = contribution Contribution- fixed cost = EBIT (Earnings before interest and tax) EBIT-Interest= profit before tax Profit before tax- tax= profit after tax (EPS)
-  Relationship between sales revenue and EBIT is known as operating leverage.
-  Relationship between EBIT and EPS is known as financial leverage.
-  Relationship between sales revenue and EPS is known as combined leverage.
-  The maximization of shareholders wealth requires the maximization of market price of the share by maximizing the EPS.

## OPERATING LEVERAGE

-  The relationship between the sales revenue and EBIT.
-  Operating leverage= % change in EBIT/% change in sales revenue
-  For every increase or decrease in sales level, there will be more than proportionate increase or decrease in the level of EBIT. This is due to the existence of FIXED COST.
-  If no fixed cost then increase or decrease in EBIT was direct and proportion to increase or decrease in sales level. OL=1
-  OL=1.5 Degree of operating leverage. Increase or decrease in sales will affect more increase or decrease in EBIT.
-  If fixed cost> variable cost= greater would be the DOL (Degree of operating leverage)
-  DOL/OL= Contribution/EBIT
-  If no fixed cost then no operating leverage.
-  A firm should avoid high DOL.

## FINANCIAL LEVERAGE

-  It measures the relationship between EBIT and EPS.
-  Financial leverage= %change in EPS/% change in EBIT
-  EBIT is dependent variable in operating leverage and was determined by sales level. In case of financial leverage, EBIT is an independent variable and is determining the level of EPS that is why EBIT is called a linking point in the leverage study.

- Financial leverage may be defined as % increase in EPS divided by % increase in EBIT. Emerge as a result of fixed financial charges (interest and dividend)
- Higher the level of fixed financial charge higher would be the financial leverage.
- Financial leverage= EBIT/EBIT- interest
- Financial leverage= EBIT/PBT (profit before tax)
- Financial leverage= EBIT/PBT-PD/(1-t) (pd- dividend, t= tax)
- DFL (Degree of financial leverage)= EBIT/EBIT-interest = 200/0= undefined, it is also called financial break- even level i.e the level of EBIT is just sufficient to cover the fixed financial charges only and there is no earnings available to the shareholders and hence no EPS (Earning per share)
- ROI (Return on Investment)= cost of debt
- ROI< cost of debt = unfavorable financial leverage.
- ROI> cost of debt= favorable or trade on equity
- OL= leverage of the first order or first stage leverage.
- FL= leverage of the second order or second stage leverage.

## COMBINED LEVERAGE

- Operating leverage looks after business risks complexion
- Financial leverage looks after financial risk complexion
- Combined leverage looks after overall risks.
- Effects of change in sales level on EPS is known as combined leverage.
- Combined leverage= EPS/ sales revenue
- Combined leverage= %change in EPS /% change in sales revenue
- Combined leverage= contribution/PBT

## CAPITAL STRUCTURE

- Capital structure refers to firm cost of capital.
- Those who believe such a capital structure exists are supporters of Traditional approach.
- Those who believe capital structure does not exists are supporters of M&M approach.
- The value of the firm depends upon the earnings of the firms and the earnings of the firms depends upon the investment decisions of the firm.
- It states that relationship between leverage, value of the firm and overall cost of capital of the firm.
- ➢ Capital structure theories are –

1) Capital structure exists – Net Income Approach (NI)

2) Capital structure does not exists- Net operating Income Approach (NOI)

3) Pragmatic approach- traditional

4) Justification to Net Operating income approach – Modigilini Miller Model. (M&M) (Capital structure does not exists.

- Certain assumptions are there 1) Two sources of funds- debt & equity 2) No corporate and personal tax 3) All profit distributed as there is no retained earnings.

### 1) NET INCOME APPROACH

- Suggested by Durand
- It states a relationship between leverage, cost of capital and value of the firm.
- Relationship between capital structure and value of the firm.
- It states that value of the firm increases by increasing more debt proportion or leverage & overall cost of capital will decrease.
- More & more debt or leverage> increase value of the firm> decrease overall cost of capital of the firm (WACC)
- Assumptions are cost of debt Kd and cost of equity Ke are constant. Kd=Ke=k
- Use of more and more debt financing in the capital structure does not affect the risks perception of the investors.
- Approach suggests that higher the degree of leverage, better it is as the value of the firm would be higher. A firm can increase

its value just by increasing the debt proportion in capital structure.
- Value of the firm= value of equity+ value of debt

**2) NET OPERATING INCOME APPROACH**
- Opposite to NI approach.
- Market value of the firm depends on the operating profit or EBIT and overall cost of capital (WACC)
- Financing mix or capital structure is irrelevant and does not affect the value of the firm.
- Assumptions are cost of debt and overall cost of capital are constant. Kd= Ko=K
- As the debt proportion or the financial leverage increases the risk of the shareholders also increases and the cost of equity Ke also increases so value of the firm remain the same.
- NOI consider Ko to be constant & there is no optimal capital structure rather every capital structure is good as any other & every capital structure is optimal one.
- Value of equity= value of the firm- value of debt

**3) TRADITIONAL APPROACH**
- It said that both NI approach and NOI approach is unrealistic.
- It takes a mid-way between the NI approach (value of the firm increase by increasing debt) and NOI approach (value of the firm remain the constant)
- As per this a firm should make a judicious use of both debt & equity to achieve a capital structure which may be called the optimal capital structure.
- WACC will be minimum & value of the firm will be maximum.
- It states that value of the firm increases with increase in financial leverage but up to a certain limit only. Beyond this limit the increase in financial leverage will increase its WACC and value of the firm will decline.
- Assumptions are cost of debt Kd and cost of equity Ke is constant, Kd=Ke=K
- The use of the leverage beyond a point will have the effect of increase in the overall cost of capital of firm& thus result in decrease in the value of the firm.
- Judicious use of both debt and equity.

**4) MODIGLIANI AND MILLER APPROACH**
- Relationship between leverage, cost of capital and value of the firm.
- Capital structure has no effect on the value of the firm.
- Financial leverage does not matter and cost of capital & value of the firm is independent.
- Nothing may be called optimal capital structure.
- Restate NOI approach & added it to the behavioral justification for their model.
- Assumptions are market are perfect, securities are infinitely divisible, investors are rational, no tax, personal leverage and corporate leverage are perfect substitute.
- It argues that if two firms are alike in all respects except that they differ in respect of their financing pattern and their market value, then the investors will develop a tendency to sell the shares of the over -valued firm and to buy the shares of the under- valued firm. Buying and selling pressures will continue till the two firms have same market value.
- It follows the arbitrage process- It refers to taking to understanding by a person of two related actions r steps simultaneously in order to derive some benefit e.g buying by speculator in one market and selling the same at the same time in some other market. The arbitrage process has been used by MM to testify their hypothesis of financial leverage, cost of capital & value of the firm.

# DIVIDEND POLICY
- Dividend refers to that portion of profit (after tax) which is distributed among the owners/shareholders of the firm.
- Profit which is not distributed is known as retained earnings.
- Dividend relates to equity shareholders because preference shareholders have a fixed rate.
- Three decisions are there 1) dividend decisions 2) investment decisions 3) financing decisions
- Profit must be distributed either in the form of cash dividends to shareholders or in the form of stock dividends also known as bonus share.
- Dividend pay- earngoodwill
- Ploughing back of dividend- loose goodwill

- Dividend payout ratio is that portion of profit which is to be distributed.
- Relationship between dividend policy & market value of the share.
- The dividend policy has been a controversial issue among the financial managers and often referred to as dividend puzzle.
- Irrelevant theories are residual theory of dividend and Modigliani miller approach.
- If dividend paid it reduces the uncertainty of the investors.
- If dividend not paid then uncertainty of share will increase.
- Dividend policy affect on the market value of share & value of the firm.

**1) WALTE'S MODEL (RELEVANT)**

- Given by Prof James E walter
- Assumptions are 1) all investments decisions financed through retained earnings. 2) rate of return® and cost of capital (ke) are constant. 3) firm has infinite life.
- Dividend policy depend on r and ke
- If r>ke (growth firm) the firm should have zero payout and reinvest the entire profits to earn more than investors.
- If r<ke (normal firm) firm should have 100% payout ratio and let the shareholders reinvest their dividend income to earn higher return.
- If r= ke (normal firm) the return to firm from reinvesting the retained earnings will be just equal to the earnings available to the shareholders on their investment of dividend income.
- In short cut when r>ke, zero payout ratio and 100% retention, when r<ke 100% payout and zero retention i.e P=D/Ke + (r/ke) (E- D)/Ke

**2) GORDON'S MODEL (RELEVANT).**

- Assumptions are 1) growth rate of firm 'g' = product of retention ratio 'b' and rate of return 'r' so, g = br 2) cost of capital ke=>g( growth)
- Direct relationship between dividend policy and market value of the share.
- Investors values current dividends more highly than an unexpected future capital gain.
- Bird in hand argument of this model suggest that the dividend policy is relevant as the investors prefer current dividend as against future uncertain capital gain.
- P= E(1-b)/ke-br

3 **RESIDUAL THEORY (IRRELEVANT)**)

- Only when the firm has some residual earnings after the financing of new investments it referred to as residual theory of dividend.

4) **MODIGILANI MILLER APPROACH**

- They argued that the market price of a share is affected by the earnings of the firm and is not influenced by the pattern of income distribution.
- The dividend policy is immaterial and is of no consequences to the value of the firm. What matters on the other hand is the investment decisions which determine the earnings of the firm and firm thus affect the value of the firm.
- Assumptions 1) rational investors 2) no transportation & flotation cost
- They showed the arbitrage process to show that division of profit between dividend & retained earnings. 7
- A firm will finance these either by Ploughing back profits or if pays dividends then will raise an equal amount of new share capital externally by selling new shares.
- Po=1/(1+ke)*(D1+P1)

5) **TRADITIONAL APPROACH (IRRELEVANT**)

- B Graham & DL Dodd
- Relationship between dividend & stock
- Stock + then dividend will rise
- Stock – then dividend will fall
- P=m(D+E)/3

# COST OF CAPITAL

-  The minimum required rate of return that the corporation must earn in order to satisfy the overall rate of return required by its investors is called corporations cost of capital.
-  Discount rates has been denoted as cutoff rate, minimum required rate of return, rate of interest, target rate. This discount rate is known as cost of capital.
-  Two applications of cost of capital are 1) In capital budgeting it is used to discount the future cash flows to obtain their present values. 2) It is also used in optimization of financial plan or capital structure of a firm.
-  Cost of capital is the minimum required rate of return, a project must in order to cover the cost of raisings funds being used by the firm in financing of the proposal.
-  The concept of cost of capital is consistent with the goal of maximization of shareholders wealth.
-  Factors affecting cost of capital are 1) Risk free interest rate/risk free rate of return 2) Real interest rate 3) Purchasing power risk premium 4) Pure interest rate ( government)
-  Discount rate has been denoted as cut off rate, minimum required rate of return, rate of interest, target rate these all discount rate is known as cost of capital.
-  Explicit cost- explicit cost of capital of a particular source may be defined in terms of the interest or dividend that the firm has to pay to the suppliers of the firm e.g firm has to pay interest on capital, dividend of a fixed rate on preference share capital.
- ➢ Implicit cost – It does not involve any payment or flow i.e retained earnings of the firm. The profit earned by the firm but not distributed among the equity shareholders are ploughed back & reinvested within the firm. Implicit cost is the opportunity cost of investors.
-  Except retained earnings all other source of funds have explicit cost of funds.
-  Sources of long term finance-

1) Debt- Redeemable debentures and irredeemable debentures 1) Redeemable debentures Kd= I+(1-t)+(RV-NP)/n/RV+NP/2, I = Interest, t= tax, RV= redeemed value, NP= net proceeds, NP= (FV+PM-D-FC) FV= fixed value, pm= premium, d= discount, fc= fixed cost.

2) Irredeemable debentures Kd= I+(1-t)/NP EQUITY 1) Redeemable preference shares= Kp= PD+RV-NP/n/RV+NP/2 2) Irredeemable preference shares= Kp= PD/NP, PD= preference dividend.

# CAPITAL BUDGETING

-  Capital budgeting decisions are related to the allocation of funds to different long term assets.
-  It denotes a decisions situation where the lump sum funds are invested in the initial stages of a projects and the returns are expected over a long period.
-  The basic objective of financial management is to maximize the wealth of the shareholders, therefore the objective of capital budgeting is to select those long term investment projects that are expected to make maximum contribution to the wealth of the shareholders in the long run.
-  Features of the capital budgeting are as follows- 1) Long term effects 2) Large commitment of funds 3) Irreversible decisions, cannot be revert back.
-  The situation where the firm is not able to finance all the profitable investment opportunities is known as capital rationing.
-  The capital rationing implies that the firm is unable or unwilling to procure the additional funds needed to undertake all the capital budgeting proposals before it.
-  Any decisions that requires the use of resources is a capital budgeting decisions.
-  Mostly capital budgeting decisions are irreversible decisions that cannot be revert back.
- ➢ Replacement decisions – when the economic life over.
-  Modernization decisions- when technology outdated.
-  Replacement and modernization decisions are called cost reduction decisions
-  Expansion and diversification decisions are called revenue increasing decisions.
-  Mutually Exclusive decisions- Two or more alternative proposals are said to be mutually exclusive when acceptance of one alternative result in rejection of all other proposals.
-  In a simple language capita Rationing is the scarcity of capital fund.
-  Original or initial cash outflows- the initial cash outflows is needed to get project operational. In most of the capital budgeting proposals, the initial cost of the project i.e. the initial investment cost is the cash flow occurring in the initial stages of the projects.

Since the investment cost occurs in the beginning of the project. It reflects the cash spent to acquire the asset.

- Sunk cost- It is that cost which the firm has already incurred and thus has no effect on the present or future decisions.
- Opportunity cost- the next best foregone cost.
- Subsequent Inflows & outflows- original investment cost or the initial cash outflow of the proposal is expected to generate a series of cash inflows in the form of cash profits contributed by the projects. Cash inflows mat vary or same in year annually, half yearly, biannually. Cash inflows generated during the life of the project is called operating cash flows.
- All these cash inflows& outflows are to be considered for the capital budgeting decisions.
- Terminal cash inflows- The cash inflows for the last year will also include the terminal cash inflow.
- There are two techniques of cash flows- 1) Traditional or non-discounted method or ignore time value 2) Modern or discounted or time adjusted techniques.
- **Traditional method includes two method-**

1) Pay- back period

2) Accounting rate of return or Average rate of return.

**PAY-BACK PERIOD**

- Basic elements are the net investment, operating cash flows, economic life.
- Pay-back period is the number of years required for the proposals cumulative cash inflows to be equal to its cash outflows.
- Pay-back period is the length of time required to recover the initial cost of the project.
- When annual inflows are equal then, cash outflow/cash inflow.
- When annual cash inflows are unequal then, we calculate cumulative cash inflows.
- When pay-back period >targeted period= reject
- When pay-back period<targeted period= accept
- Shortest payback period will be first in the priority.
- Payback period is useful in liquidity problems, small firm, recover initial amount.

**ACCOUNTING RATE OF RETURN/AVERAGE RATE OF RETURN**

- It is based on the return on investment or rate of return.
- When equal profit then, annual profit (after tax)/average investment in the project*100.
- When unequal profit then, average annual profit (after tax)/average investment in the project*100
- If the ARR is more than the pre-specified rate of return then project is likely to be accepted.
- ARR can be used to rank various mutually exclusive projects.
- The project with the highest ARR will have the top priority
- ARR is based on accounting profit , it does not help in understanding the contribution of the proposal towards maximization of the wealth of the shareholders.

**MODERN OR DISCOUNTED METHHODS NET PRESENT VALUE (NPV)**

- The sum of the present values of all the cash inflows less than the sum of present values of all the cash outflows associated with a proposal.
- NPV may be defined as the sum of the present values of cash inflows less than the initial investment.
- Net present value= excess of present value of inflows- present value of outflows.
- Accept the proposal when NPV is positive.
- Reject the proposal when NPV is negative.
- NPV is therefore is the change expected in the wealth of the shareholders as a result of the acceptance of a particular proposal.
- In case of ranking of mutually exclusive proposals, the proposal with the highest positive NPV is given the top priority and the proposals with the lowest positive NPV is assigned the lowest priority.
- The NPV (negative) should out-rightly be rejected as these entail decrease in the wealth of the shareholders.
- If NPV in the proposal = 0, firm may be indifferent between acceptance & rejection of the proposals.
- Properties of NPV are as follows- 1) NPVs are additive 2) Intermediate cash flows are reinvested at discount rate 3) The NPV calculations allow for the expected change in the discount rate. 4) The central goal of the capital budgeting is to find out the proposals whose inflows have greater values than outflows. The NPV as a technique of evaluation of capital budgeting proposals helps a finance manager in achieving this objective.

-  When NPV is positive there is a potential for returns in excess of the minimum required return.
-  When NPV is negative the minimum return and the capital recovery both cannot be achieved
-  When NPV is close to or approximately zero the minimum required return is just met.
-  Value of the firm= total NPV of existing projects+ total NPV of the proposals.

## PROFITABLITY INDEX

-  It is defined as the benefits (in present value) per rupees invested in the proposal.
-  It is also known as benefit cost ratio or present value index.
-  It is based upon the basic concept of discounting the future cash flows and is ascertained by comparing the present value of the future cash inflows with present value of future cash outflows.
-  Profitability Index = total present value of cash inflows/total present value of cash outflows.
-  Accept the project if PI >1
-  Reject the project if PI<1
-  PI=1, then the firm may be indifferent because the present value of inflows is expected to be just equal to the present value of outflows.
-  In case of ranking of mutually exclusive proposals, the proposals with the highest positive PI will be given top priority while the proposal with the lowest PI will be assigned lowest priority.
- ➢ PI>1 for that project which has positive NPV – Acceptable project.
- ➢ PI <1 negative NPV – reject project.
-  PI= 1 , NPV=0
- ➢ PI is also known as – 1) Benefit cost ratio 2) Profit investment ratio 3) Value investment ratio 4) Present value index
-  PI= present value of future cash inflow/initial investment

## TERMINAL VALUE

-  The terminal value technique is based on the assumption that all future cash inflows are reinvested elsewhere at the then prevailing rate of interest until the end of the economic life of the project.
-  Accept the proposal if the present value of the total compounded value of all the cash inflows is greater than the present value of the cash outflows.
-  In case of ranking of mutually exclusive proposals, the proposals with highest net present value is assigned top priority.

## DISCOUNTED PAYBACK PERIOD

-  Original payback method+ discounted cash flow techniques
-  In this method the cash flow of the project are discounted to find their present values.
-  A project is acceptable if its discounted payback is less than target payback period. INTERNAL RATE OF RETURN (IRR)
-  It is the discount rate which produces a zero NPV i.e the IRR is the discount rate which will equate the present value of cash inflows with the present value of cash outflows. (Inflows= outflows)
-  The rate of discount so calculated which equates the present value of future cash inflows with the present value of outflows is known as IRR.
-  IRR is also known as 1) Economic rate of return 2) Discounted cash flow rate of return 3) Effective interest rate 4) Yield on Investment
-  IRR > Cost of capital= accept
-  IRR< cost of capital= reject

# WORKING CAPITAL MANAGEMENT

-  Working capital management is defined as the excess of current assets over the current liabilities.
-  It is that portion of assets of a business which is used frequently in current operations or day to day operations.
-  Working capital management refers to the management of the working capital or to be more precise the management of current assets.
-  Current assets are cash & bank balance, inventories, sundry debtors, bills receivables and short term investment.
-  As we must say working capital refers to current assets which may be defined as those which are convertible into cash or equivalents within a period of one year or those which are required to meet day to day operations.
-  Fixed assets affects the long term profitability of the firm while the current assets affect the short term liquidity position.

- Financial managers spend a large chunk of their time managing the current assets because level of these assets changes quickly and a lack of attention paid to them may result in appreciably lower profit for the firm.
- Firm must have adequate working capital.
- Types of working capital are as follows-

1) Gross working capital (GWC)- The gross working capital refers to the firm investment in all the current assets taken together. The total of investment in all the individual current assets is the gross working capital.

2) Net working capital (NWC)- The term net working capital may be defined as the excess of total current assets over total current liabilities. Current liabilities refer to those liabilities which are payable within one year.

- If the total current assets are more than total current liabilities then the difference is known as positive net working capital.
- If total current liabilities exceeds the total current assets the difference is known as negative net working capital.

3) Permanent working capital- permanent working capital is the minimum amount of investment required to be made in current assets at all times to carry on the day to day operation of firms business. This minimum level of currents assets has been given the name of core current assets by Tandon committee. It is also called fixed working capital because it is required in the same way as fixed assets.

4) Temporary working capital- temporary working capital is also known as variable working capital or fluctuating working capital. The firm's working capital requirement vary depending upon the seasonal and cyclical changes in demands for a firm product. The extra working capital required as per the changing production and sales levels of a firm is known as temporary working capital.

- Working capital is required because of existence of operating cycle
- Lengthier the operating cycle more would be the need of working capital.
- Operating cycle- The time gap between acquisitions of resources and collection of cash from customers. It is a time gap between the happening of the first event and the happening of the last event.
- The permanent working capital once decided and arranged may not require regular attention or management as such. But care must be taken of the temporary working capital. The firm must be able to arrange additional working capital immediately whenever need arises. The temporary working capital is needed to meet the temporary liquidity requirements only.
- Difference between permanent working capital and temporary working capital is that permanent working capital is constant increasing regularly while the temporary working capital is fluctuating from time to time.
- Sources of funds are long term sources, short term sources and transactions sources.
- A financial manager has to decide keeping in view the firms requirement as to how much working capital is to be financed by long term sources and how much from short term sources. This decisions is also known as deciding the financing mix of working capital.
- Permanent working capital is also known as fixed assets and long term sources
- Temporary working capital is known as current assets and short term sources.
- There are different approaches to take this decisions relating to financing mix of the working capital are as follows-

1) **Hedging approach also known as matching approach**- The hedging approach to working capital financing is based upon the concept of bifurcation of total working capital needs into permanent working capital and temporary working capital. As the name itself suggests the life duration of current assets and maturity period of the sources of funds are matched. The general rule that the length of the finance should be match with the life duration of the assets i.e fixed assets finance by long term sources, so permanent working capital needs are financed by long term sources. On the other hand the temporary working capital needs are financed by short term sources or fluctuating or variable or temporary are financed by short term. It creates a balance between short term and long term.

2) **Conservatism approach**- Under this approach the finance manager does not want to undertake risk. As a result all the working capital needs are primarily financed by long term sources and the use of short term sources may be restricted to unexpected and emergency situation only. The working capital policy of a firm is called a conservatism policy when all or most of the working capital needs are met by the long term sources and thus the firm avoids the risk of insolvency. The larger the portion of long term sources used for financing the working capital the more conservative is said to be the working capital policy of the firm.

3) **Aggressive policy** – A working capital policy is called aggressive approach policy if the firm decides to finance a part of the permanent working capital by short term source so, the short term financing under aggressive policy is more than the short term financing under the hedging approach. The aggressive policy seeks to minimize excess liquidity while meeting the short term requirements. The firm may accept even greater risk of insolvency in order to save cost of long term financing and thus in order to earn greater return.

- Inventory conversion period- It is the average length of time required to produce and sell the product.
- Receivables conversion period- It is the average length of time required to convert the firms receivables into cash.
- Accounts payable period is also called payables deferral period.
- Cash conversion period- It is the length of time between the firm actual cash expenditure and its own cash receipt. The cash conversion cycle is the average length of time a rupee is tied up in current assets.
- Several models have been for optimum cash balance are as follows-

1) **Baumol's model**- According to this model a company will sell securities and realizes cash and this cash is used to make payments. As the cash comes down and reaches a point the finance manager replenish its cash balance by selling marketable securities available with it and the pattern continues. Each time the firm transacts in this way, it bears a transactions costs so it will like to transact as occasionally as possibly. This could be done by maintaining a higher level involving a high holding cost. Thus the firm has to deal with the holding cost as well as transaction cost.

2) **Baumol's cut off model-** The total cost associated with cash management has two elements 1) cost of conversion of marketable securities into cash 2) opportunity cash. The firm has to incur holding cost of cash if it keeps cash balances with themselves in the form of opportunity cost. The firm also have to incur transactions costs for converting marketable securities into cash. But both the above cost will vary inversely if holding cost is higher transactions cost will be lesser. In case of lesser holding cost transaction cost will be higher.

3) **Miller model-** talked about arbitrage process.

- **Motives for holding cash are as follows-**

1) **Transactions motive-** The necessity of keeping a minimum cash balance to meet payment obligations arising out of expected transactions is known as transactions motive for holding cash.

2) **Precautionary motive**- The necessity of keeping a cash balance to meet any emergency situation or unpredictable obligation is known as precautionary motive for holding cash.

3) **Speculative motive**- The firms desire to keep some cash balance to capitalize an opportunity of making an unexpected profit is known as speculative motive.

4) **Compensation motive-** Commercial banks require that in every current account, there should always be a minimum cash balance. This minimum cash balance may vary from 5000 Rs to 10000 Rs. This amount remains as a permanent balance with the bank so long as the current account is operative. This minimum balance must be maintained by firm & this provides the compensation motive for holding cash.

## NVENTORY MANAGEMENT

- Inventories are assets of the firm.
- How much inventories be maintained by firm- the firm must have an optimal level of inventories.
- Maintaining the level of inventories is like maintaining the level of water in a bath with an open drain.
- The basic financial problem is to determine the proper level of investment in the inventories and to decide how much inventory must be acquired during each period to maintain that level.
- Objectives of Inventories are maximum satisfaction to customer, minimum investment in inventory, achieving low cost plan operation, and high satisfaction – low investment.
- Inventories are called current assets.
- The purpose of holding inventory is to achieve efficiency through cost reduction and increased sales volume.
- Three motives are there for holding the inventories are 1) Transaction motive 2) Precautionary motive 3) Speculation motive
- Costs of maintaining Inventories are

1) **Material cost-** It is the costs of purchasing the goods & related costs, transportation & handling costs.

2) **Ordering cost** – The expenses incurred to place orders with suppliers and replenish the inventory of raw materials are called ordering cost.

3) **Carrying cost-** cost incurred for maintaining the inventory in warehouse are called carrying cost.

4) Shortage costs or stock out cost- these are the costs associated with either a delay in meeting the demand or inability to meet the demand at all due to shortage of stock also called hidden cost.

- **Inventory management techniques are** as under-

1) ABC analysis- Always best control. It is based on the propositions that 1) managerial time and efforts are scare and limited.

2) Some items of inventory are more important than others

- Items of high value require maximum attention while items of low value do not require same degree of control. The firm has to be selective in its approach to control its investment in various items of inventories. Such an approach is known as selective inventory control. ABC system belongs to selective inventory control.
- ABC analysis classifies all the inventory items in an organization into three categories-

1) Items are of high value but small in number, all items require strict control.

2) Items of moderate value and size which require reasonable attention of management.

3) Items represent relatively small value items of simple control.

## EOQ (ECONOMIC ORDER QUANITITY)

- It refers to the optimal order size that will result in the lowest ordering and carrying cost for an item of inventory based on its expected cycle.
- Assumptions are 1) constant or uniform demand 2) known demand or usage 3) constant per unit price 4) constant carrying cost

5) constant ordering cost.

- Inventories can be replenished immediately as the stock level reaches exactly equal to zero constantly there is no shortage of inventory.
- EOQ= √2AO/C,A= Annual cost, O= Ordering cost, C=Carrying cost per unit.

## RECEIVABLES MANAGEMENT

- Amounts due from customers, when goods are sold on credit are called trade credit.
- Management of accounts receivables may be defined as the process of making decision relating to the investment of funds in receivables which will result in maximizing the overall return on the investment of the firm.
- The receivables emerge whenever goods are sold on credit and payment are deferred by customers.
- Receivables are created when a firm sells goods or services to its customers and accepts, instead of the immediate cash payment, the promise to pay within the specified period.
- Higher credit sales at more liberal terms will no doubt increase the profit of the firm but simultaneously also increases the risk of bad debts as well as result in more and more funds blocking in the receivables. So a careful analysis of various aspects of the credit policy is required. This is what known as receivables management.
- Receivables may be defined as collection of steps and procedure required to properly weight the cost and benefits attached with the credit policies.
- Cost associated with maintaining receivables

**1) Cost of financing/ capital cost-** The credit sales delays the time of sales realization and therefore the time gap between incurring the cost and the sales realization is extended. This results in blocking of funds for a longer period. The firm on the other hand, has to arrange funds to meet its own obligation towards payment to the supplier, employees. These funds are to be procured at one implicit or explicit cost. This is known as the cost of financing the receivables. 2) Administrative cost- when a firm sells goods on credit it has incur two types of administrative costs 1) credit investigation & supervision cost

**2)** Collection cost.

**3) Delinquency cost-** if there is a delay in payment by customer the firm may have to incur cost on reminder, phone calls, postage, legal notices etc. moreover there is always an opportunity cost of the fund tied up in the receivables due to delay in payment.

**4)** Bad debt or default cost- when the firm is unable to recover the amount due from its customers, its results in bad debts. When a firm relaxes its credit policy selling to customers with relatively low credit rating occurs. In this process a firm may make credit sales to its customers who do not pay at all.

- If its take strict credit policy then following things will happen- sales reduce, reduce bad debts, reduce delinquency cost, reduce collection cost, reduce opportunity cost but increase liquidity of the firm.
- If it takes liberal policy towards credit policy then following things will happen increase sales, increase bad debts, increase delinquency cost, increase collection cost, increase opportunity cost, increase profit, increase potential cost and decrease in liquidity of firm.
- Objectives of receivables cost- 1) To generate sales 2) To maximize profit 3) To reduce bad debts
- A period of NET 30 days means maximum time to pay the amount is 30 days.
- 2/10 net of 30 means- maximum period is of 30 days but if customers pay in 10 days he will get a discount of 2%.
- Trade credit is spontaneous type of finance.
- The receivables management must be attempted by adopting a systematic approach and considering the following aspects-

**1) Credit policy –** The credit policy may be defined as the set of parameters and principles that govern the extension of credit to the customers.

The following are the four varieties of credit policy variables are- 1) Credit standard 2) Credit period 3) Cash discount 4) Collection programme.

- **Credit standard-** when a firm sells on credit it takes a risk about the paying capacity of the customers. Therefore to be on a safer side, it must set credit standard which should be applied in selecting customers for credit sales. The problem is to balance the benefits of additional sales against the cost of increasing bad debts.
- **Credit period**- It refers to the length of the time over which the customers are allowed to delay the payment or to make the payment. Credit policy generally varies from 30 days to 60 days. Customary practices are important factor in deciding the credit period.
- **Cash discounts have** implications on sales volume, average collection period, investment in receivables, incidence of bad debts & profits
- Objectives of collection policy are as follows- 1) To achieve timely payment in receivables 2) Releasing funds locked in receivables 3) Minimizing the incidence of bad debts.

**Collection Programme-** monitoring the receivables, to remind the customer about due date, online interaction with customer about due date, initiating legal action, it shall not lead to bad relationship with the customers.

# UNIT-10

# FINANCE

## MONEY MARKET AND CAPITAL MARKET

- Money Market is the market deals in short term funds i.e in funds with maturity period of up to one year.
- The RBI is the major constituent of money market which comes within the direct purview of RBI regulations.
- Capital market is the market which deals with long term funds i.e maturity period above 1 year.
- Primary market deals in the new financial claims or new securities known as new issue market.
- Secondary market deals in securities already issued or existing or outstanding eg stock market. It is second hand market.
- It was the Chakravarthy committee which for the first time, underlined the need of an organized money market in the country and the vahul committee laid the blue print for its development.
- Money market has two segments 1) unorganized market 2) organized market.
- Unorganized money market divided in to three different categories- 1) Unregulated non-bank financial intermediaries – in the form of chit funds and nidhis. 2) Indigenous bankers like gujarati shroffs, multani or shikarpuri shroffs, Marwari kayas, chettiars. 3) Money lenders
- There are 8 organized instruments of the money market they are-

1) **Treasury bills**- this instrument of the money market got organized in 1986. Used by central government to fulfill its short term liquidity requirement up to the period of 364 days. Five types of treasury bills are 14 day (intermediate), 14 day (Auctionable) 91days, 182 days, 364 days.

2) CD (Certificate of deposits) 1989

3) CP (Commercial paper) 1990

4) CB )Commercial bill) 1990

5) CMM (Call money market) also known as overnight borrowing market or money at call.

6) Money market mutual fund (MF) 1992 to provide short term investment opportunity to Individuals. Since march 2000 MFs, have been brought under the preview of SEBI.

7) **Repo and Reverse repo rate** – repo is also known as rate of repurchase. Repo rate introduced in Dec 1992, Reverse repo rate in Nov 1996. Accepting the recommendations of Urjit Patel committee the RBI in April 2014 (while announcing the first Bi-monthly credit & monetary policy 2014-2015) announced to introduce the term repo and reverse repo.

8) CMB (cash management Bill) 2000

## CREDIT RATING

- It is defined as an act of assigning values to credit instruments by estimating or assessing the solvency i.e the ability of the borrower to repay debt, and expressing them through pre-determined symbols.
- Credit rating is done by specialized, expert, reputed & accredited institutions.
- Debt instruments
- It began in 1988 in India by the ICICI and UTI jointly.
- Fixed deposit most important instruments

- The concept was first introduced by John Moody in the USA in 1909.
- **The major credit ratings agency are as follows-**

1) CRISIL (Credit rating Information of India Ltd)

2) ICRA (Investment Information and credit Rating agency of India Ltd) 1991

3) CARE (Credit analyses and Research Ltd) 1993 by IDBI

4) ONICRA (Onida Individual Credit Rating Agency of India Ltd) 1995

5) SMERA (Small and medium enterprises rating agency) Sep 2005

- To maintain a database on the credit records of individuals the credit information bureau of India limited (CIBIL) was set up in May 2004 which makes credit Information available to banks and financial institutions about prospective individual borrowers.

## MINIMUM RESERVE SYSTEM

- The RBI is required to maintain a reserve equivalent of Rs 200 crores in gold and foreign currency with itself, of which Rs 115 crores should be in gold. This is being followed since 1957 and is known as the Minimum Reserve system (MRS)

## STOCK MONEY

- On the recommendations of the second working group on Money Supply (SWG) in 1977, RBI has been publishing four monetary aggregates (components of money)- M1, M2, M3, M4.
- Now the RBI has started publishing a set of new monetary aggregates following the recommendations of the working group on money supply: Analytics and Methodology of compilation (chairman Y V Reddy) which submitted its report in June 1998.
- New money aggregates are as follows- 1) Reserve Money (Mo) = Currency in circulation + bankers deposits with the RBI + other deposits with RBI. 2) Narrow Money (M1) = Currency with the public + demand deposits with the banking system + other deposits with the RBI. 3 3) M2= M1+ Savings deposits of post office savings Banks. 4) Broad Money (M3) = M1+ Time deposits with the banking system. 5) M4= M3 + All deposits with post office savings banks (excluding national savings certificates)
- Now the new monetary aggregates are

1) NM1 (Narrow money) = currency with the public + demand deposits with the banking system + other deposits with the RBI.

2) NM2= NM1 + short term time deposits of residents (including the contractual maturity of one year)

3) NM3 (Broad Money)= NM2+ long term time deposits of residents + call/ term funding from financial institutions.

- Liquidity aggregates are as follows-

1) L1= NM3+ all deposits with the post office savings banks ( excluding national savings certificate)

2) L2=L1+Term deposits with term lending Institutions and refinancing Institutions (FIs) + Term borrowing by FIs + certificates of deposits issued by FIs 3) L3= L2+ Public deposits of non-banking financial companies.

- The gross amount of the following six segments of money at any point of time is known as Reserve Money (RM)-1) RBIs net credit to the government 2) RBIs net credit to the banks 3) RBIs net credit to the commercial banks 4) Net forex reserve with the RBI
5) Governments currency liabilities to the public 6) Net non-monetary liabilities of the RBI

# CREDIT COUNSELLING

- Advising borrowers to overcome their debt burden and improve money management skills is credit counselling.
- The first such well known agency was created in the USA when credit granters created National Foundation for credit counselling (NFCC) in1951.
- There are six major SCRAs (sovereign credit rating agencies)

1) Fitch ratings

2) Moody's Investors service

3) Standard & poor's

4) Dominion Bond Rating services (DBRS)

5) Japanese credit rating agency (JCRA)

6) Rating and Investment Information Inc Tokyo (R&I)

## NON PERFORMING ASSETS

- Non-performing assets are bad debts of banks/financial institutions defined as follows 1) Interest or installment or principal remains overdue for a period of more than 180 days in respect of term loan. 2) Interest and /or installment or principal remains overdue for two harvest seasons but for a period not exceeding two and a half years in the case of agricultural loans.
- The three types of NPAs are

1) Sub-standard – remaining NPAs for less than or equal to 18 months

2) Doubtful- remaining NPAs for more than 18 months

3) Loss assets- where the loss has been identified by the bank or internal/ external auditors or the RBI inspection but the amounts has not been written off.

- Banks to carve out a special category of assets termed special mention accounts (SMAs) in which early signs of stress are visible.
- If a borrower's interest or principal payments are overdue by more than 60 days, a joint lender's forum to be formed by the bankers for early resolution of stress.

## SECURITY MARKET IN INDIA

- Primary market deals in the new financial claims or new securities known as new issue market.
- Secondary market deals in securities already issued or existing or outstanding. It's a second hand market e.g. stock exchange.
- Worlds first stock exchanges was established in Antwerp, Belgium (then part of the Netherland) in 1631, the London stock exchange opened in 1773 and then Philadelphia stock exchange opened in 1790.
- The first stock exchange in India, the Bombay Stock Exchange known as The Native Share and stock Brokers Association was set up in 1870.
- Presently there are a total number of 26 stock exchange operating in India. 7 at the national and 19 at the regional.

## NSE (NATIONAL STOCK EXCHANGE).

- It was set up in 1992 and became operationalized in 1994.
- Fully automated, electronic screen based trading system.
- Two segment 1) WDMS (Wholesale debt market segment) 2) CMS (capital market segment)
- RBI identified NSEI as the only conduct for interbank security deals.
- DOTS (Delhi online trading system 1996)
- MIBOR- Mumbai interbank offer rate
- MIBID – Mumbai Inter- bank bid rate
- Chandrasekhar committee for transfer of shares.

## OTCEI (Over the counter Exchange of India Ltd).

- Over the counter exchange of India Ltd was set up in 1989, it could commence trading only in 1992.
- India's first fully computerized stock exchange.
- Screen based automated Ringless trading system.
- Head office is at Mumbai.
- T+3 settlement
- Roll over concept- it means that all trading done on any day is settled on the same day itself.
- Mangelam committee and Dave committee.

## ISE (Interconnected Stock Exchange).

- The interconnected stock Exchange of India is basically a single floor of India's 15 regional stock exchanges (RSEs) set up in 1998.
- It is a web based exchange.

## BSE (Bombay Stock Exchange).

- It is the apex stock exchange of India
- Oldest & recognized permanently and 5th world largest stock exchange.
- It was established in 1875
- BOLT- Bombay online trading system 19th Jan 1995.
- Mumbai the real hub or heart of the securities industry in India.
- BSE Tasis shariah 5 Index 2010.
- Launched Index based circuit breaker system 2011 Jan.
- BOLT replaced open out-cry system May 1995.

## SEBI (Securities exchange board of India).

- It was established on 12th April 1988 as non -statutory body.
- Set up on 21st Feb 1992
- Head office is at Mumbai
- Under the overall control of Ministry of Finance
- Regional office at Calcutta, Chennai and Delhi.
- Aim- to protect the interests of investors in securities and to promote the development of & to regulate the securities market & for matters connected there with or incidental thereto.
- Securities law amendment ordinance on 25th Jan 1995
- Securities contracts (regulation) amendment bill 2005
- ABS- Asset backed securities
- RMBS- residential mortgage backed securities
- SEBI insider trading regulation 1992
- SOR- smart order routing. It is a mobile trading.

## NASDAQ

- The National Association of security Dealers Automated Quotation (NASDAQ) is US stock exchange based in New York which specializes in the high-tech companies share.
- A similar Techmark exists in London too.

## MCX-SX

- A new stock market established on 1st Feb 2013
- 3rd online trading stock exchange after BSE & NSE

## NSDL (National securities depository limited).

- 8th Nov 1996
- Paperless trading
- CDSL- central depository services of India Ltd 1998

## FMC (Forward Market Commission).

- The forward market commission is a statutory body set up under the Forward market contracts (regulation) act 1952.
- It functions under the administrative control of the Department of consumer Affairs, Ministry of Consumer Affairs, Food & public Distribution.
- Headquarter is at Mumbai with one regional office at Kolkata
- To ensure financial integrity, market integrity and protection and promotion of the interests of the consumers/ non -members.

## FACTORING

- Seller sale on credit known as trade credit and gives time to buyer to make payment known as credit period, payment known as trade receivables from seller side & trade payables from buyer side.

- The effort of sellers are always to collect receivables as quickly as possible to reduce the collection period to the minimum.
- The sellers may make their own internal arrangements to collect receivables or they may hand over this job to a specialized collection agency such an agency is known as factor.
- A factor thus a financial institution which manages the collection of accounts receivables of the companies on their behalf and bears the credit risk associated with those accounts.
- Factoring means selling with or without recourse the receivables by the firm to a factor.
- First factoring companies SBI commercial & factoring services Ltd 26th Feb 1991.

## VENTURE CAPITAL FUND

- Established in 1987
- Venture capital Industry or venture capital market
- Sponsored by financial Institutions
- It Is a type of financial Intermediary.
- It belongs to high risks, high profitability, high and new technology and young, first generation, small entrepreneurs.
- Venture capital is a high risk high return business.
- It is a long term fund in equity or semi equity form to finance high tech projects involving high risk& yet having strong potential of high profitability.
- It is a long term Investment, funds are usually expected to be tied up for 3 to 10 years.
- Citigroup most active investors.
- ICICI ventures, Goldman Sachs, hellion ventures.
- TDICI- Technology development & Information Company.
- RCTFC- Risk capital & technology finance corporation Ltd 12 Jan 1988.
- ANZ Grindlays bank has set up India's first private sector venture capital fund namely, India Investment Fund (IIF)

## LEASE FINANCE

- A lease is a financing device.
- It is a form of financing employed to acquire the use of assets.
- Through lease, firms can acquire the economic use of assets for a stated period of time without owing it.
- Two party are there 1) leasee 2) leassor
- Two types 1) operating lease 2) financial or capital lease
- Operating lease is short term and can be cancelled.
- Financial or capital lease is non-cancelled, contract to pay a certain amount to that period.

## MUTUAL FUNDS

- A mutual fund is a pure intermediary which performs a basic functions of buying and selling securities on behalf of its unit holders, which the latter also can perform but not as easily, conveniently, economically & profitability.
- Evidenced by unit certificates.
- Unlike shareholders in a company the shareholders in a MF do not have any voting rights.
- Functions- It provides investors of small & moderate means the opportunity that is enjoyed by large, rich investors namely to realize high & secure rate of return on their savings.
- High return low risks
- Open ended scheme- when the units are sold and redeemed every day or continuously on an all going basis as there is no locking period.
- Close ended scheme- when the issue is open for subscriptions in a fixed time. Lock in period is 3/5 years.

## MICRO FINANCE

- For channelizing credit for poverty alleviation directly & effectively.
- The self -help group (SHG) banks linkage programme is the major programme.
- SHG linkage programme has grown in India to help the poor people & make the people self -dependent.
- NABARD has play a significant role to increase this activity

- It play a important role in financial inclusion & inclusive growth.
- SHIP= self- help promoting institutions.
- No frills- zero balance account
- KYC- know yourcustomer
- GCC- general creditcard
- BC- Business correspondent
- USB- Ultra smallbranches

# FINANCIAL INCLUSION

- It implies delivery of financial services at an affordable cost to the vast sections of disadvantaged & low income groups.
- Availability of banking & payment services to the entire population without discrimination is the prime objective of the public policy.

# DERIVATIVES AND OPTIONS

- Derivatives are contracts which are written between two parties whose value is derived from the value of underlying widely held and easily marketable assets such as agricultural and other physical commodities or currencies or short term and long term financial instruments or intangible things like commodities price index, equity price index or bond price index.
- Derivatives are also known as deferred delivery or deferred payment.
- Types of derivatives are as follows- 1) Future 2) Options 3) Swap 4) Warrant & convertibles 5) Credit derivatives
- Future contract are transferable specific delivery forward contracts. They are agreement between two counterparties that fix the terms of an exchange or that lock in the price today of an exchange which will take place between them at some future date.
- Options are contracts between sellers and buyers which obligate the former to deliver and entitle the latter without obligation to buy stated quantities of asset with stated quality at some future dates at today contracted prices.
- When the buyer has the right to receive the delivery of asset they are known as call options.
- When they have the right to receive the payment by handing over the assets they are known as put options
- The options in whose dates are different known as American options.
- In which dates are same known as European options.
- Swaps are agreements between two parties to exchange assets or sets of financial obligation or a series of cash flows for a specified period of time at pre-determined intervals.

# BOSTON CONSULTING

- Established in 1963.

1) Cash cow- It is where company has high market share in a slow growing industry. These units typically generate cash in excess of the amount of cash needed to maintain the business. They are regarded as staid & boring, in a mature market and every corporation would be thrilled to own as many as possible. They are to be milked continuously with as little investment would be washed in an industry with lowgrowth.

2) Dogs- more charitable called pets, are units with low market share in a mature, slow growing industry. These units typically break even generating barely enough cash to maintain the business market share. Though owing a break even unit provides the social benefit of providing jobs and possible synergies that assist other business.

3) Question mark- (problem children) are business operating in a high market growth, but having a low market share. They are starting point for most business. Question mark have a potential to gain market share and become stars & eventually cash cows when market growth slows. If questions marks so not succeed in becoming a market leader then after perhaps years of cash consumption, they will regenerate into dogs when market growth declines.

4) Stars- It is unit with a high market share in a fast growing industry. They are graduated question marks with a market or niche leading trajectory, for example, amongst market share front runners in a high growth sector. The hope is that stars become the next cash cow.

# UNIT-11

# ACCOUNTS

- International accounting standard committee (IASC) who renamed as Informational financial reporting board set up in 1973 on 23rd June.
- Institute of Chartered Accountant of India on 21st April 1977 set up the Accounting Standard board.
- Accounting standard are a set of guidelines i.e Generally Accepted Accounting principles issued by accounting body of country.
- Accounting standard as a code of conduct imposed on an accountant by custom, law & professional body.
- Accounting standard as follows- (SHORT CUT)
- AS-1 = Accounting policies
- AS-2 = Inventory
- AS-3 = cash flow statement
- AS-4 = contingencies event
- AS-5 = prior period
- AS-6 = depreciation
- AS-7 = construction
- AS-8 = Research & development
- AS-9 = revenue recognition
- AS-10 = Fixed assets
- AS-11 = Foreign exchange rate
- AS-12 = Government Grant
- AS-13 = Investment
- AS-14 = Amalgamation
- AS-15 = retirement
- AS-16 = Borrowings
- AS-17 = Segment
- AS-18 = Related
- AS-19 = Lease
- AS-20 = EPS
- AS-21 = Consolidated
- AS-22 = Tax
- AS-23 = Assessment
- AS-24 = Continuity
- AS-25 = Interim
- AS-26 = Intangible
- AS-27 = Joint ventures
- AS-28 = Impairment
- AS-29 = contingent assets & liabilities
- AS-30 = Recognition & Measurement
- AS-31 = Presentation
- AS-31 = Disclosure
- Father of Accounts – Lucas Pacioli 1494,
- Accounting principles+ concepts+ accounting conventions commonly known as GAAP (Generally accepted accounting principles) on the basis of which financial statements are to be prepared.
- Principles of accounting are the general law or rule adopted or proposed as a guide to action, a settled ground or basis of conduct or practices.
- Accounting concepts are the basic assumptions of fundamental propositions within which accounting operates.
- Concepts are as follows-

1**) Going concern**- according to this it is assumed that business shall continue for a foreseeable period and there is no intention to close the business or scale down its operations. It is because of this concept that a distinction between capital & revenue expenditure.

**2Consistency assumptions**-accounting practices once selected and adopted should be applied consistency year after year. Change if law or accounting standard requires, straight line method and written down value method.

3) **Accrual assumptions**- A transactions is recorded in the books of accounts at the time when it is entered into and not when the settlement takes place. Thus revenue is recognized when it is realized. The concept is particularly important because it recognizes the assets, liabilities, income and expenses as and when transactions relating to it are entered into.

4) **Accounting entity or business entity-** according to business entity principle business is considered too be separate and distinct from its owners. Business transactions therefore are recorded in the books of accounts from the business point of view and not from that of the owners. The accounting entity principle is a useful principle as from it responsibility accounting has developed.

5) **Money measurement principle-** According to the money measurement principle, transactions and events that can be measured in money terms are recognized in the books of accounts of the enterprise. Money is the common denominator in recording & reporting all the transactions.

6) **Accounting period principle**- According to accounting period principle the life of an enterprise is broken into smaller periods so that its performance is measured at regular intervals. The life of the enterprise is broken into smaller periods which is termed as accounting period. An accounting period is the interval of time at the end of which income statement (P & l account or statement of profit & loss in the case of a companies and balance sheet are prepared to know the result and resources of the business.

7) **Full disclosure principle** – there should be complete and understandable reporting on the financial statement of all significant information relating to the economic affairs of the entity. Good accounting practice requires all material and significant information to be disclosed. Reason for low turnover should be disclosed.

8) **Materiality concept** – It refers to the relative importance of an item or an event. An item should be regarded as material if there is a reason to believe that knowledge of it would influence the decision of an informed investors.

9) **Prudence or conservatism principle- Do** not anticipate a profit but provide for all possible losses. It takes into consideration all prospective losses but not the prospective profit. The financial statement present a realistic picture of the state of affairs of the enterprise and do not paint a better picture than what it actually is conservatism does not record anticipated revenue but provide all anticipated expenses & losses. It may be used to create secret reserve.

10) **Cost concept or historical concept**- According to this asset is recorded in the books of accounts at the price paid to acquire it and the cost is the basis for all subsequent accounting of the assets should be shown in the book of accounts at its book value. Cost concept brings objectivity in the preparation and presentation of financial statements. They are not influenced by the personal bias or judgement.

11) **Matching concept** – It is necessary to match revenues of the period with the expenses of that period to determine correct profit or loss for the accounting period. As per this concept adjustments are made for all outstanding expenses, prepaid expenses, accrued income, unearned income. The expenses for an accounting period are matched against related revenues rather than cash received & cash paid.

12) **Dual concept or duality-** The transactions entered into by an enterprise has two aspects a debit and a credit of equal amount. For every debit there is a credit of equal amount in one or more accounts. Capital = assets.

13) **Revenue recognition concept**- Revenue is considered to have been realized when a transactions has been entered into and the obligation to receive the amount has been established.

14) **Verifiable objective concept**- It holds that accounting should be free from personal bias. It means all accounting transactions should be evidenced and supported by business documents. These supporting documents are cash memo, invoices, sales bills etc and they provide the basis for accounting & audit.

# CAPITAL AND REVEUNE EXPENDITURE

- Capital expenditure- It results in addition to an asset accident expenditure incurred for improving and extending an existing asset is called capital expenditure. It makes an asset more valuable & increase their liability. Money spent on repairs to increase the life of an asset.
- Expired cost is called expenses
- Betterment of fixed assets or improvement of an asset to produce more to improve its earning capacity or to reduce its operating expenses or to increase the life of asset.
- Examples of capital expenditure are as follows- 1) Purchase of machinery 2) Purchase of land 3) Cost of making additions to building 4) Enlarging the seating accommodation of a college hall 5) Interest on capital paid during the period of construction 6) Expenditure in connection with or incidental to the purchase or installation of an asset. 7) Additions and extensions to existing assets. 8) Interest and financing charges paid, brokerage and commission paid.
- Revenue expenditure – A revenue expenditure is one that result in addition to an expense account. Revenue expenditures do not increase the earning capacity of the asset nor prolong is estimated useful life but represent normal maintenance cost. Incurred in one period of the accounting the full benefit of which is enjoyed in that period only. It includes all expenses which arise in normal course of business.
- Examples are selling and distribution expenses incurred for sale of finished goods e.g. sales office expenses, delivery expenses & advertisement expenses.
- Some examples when revenue expenditure may become capital expenditure-

1) Repairs are usually revenue expenditure but if we purchase a second hand machinery and pay for repairs necessary to make it suitable for our purpose then such repairs become capital expenditure & should be added to the cost of the machinery.

2) Wages are usually a revenue charges but if we paid to the employees for the constructions or erection or installation of the fixed assets of the business then these become be added to the cost of the fixed assets concerned .

3) Legal expenses are usually a revenue charges but if paid for conveyancing (transferring property) on acquisition of property should form an additional cost of the asset acquired.

4) Freight and carriage are usually a revenue item but payments made for transporting newly acquired asset will form additional cost of the asset this being treated as capital expenditure.

5) Interest on borrowings and capital generally revenue item is allowed to be treated as capital item if paid during the period of construction.

6) Preliminary expenses- Initial expenses connected with the formation of a company though revenue in nature are allowed to be capitalized and can be shown as an asset in the balance sheet.

- **Deferred Revenue expenditure –** It includes those non-recurring expenses which are expected to be of financial nature, distributed to several accounting periods of indeterminate total length. Quasi capital nature, the benefits which extended to number of years are 3 to 5 years. Research & development, heavy advertisements.

# PRINCIPLE OF ERROR

- Types of error are error of principle and clerical error.
- Clerical error includes error of commission, error of omission, compensating error.
- Error of omission – An error of omission is an error when a transactions is completely or partially omitted from being recorded in the books of accounts. When a transactions is completely or partially omitted to be recorded in books of accounts it is called error of omission. Goods purchased on credit from Mr. A, this transactions is not recorded in the purchase journal. This is called error of complete omission.

- **Error of commission**- It is those errors which arise due to wrong recording, wrong posting, wrong carrying forward, wrong casting (totaling) of subsidiary books, wrong balancing.
- Error of recording- wrong amount
- Error of casting- totaling error
- Error of carry forward
- Error of posting on wrong side

- Error of commission results in disagreement of trial balance.
- Compensating error- when one mistake nullifies the wrong effect of another it is called a compensating error. These are two or more error in number and balance each other. These are generally arithmetical error.
- Error of principle- These are error arising from net observing the accounting principles correctly eg wages paid for installation of machinery debited to wages a/c, purchase of fixed assets on credit recorded in purchase journal. These error will not affect the trial balance.
- Balance sheet prepared on a particular date to determine the financial position of the concern.
- Some important types of Accounting –

1) **Inflation accounting**- Inflation rate is the percentage of change in the price level from the previous period. Inflation a/c is to correct the conventional historical cost accounts for the understatement of inventory and plant used in production i.e the cost of goods sold & depreciation in order to prevent erosion of capital during inflation.

2) **Human resource accounting** – It is basically an information system that tells management what changes are occurring over time to the human resources of the business.

3) **Social Accounting**- social accounting and audit is a framework which allows an organization to build on existing documentation and reporting and develop a process whereby it can account for its social performance and draw up an action plan to improve on that performance and through which it can understand its impact on the community and be accountable to its key stakeholders.

4) **Responsibility accounting-** The framework of responsibility accounting was developed by Prof. AJE Sorgdrager titled particularization of Indirect cost. Responsibility accounting is a method of budgeting and performance reporting created around the structure of the organization. It is designing the accounting system according to answerability of the managers also called profitability account and activity account.

## RATIO ANALYSIS

- Relationship between two figures expressed in arithmetical terms is called a ratio.
- Relationship between two or more variables.
- Main objectives of ratio analysis are as follows- 1) Liquidity 2) Leverage/solvency (strength of the firm) 3) Activity ratio (efficiency of assets) 4) Profitability (profit of the firm) 1) Liquidity ratio – ability of firm to meet its current liabilities.
- Short term solvency
- It includes 3 ratio's 1-current ratio. 2-liquid ratio. 3-working capital ratio.
- Current ratio shows relationship between current assets and current liabilities.
- Its ideal ratio 2:1
- It is susceptible to window dressing
- Current ratio = current assets/ current liabilities

2) Acid test/ quick ratio / liquid ratio – whether the firm is in a position to pay its current liabilities within a month or immediately.
- Most rigorous test of liquidity
- Ideal ratio 1:1
- Quick ratio = liquid assets/ current liabilities
- Liquid assets include all current assets except stock and prepaid expenses.

3) Net working capital ratio = current assets – currents liabilities

**LEVERAGE OR SOLVENCY RATIO** (soundness of the long term financial policies of the firm) 1) Debt equity ratio – desirable 2:1 , relationship between long term loans and shareholders fund or net worth. 2) Total assets to debt ratio = total assets/ long term loans 3) Total assets includes all current as well as fixed assets and exclude all fictitious assets such as- preliminary expenses, underwriting commission, share issue expenses, discount on issue, debit balance of p & l account. 4) Properitory ratio = equity/ total assets

**ACTIVITY RATIO OR TURNOVER RATIO** (it indicates the rapidity with which the resources available to the concern are being used to produce sales.
- Calculated on the basis of sales or cost of sales.

- Inventory turnover ratio/ stock turnover ratio – relationship between cost of goods sold & average stock
- Cost of goods sold/ average stock
- Indicates whether stock has been efficiently used or not
- Shows the speed with which the stock is rotated into sales or number of times the stock is turned into sales during the year.
- Higher the ratio better it is
- Ratio can be used for comparing the efficiency of sales policies of two firms doing same type of business.
- Whose stock turnover is higher will be treated as more efficient.
- Debtor turnover ratio = net credit sales/ average debtors + average br
- Credit sales= total sales – cash sales
- Average collection period = number of days in year/ debtor turnover ratio
- Creditors turnover ratio/ payables turnover ratio= net credit purchase/ average creditors + average bills payable
- It indicates the speed with which the amount is being paid to creditors
- It increase the credit worthiness of the firm.
- Average payment period = 365 days / creditors turnover ratio
- Working capital turnover ratio= net sales/ working capital
- Important in non- manufacturing concerns
- Shows number of times working capital has been rotated in producing sales.

## PROFITABILITY RATIO/ INCOME RATIO

- The efficiency & success of a business can be measured with the help of profitability ratio.
- Gross profit ratio = gross profit/net sales *100
- Net sales= sales- sales return
- The margin of profit available on sales, higher the gross profit better it is.
- Operating profit- measures the proportion of an enterprise cost of sales & operating expenses.
- Operating profit= cost of goods sold + operating expenses/net sales* 100
- Gross profit=net sales-cost of goods sold
- Cost of goods sold=net sales-gross profit
- Operating expenses include office & administration expenses + selling & distribution expenses + discount+ bad debt+ interest on short term loans.
- Not included non-operating expenses such as loss on sales of assets, loss from fires, charities, donations, income tax.
- Lower operating ratio is better
- Net profit ratio= net profit / net sales * 100
- Operating profit ratio= operating profit/net sales* 100
- Operating profit = gross profit- operating expenses
- EPS (Earning per share) – its shows the overall profitability of a company.
- Earnings refer to profit available for equity shareholders.
- EPS= net profit (after tax, dividend on interest)/ no of equity shares
- This ratio is helpful in the determination of the market price of equity share of the company.
- The capacity of the company to declare dividends on equity shares.

## CASH FLOW STATEMENT

- It is a statement showing inflows (receipts) and outflows (payments) of cash during a particular period.
- The term cash here stands for cash & cash equivalent.
- It is also known as statement of changes in financial position.
- For past- cash flow, for future – cash budget.
- Cash flow statement prepared at the end of the year.
- It is useful for short term financial planning.
- Three activities are included in this- 1) operating activities 2) investing activities 3) financing activities.
- There is a possibility of window dressing in cash flow statement so fund flow statement presents a more realistic picture than a cash flow statement.
- It ignores the accrual concept

- It is of historical nature
- Format of cash flow statement (AS-3)

1) CASH FLOW FROM OPERATING ACTIVITIES
- Net profit before tax& extraordinary items
- Adjustment for depreciation, foreign exchange, loss on sale of fixed assets, gain on sale of fixed assets, interest paid, interest received, dividend received.
- Operating profit before working capital changes- ADD (+) decrease in current assets, increase in current liabilities. Sub (-) Increase in current assets, decrease in current liabilities.
- Cash generated from operating activities, Income tax paid
- Net cash from operating activities.

2) CASH FLOW FROM INVESTING ACTIVITIES
- Purchase of fixed assets
- Purchase of fixed assets
- Purchase of Investment
- Sale of Investment
- Interest received
- Dividend received
- Net cash from investing activities

3) CASH FLOW FROM FINANCING ACTIVITIES
- Proceeds from issue of share capital
- Proceeds from long term borrowings
- Repayment of long term borrowings
- Interest paid
- Dividend paid
- Net cash from financing activities

# FUND FLOW STATEMENT

- Depicts various sources of funds & their uses.
- ADD (+) Increase in liability, Decrease in assets. SUB (-) Decrease in liability, increase in assets.
- Statement of change in financial position 1) working capital basis i.e. fund flow statement. 2) cash basis i.e. cash flow statement
- Net working capital = current assets – current liabilities
- Fund flow statement shows the sources & uses of working capital between two balance sheet dates.
- Fund flow statement is a historical record of where the funds came from & how these were utilized during the period.
- When the net effect of a transactions is to increase or decrease the working capital by affecting any elements of current assets or current liability affect one current account & one non- current account.
- Working capital increase when increase in current assets/ decrease in current liability
- Working capital decrease when increase in current liabilities, decrease in current assets.
- Long term planning
- Based on accrual basis.
- Steps in Fund flow statement 1) Change in working capital 2) Fund from operations 3) Sources of fund includes
- Fund from operations
- Issue of share capital
- Issue of debentures
- Long term borrowings
- Sales of assets / investment
- Non-operating income
- Profit
- Decrease in working capital 4) Application of fund
- Loss from operations

- Redemption of sharecapital
- Redemption ofdebenture
- Repayment ofloan
- Purchase of asset/ investment
- Payment ofdividend
- Loss
- Increase in workingcapital

**FIANCIAL STATEMENT**

- Shows the financial performance & financial position
- Also called final account prepared from trial balance
- Trading account> profit & loss account> balance sheet
- In profit & loss account all gains& losses are collected in order to ascertain the excess of gains over the loss.
- Operating profit= net sales- operating cost.
- Balance sheet shows the financial position of the business on a certain date.
- A statement which sets out the assets & liabilities of a firm or an institution as at a certain date.
- Manufacturing account>trading account>profit and loss account>profit & loss appropriation account>balance sheet

## GROUPING AND MARSHALLING OF ASSETS & LIABILITIES

- Grouping means putting items of a similar nature under a common accounting head.
- Marshalling arrangement of assets & liabilities in a particular order in the balance sheet.
- In order of liquidity (assets which easily converted in to cash)
- In order of permanence ( permanently used in the business)

NON PROFIT ORGANIZATIONS

- NGO's are those organizations whose main object is not to earn profit but render to services to its members & to the society.
- Receipts & payments a/c (real a/c) > income & expenditure a/c (surplus & deficit a/c)> balance sheet.

## MERGER AND ACQUISITIONS

- MERGER- It refers to a situation when two or more existing firms combine together and form a new entity.
- If a new company incorporated then it is called consolidation or amalgamation.
- If an existing company is merged into another existing company it is known as absorption.
- External reconstruction – it means changing only the name or outer cover of the company.
- Internal reconstruction- Internal reconstruction means to change in the paid up capital of the company either increase or decrease after making a settlement with shareholders & creditors for reducing the paid up capital company has to take a permission from company lawboard.
- Under sec 80 a company cannot reduce its share capital if it reduce so then it has to open a new separate a/c capital redemption reserve a/c but of the revenue reserve a/c for the following purpose- 1) Writing off accumulated losses 2) Writing off preliminary expenses 3) Writing off goodwill 4) Correcting over valued assets
- If any balance left out after this them it has to transfer to capital reserve.
- When x company takeover y company then x company is known as purchaser and y Company is known as vendor.
- Purchaser Company has to make a payment to vendor company by three methods; 1) Net payment method 2) Net assets method 3) Lump sum method
- Net payment method – under this method purchase consideration is discharge in terms of equity share or preference share of newcompany against the share & debt of the old company. The assets of the old company is not to be considered under this method but it is the ratio of exchange is not given intrinsic value of the two companies are to be completed. Intrinsic value = net assets/ number of equity shares.
- Net assets method – under this method the net assets of the old company are to be calculated by subtracting external liabilities from the total assets of the old company & consideration is paid by way of shares & cash or combination of both.
- Lump sum method – under this method a lump sum payment is made to the vendor company by purchasing company in full settlement of their assets & liabilities.

- Amalgamation in the nature of merger is known as pooling of Interest
- Amalgamation in the nature of purchase is known as absorption.
- Conditions to check whether amalgamation is merger or purchase- : all merger but if any of the condition did not follow then purchaser- 1) Al the assets & liabilities of the vendor company are to be taken over by the purchasing company at their original book value. 2) The consideration is discharge by way of shares of new company only. 3) Atleast 90% shareholders of the vendor company should have agreed o be the shareholders of the new company 4) The new company should be intended to carry the business of the old company 5) Any difference in the purchase consideration will be adjusted by way of general reserve.

# HOLDING AND SUBSIDIARY COMPANY

- 51% stake partiallyowned
- The Company which is taking over is holding & which is being taken over is subsidiary company.
- If x company take over 74% share of y company then remaining shareholder of y company i.e 26% is called minority interest.
- Share which is not taken by holding company is called minority interest also known as CBS consolidated balance sheet.
- Assets and liabilities of subsidiary company are consolidated with holding company to give a true & fair value to existing shareholders.

# TAKEOVERS

- Whenever a company holds another company in between the financial year dates the profit of the subsidiary company upto the extent of their share is divided in to two parts. 1) Capital profit 2) Revenue profit
- The profit which is related to the pre- acquisitions is known as capital profit which is adjusted against goodwill or capital reserve.
- The profit earned by the subsidiary company after post acquisitions will be treated as revenue profit and will be added in the profit & loss a/c of holding company.

## PARTNERSHIP

- Partnership is the relation between persons who have agreed to share the profit and loss of business carried on by all or any of them acting for all.
- Partnership deed – It contains all terms of agreement. It is also known as articles of partnership.
- Payment of drawings 1) If within 6 months- beginning – 3.5, end = 2.5, middle = 3 2) In a year = beginning - 6.5 end = 5.5 middle – 6 month 3) In a quarter – beginning – 7.5, end – 4.5, middle- 6 month
- Sacrifice ratio- old ratio – new ratio
- Goodwill – good name, reputation earned by hardwork & honesty
- Gaining ratio= new ratio- old ratio
- Retirement of partner – A partner has the right to retire from the firm after giving due notice in advance. Old partnership comes to an end after the retirement of a partner but the firm continues and a new partnership comes into existence between the remaining partners.
- Retiring partners entitled to get –
  1) Share in goodwill 2) Share in reserves 3) Shares in revaluation of assets and liabilities 4) Share in accumulated profit & losses 5) Share in surrender value of joint life policy
- When partner retire or dies then we calculate gaining ratio.
- On the admission of a partner we calculate sacrifice ratio.
- Dissolution of partnership means that the firm closes down its business and comes to an end.
- On dissolution assets of firm are sold and liabilities are paid off and out of the remaining amount, the accounts of partners are settled.
- Realization a/c is opened for disposing off all the assets of the firm & making payment to all the creditors.
- Revaluation a/c is prepared at the time of admission, death and retirement.
- Realization a/c is prepared at the time of dissolution of a company.

# COMPANY

- A company is an artificial person created by law, having separate entity with a perpetual succession and a common seal.
- Share is the share in the share capital of the market.

- There are two types of shares 1) preference share 2) equity share
- Some of the important rights of the preference shareholders-

1) They have a right to receive dividend at a fixed rate before any dividend is paid on the equity shares

2) When the company is wound up, they have a right to the return of capital before that of equity shares.

3) If any dividend is not paid on these shares in any year, the arrears of the dividend may accumulate.

4) They do not have voting rights.

5) They do not participate in management of company.

- Some of the rights of the equity shareholders are as follows-

1) Rate of dividend on equity shares is not fixed. It may vary from year to year depending upon the availability of profit.

2) Dividend cannot accumulate

3) Payment of dividend is made after the payment of preference dividend

4) Equity share capital is paid only when preference share capital is paid out fully.

5) Equity shareholders enjoy voting rights 6) they have full rights to participate in managed company.

- Authorized registered nominal capital > issued capital > subscribed capital > called up capital > paid up capital.
- Authorized capital – It refers to that amount which is stated in the memorandum of association. This is the minimum capital for which a company is authorized to issue share during its lifetime.
- Issued capital – It is that part of authorized capital which is offered to the public for subscriptions.
- Subscribed capital- It is that part of the issued capital which has been subscribed by public.
- Called up capital – only a part of the face value of a share may be called by the directors from the shareholders.
- Paid up capital – It is the amount received against the cells made on the shares

## CONTROL RATIO

- Activity ratio = actual production in standard hour/ budgeted production in standard hour * 100
- Capacity ratio= Actual hour worked/ budgeted working hour * 100
- Efficiency ratio = actual production in standard hour / actual hour worked * 100

## MARGINAL COSTING

- Fixed cost also called indirect or supplementary cost.
- Variable cost also called direct or prime cost
- Mixed cost= fixed cost + variable cost
- Segregation of cost means to separate fixed cost & variable cost.
- Marginal cost is the amount of cost at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by 1 unit.
- Marginal cost- only variable cost
- In marginal costing only variable cost are considered in calculating the cost of product while fixed cost are treated as period cost which will be charged against revenue of profit.
- Contribution= selling price – variable cost
- Selling price= contribution + variable cost
- Profit= contribution – fixed cost
- In marginal method we take only variable cost but in absorption method we take both fixed cost and variable cost.
- In absorption costing both fixed & variable overheads are charged to production while in marginal costing only variable costs are charged. Thus under absorption costing there will be either over absorption or under absorption of fixed overhead. Whereas in marginal costing the actual amount of fixed overheads is wholly charged to contribution.
- Profit volume ratio= contribution/sales, PV ratio depicts the soundness of a firm.
- Pv ratio can be improved by improving contribution & contribution can be improved by increasing sales, decreasing variable cost, putting more effort on those products which have higher ratio.

- Break even analysis- no profit no loss
- BEP units= Fixed cost/contribution per unit
- BEP Rs = Fixed cost/ PV ratio
- Valuation of stock in marginal costing is higher.
- MOS (Margin of safety) = total sales- BEP (SALES)

# STANDARD COSTING

- Standard costing is one of the most important tools which helps the management to plan and control cost of business operations.
- A standard which can be attained under the most favorable working conditions is called Ideal standard.
- Standard costing is one of the most important tools which helps the management to plan and control cost of business operations.
- All the costs are pre- determined
- Difference between pre-determined cost & actual costs are known as variance.
- Some types of standard are as follows- 1) Basic standard- It is a standard which is established for use over a long period of time. It remain constant over a long period of time. Base year is choose for comparison. 2) Current standard- It is for short period & current condition. 3) Ideal standard – most favorable conditions, best possible operating conditions. 4) Normal standard – Achieved under normal operating conditions. This standard is difficult to set as it requires a significant degree of forecasting. 5) Attainable standard (expected standard) – it shows the potential that a business is attainable to achieve.

## VARIANCE

- Variance means the difference between standard cost and comparable actual cost incurred during a period.
- Actual cost < standard cost= unfavorable or adverse variance.
- Actual cost > standard cost= favorable variance.
- Material variance

1) Direct material cost variance= (standard cost for actual output- actual cost), standard cost= standard price * standard quantity for actual output, actual cost= actual price * actual quantity.

2) Direct material price variance= actual quantity (standard price- actual price)

3) Material usage/ quantity variance = standard price (standard quantity for actual output- actual output)

4) Material mix variance= (Revised standard quantity – actual quantity) * standard price, RSQ= Standard quantity for each material/ total standard quantity for all material * total actual quantity of all material. Or if AQ> RSQ then RSQ = total actual quantity/ total standard quantity * standard quantity of each material.

5) Material yield variance= (actual yield – standard yield) * standard output price, whereas standard output price is the total standard material cost per unit of output. Standard yield= actual usage of material / standard usage per unit of output or total actual quantity/ input/ output, standard material cost per unit of output = standard cost / output.

- Direct labor cost variance – the labor directly engaged in the production of a product is known as direct labor.
- The wages paid to such labor is known as direct wages.
- Labor variance arises when actual labor cost are different from standard labor cost.

1) Direct labor cost variance= standard labor cost – actual labor cost, standard labor cost= standard hour * standard rate, actual labor cost= actual hour * actual rate

2) Labor rate variance= actual hour paid (standard rate- actual rate)

3) Labor time variance or labor efficiency variance = standard rate (standard hour for actual production – actual hour work)

4) Labor idle time variance= idle hour * standard rate

5) Labor mix variance= (revised standard hour- actual hour worked)* standard rate

6) Labor revised efficiency variance = standard hour of grade/ standard hour * total actual hour.

7) Labor yield variance = (Actual yield – standard yield) standard labor cost per unit, standard yield = standard output/total actual hour * actual hour worked, standard labor cost per unit = standard cost/ standard output * standard rate.

LIQUIDATION OF COMPANY LIST A TO H

List A – particulars of every description of property not specifically pledged. List B –

Assets specifically pledged and creditors fully or partly succeed

List C – list of preference creditors for rates, taxes, salaries, and wages List D –

list of debenture holders secured by a floating charge

List E – list of unsecured creditors

List F – list of preference shareholders List

G- list of equity shareholders

List H- deficiency account

# UNIT-12

# Income Tax

## INTRODUCTION

- Income tax act1961
- Income tax rules 1962, effective from 1st April 1962
- Total income of a person is determined on the basis of his residential status in India.
- Income tax is charged on the total Income of the previous year but it is taxable in the next following assessment year.
- **A persons include-** 1) An individual 2) A Hindu undivided family (Karta is the head) 3) A company 4) A firm 5) An association of person or body of individual 6) A local authority 7) Every artificial person
- **AOP (Association of person)**- It means two or more persons who join for a common purpose with a view to earn an income.
- **BOI (Body of Individual)** – It means a conglomeration of Individual who carry on some activity with the objective of earning some income.
- Assessment year means the period of months commencing on the first day of April every year.
- Previous year means a financial year immediately preceding the assessment year.
- Cases where the income of previous year is assessed in the same year. 1) Shipping business of non-resident 2) Assessment of persons leaving India. 3) Assessment of Association of persons or body of Individuals or artificial juridical person formed for a particular event or purpose. 4) Assessment of persons likely to transfer property to avoid tax 5) Discontinued business
- Section 4 states that no tax can be levied or collected in India except under the authority of law.
- Residential status in India 1) An individual is said to be resident in India if he satisfy any one of the conditions- 1) He is in India for a period or periods amounting in all to 182 days or more in the relevant previous year. 2) He is in India for 60 days or more during the relevant previous year and has been in India for 365 days or more during the 4 previous years immediately preceding the relevant previous year.
- When an individual is said to be resident and ordinary resident in India- an individual is said to be resident & ordinary resident in India if he satisfies both of the following conditions- 1) He has been resident in India for atleast 2 years out of 10 previous years immediately preceding the relevant previous year. 2) He has been in India for 730 days or more during the 7 previous years immediately preceding the relevant previous year.
- When an Individual is said to be resident but not ordinary resident- when he did not satisfy any or both of the below conditions-

1) He should be resident in India for at least 2 out of 10 previous years preceding the relevant previous year.

2) Should be in India for atleast 730 days out of 7 relevant previous year.

- When an individual is said to be non-resident in India – if he did not satisfy none of the following conditions-

1) He is in India for 182 days in the relevant previous year

2) He is in India for 60 days or more during the relevant previous year and has been in India for 365 days or more during the 4 previous years immediately preceding the relevant previous year.

- There is an exception of conditions i.e. he is India for 60 days or more during the relevant previous year and 365 days out of 4 years in the following conditions-

1) In case of an Individual who is a citizen of India and who leaves India in any of the previous year for the purpose of employment outside India then this condition should not be applicable.

2) In case of an Individual who is a citizen of India & who leaves India in any previous year as a member of the crew of an Indian ship.

3) In case of an Individual who is a citizen of India or is a person of Indian origin who being outside India comes on a visit to India in any previous year.

- Scope of total Income tax applicable

| Particulars | ROR | RNOR | NR |
|---|---|---|---|
| 1) Income accrue or arise or deemed to accrue or arise in India | Taxable | Taxable | Taxable |
| 2) Income received or deemed to be received in India | Taxable Taxable | Taxable Taxable | Taxable Not |
| 3) Income accrued or arise outside India and business is controlled or profession is set up in India | | | taxable |
| 4) When business not controlled by India | Taxable | Not taxable | Not taxable |

- Any Income which is either received in India or deemed to be received in India is taxable in India.
- Any Income which is either earned in India or is deemed to be earned in India is taxable in India.
- For a resident of India (for individual/ HUF/ resident & ordinary resident in India) all global income whether earned/received is taxable in India.
- For a non-resident an income is taxable only if it is either earned in India or it is received in India.
- For not ordinary resident, income earned & received outside India will be taxable only when it is from a business or profession controlled or set up in India.

# DEDUCTIONS OF INCOME

1) 80A/AB/AC – basic rules of deductions

2) 80C – Deductions in respect of life Insurance premium, contribution to provident fund. Individual & HUF max 100,000.

3) 80CCC – Deductions in respect of contribution to certain pensions fund. Only individuals max rs 100,000

4) 80CCD – Deductions in respect of contribution to notified pension scheme of central government.

5) 80CCE – 80CCC & 80CCD

6) 80CCF – Deductions in respect of subscriptions to long term infrastructure bonds. Max 20000

7) 80D – Deductions in respect of medical insurance premium, individual and HUF, individual 15000 and for senior citizenship 5000+ (20000)

8) 80DD – Deductions in respect of maintenance including medical treatment of dependent who is a person with disability, individual & HUF, 50000 OR 100000 in case of a person with severe disability.

9) 80DDB - Deductions in respect of medical treatment, individual HUF max 40000 and for senior citizenship 20000+ (60000)

10) 80E – Deductions for interest paid on loan taken for pursuing higher education, individual, 8 assessment year.

11) 80G – Deductions in respect of donations to certain funds charitable institutions etc.

- Donations made to the following are eligible for 50% deductions without any qualifying limit

1) Jawaharlal Nehru memorial fund

2) Prime ministers drought relief fund

3) National Children's fund

4) Indira Gandhi memorial fund

5) Rajiv Gandhi foundation

- Donations made to the following are eligible for 100% deductions without any qualifying limit- all fund except above five.
- Donations to the following are eligible for 100% deductions subject to qualifying limit-

1) Donations to family planning

2) Donations to Indian Olympic association

3) Development of Infrastructure for sports and games

4) Sponsorship of sports & games in India

- Donations to the following are eligible for 50% deductions subject to qualifying limit

1) Housing accommodation, improvement of cities, town, villages

2) For promoting interest of the members of a minority community

3) Charitable purpose in **Masjid,** Gurudwara, Church, Temple archaeological renovation

- In qualifying limit of 100% and 50% there is a deductions of 10% of adjusted gross total Income- long term capital gain, short term capital gain, all deductions except 80c to 80u except 80g

12) 80GG – Deductions in respect of rent paid, only individual Rs. 2000 maximum

13) 80GGA- Deductions in respect of certain donations for scientific research or rural development

14) 80GGB – Deductions in respect of contributions given by companies to political parties

15) 80GGC – Deductions in respect of contributions given by any person to political party

16) 80-IA – Deductions in respect of profits & gains from industrial undertakings or enterprises engaged in infrastructure development.

17) 80-IAB – Deductions in respect of profits & gains by an undertaking a enterprise engaged in development of special economic zone.

18) 80-IB – deductions in respect of profits & gains from certain industrial undertakings other than infrastructure development

19) 80-IC – deductions in respect of certain undertakings or enterprises in certain special category states.

20) 80-ID – Deductions in respect of profits & gains from business f hotels in specified area or world heritage site and convention Centre in specified area.

21) 80- IE – special provisions in respect of certain undertakings in North eastern states.

22) 80- JJA – deductions in respect of profits & gains from business of collecting and processing of bio degradable waste

23) 80- JJAA- Deductions in respect of employment of new workmen

24) 80P – Deductions in respect of income of co-operative societies

25) 80QQB- Deductions in respect of royalty income etc. of authors of certain books other than text books

26) 80RRB- Deductions in respect of royalty on patents

27) 80U – Deductions in respect of a person with disability 50000 in case of disability or 100000 in case of severe disability.

# CLUBBING OF INCOME

- The income of other persons included in the assesse income to reduce the tax liability or tax evasion.
- Sec 60 to 65 deals with this.
- Where there is a transfer of an income by a person to another person, without the transfer of the asset from which the income arises such income shall be included in the total income of the transferor, whether such transfer is revocable or not and whether this

transfer is effected before or after the commencement of the Income tax Act 1961.

- Where there is a revocable transfer of asset by a person to another person any income arising/ derived from such assets shall be included in the total income of the transferor.
- Any remuneration derived by a spouse from a concern in which the other spouse has a substantial interest shall be clubbed in the hands of the spouse who has a substantial interest in that concern.
- No clubbing if remuneration is due to technical or professional qualification.
- If the husband and wife both have substantial interest in the concern and both are in receipt of remuneration from the concern then the remuneration of both shall be clubbed in the hands of that spouse whose total income before including such remuneration is greater.
- If an Individual transfer any asset other than house property to his/her spouse the income from such an asset shall be included in the total income of the transferor except house property.
- Any income which arises from assets transferred directly or indirectly by an individual to his son's wife after 1st June 1973 otherwise than for adequate consideration shall be included in the income of the transferor.
- Where an individual transfers any assets to any person or association of persons otherwise than for adequate consideration the income from such assets shall be included in the income of the transferor to the extent to which the income is for the immediate or deferred benefit of his/her spouse.
- Where an individual transfers any assets after 1st June 1973 to any person or association of persons, otherwise than for adequate consideration the income from such assets shall be included in the income of the transferor to the extent to which the income is for the immediate or deferred benefit of his/her son's wife.
- Sec 64 deals with in computing the total income of an individual, there shall be included all such income as arises or accrues to his minor child. Therefore the income of a minor child is to be clubbed in the hands of either of his parents. The income shall be clubbed in the hands of that parents whose total income is greater. If the marriage of his parents does not subsist (divorce) then the income shall be clubbed in the hands of that parent who maintains the minor child in the previous year. Where the income of the minor child is included in the total income of a parent such parent shall be entitled to an exemption to the extent of such income of Rs1500 whichever is less in respect of each minor child whose income is so included.

# SET OFF OR CARRY FORWARDED LOSSES (SEC 70 TO 80).

- Loss from a speculation business can be set off only against income of another speculation business only.
- The loss arises from house property can be set off against the income of other houses in the same head or the income of the other heads except casual income, income from speculative business. If the income available is not sufficient then it can be carried forward to the next 8 assessment year but adjusted against house property only.
- Any losses arises from non- speculative business can be set off against the income of same head or other head except casual income and income from salary but loss arises from speculative business can only be set off against the income from speculative business/ shares carry forwarded of speculative losses is only possible for 4 assessment year.
- Speculation loss is allowed to be carried forward for 4 assessment years immediately succeeding the assessment year for which the loss was first computed.
- Loss of specified business can be carried forward indefinitely till it is set off.
- The short term capital loss can be set off against short term capital gain & long term capital gain but the loss from the long term capital assets can be set off only against long term capital gain.
- Capital loss can also be carried forward to a maximum of 8 assessment years immediately succeeding the assessment year for which the loss was first computed.
- Loss from business/ profession and set off allowed in 8 year
- Loss of amalgamation Company and set off allowed in fresh 8 years.
- Loss of specified business allowed to be set off only from income of specified business shall be carry forward indefinitely.
- Loss from activity of owing & maintaining race horses & set off allowed in 4 years.
- Brought forward losses must be set off immediately succeeding years.
- Accumulated business loss can be carried for unexpired period.
- Unabsorbed depreciation can be carried forwarded indefinitely.
- No set off & carry forward is allowed for any type of casual income even the deductions for expenses is also not allowed.

## CRPORATE TAX PLANNING

- Tax Evasion – It consist the misrepresentation of the Income earned and expenses incurred during the years, the main objective of this to under estimate the income in order to reduce tax burden. This is a criminal offence. This act Is done deliberately as not done by CA.

- Tax avoidance- This consists the benefits derived from the loop holes of Income tax in order to reduce tax burden. This is not an illegal offence. It is done deliberately.
- Tax Planning- It consist the planning of earned income in such way that tax liability can be minimize.
- Minimum alternative tax (MAT) applicable on partnership 18.5%.

# GST

**Section 2 of the Goods and Services Tax (GST) Act deals with definitions, phrases, and expressions that are necessary to ensure proper implementation and interpretation of the law. Some of the major terms that are beneficial to businesses and consultants are compiled here.**

1. **Actionable claim** will have the significance assigned to it in section 3 of the Transfer of Property Act, 1882 (4 of 1882), which refers to a claim on any unsecured debt or any beneficial interest in movable property of the claimant.
2. **Address of delivery** refers to the address of the recipient of goods and/or services indicated on the tax invoice issued by a taxable person for delivery of such goods and/or services.
3. **Address on record** means the address of the recipient as noted in the files of the supplier. This may or may not be the same as the address of delivery.
4. **Adjudicating authority** means any authority competent to pass any order or decision relating to the GST Act, but does not include the Central Board of Excise and Customs, the Revisional authority, authority for the advance ruling, appellate authority for an advance ruling, appellate authority, or the appellate tribunal.
5. **Aggregate turnover** means the total value of all taxable supplies, exempt supplies, exports of goods and/or services, and interstate supplies of a person having the same PAN, computed on the pan-India basis and excluding taxes. However, the value of inward supplies on which taxation is based on reverse-charge mechanism shall not be admitted.
6. **Appellate tribunal** means the Goods and Services Tax Appellate Tribunal set up under section 109.
7. **Application Service Providers (ASPs)** are like GST Suvidha Providers (GSPs) but are more wholesome than GSPs. The support provided by ASPs will address most taxpayer compliance difficulties as they work as a liaison between the taxpayers and the GSPs.
8. **Appropriate government** refers to the Central Government for IGST, UTGST and CGST, and the State Government for SGST.
9. **Assessment** means the determination of tax liability inclusive of self-assessment, re-assessment, provisional assessment, summary assessment, and best judgment assessment.
10. **Capital goods** are goods that are capitalized in the books of accounts of the person claiming the credit and are intended to be used during business.
11. **Casual taxable person** is a person occasionally undertaking transactions involving the supply of goods and/or services during business, whether as principal, agent or in any other capacity, in a taxable territory where he has no fixed place of business.
12. **CGST** is the tax levied under the Central Goods and Services Tax Act, 2016.
13. **Common portal** refers to the online GST portal approved by the Central and State Governments, on the recommendation of the council.
14. **Composite supply** means a supply consisting of two or more goods and/or services, which are naturally bundled and provided together, one being a principal supply.
15. **Consideration** relates to the supply of goods or services involving:

- Any payment made or to be made, whether in money or kind
- Monetary value of any act or forbearance, whether or not voluntary

However, the subsidy given by the Central and/or State Governments are not included.

1. **Council** refers to the Goods and Services Tax Council set up under Article 279A of the Constitution.
2. **Credit note** means a document issued by a taxable person in relation to the tax invoice exceeding the taxable value and/or tax payable in respect of supply, or where the goods supplied are returned by the recipient, or where the services supplied are found to be deficient.
3. **Debit note** means a document issued by a taxable person relating to the taxable value and/or tax charged as per the tax invoice when found to be less than the taxable value and/or tax payable in respect of such supply.
4. **Digital signature certificate** (DSC) refers to a secure digital key that certifies the identity of the holder, issued by a Certifying Authority (CA). It typically holds information about the identity of the holder. It is the digital equivalent of a handwritten signature.
5. **Electronic commerce** means the supply of goods and/or services including digital products over a digital or electronic network.
6. **Exempt supply** means supply of any goods and/or services that are not taxable and includes such supply of goods and/or services that attract zero rate of tax or that may be exempt from tax per section 11.
7. **Fixed establishment** is a place, other than the place of business, that has a sufficient degree of permanence and suitable structure regarding human and technical resources as to supply/receive/use services for its own
8. **Forward charge** means the tax liability of the supplier of goods and/or services to levy the tax on the recipient of the goods and/or services and to remit the same to the credit of the government.
9. **Fund** means the Consumer Welfare Fund set up under section 57 by the Central Government.
10. **Goods** refers to all types of movable property, including actionable claim, growing crops, grass, and things attached to the land that are agreed to be severed before supply or under a contract of supply. Excludes securities and money.
11. **Goods and Services Tax Network (GSTN)** is a non-profit, public-private partnership company. Its main purpose is to provide IT infrastructure and services to Central and State Governments, taxpayers, and other stakeholders to facilitate the implementation of GST.
12. **GST Suvidha Provider (GSP)** refers to third-party applications that assist the taxable person in accessing the GST portal in an enriched manner by being more user-friendly and customer-centred.
13. **Harmonized System Nomenclature (HSN) Code** is a numeral used to classify goods for taxation purposes provided by the World Customs Organization.
14. **IGST** means Integrated Goods and Services Tax Act, 2017. Integrated tax means the IGST levied under IGST Act, 2017.
15. **Input service distributor** means an office of the supplier of goods and/or services that receives tax invoices issued under section 31 toward the receipt of input services and issues a prescribed document for distributing the credit of CGST, SGST, UTGST and/or IGST paid for the said services.
16. **Input tax** in relation to a regisfixedtered person, means the central tax, state tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes:
    - IGST charged on the import of goods.
    - Tax payable under subsections (3) and (4) of section 9.
    - Tax payable under subsections (3) and (4) of section 5 of the IGST Act.

- Tax payable under subsections (3) and (4) of section 9 of the respective SGST Act; or
- Tax payable under subsections (3) and (4) of section 7 of the UTGST Act.

However, it does not include the tax paid under the composition levy.

1. **Input tax credit** means the credit of input tax.
2. **Intrastate supply of goods** means the supply of goods during intrastate trade or commerce regarding subsection (1) of section 8 of IGST Act, 2017.
3. **Intrastate supply of services** means the supply of services during intrastate trade or commerce regarding subsection (2) of section 8 of IGST Act, 2017.
4. **Invoice** shall have the meaning as assigned to “Tax Invoice” as under section 31.
5. **Inward supply** refers to the receipt of goods and/or services, whether by purchase, acquisition, or any other means, and with or without any consideration.
6. **Job work** means undertaking any treatment or process by a person on goods belonging to another registered taxable person.
7. **Local authority** means:
    - Panchayat as defined in clause (d) of Article 243 of the Constitution
    - Municipality as specified in clause (e) of Article 243P of the Constitution
    - A municipal committee, a zilla parishad, a district board, and any other authority legally entitled to or entrusted by the Central or any State Government with the control or management of a municipal or local fund
    - Cantonment board as defined in section 3 of the Cantonments Act, 2006 (41 of 2006)
    - Regional council or a district council formed under the Sixth Schedule to the Constitution
    - Development board formed under Article 371 of the Constitution
    - Regional council formed under Article 371A of the Constitution
8. **Market value** refers to the full amount that a recipient of supply would pay to obtain the goods and/or services of like kind and quality at or about the same time and at the same commercial level, where the recipient and supplier are not related.
9. **Mixed supply** means two or more individual supplies of goods and/or services made together by a taxable person for a single price where such supply does not form a composite supply.
10. **Non-resident taxable person** is someone who occasionally undertakes transactions involving the supply of goods and/or services, whether as principal or agent, or in any other capacity, but with no fixed place of business in India.
11. **Output tax** means the CGST/SGST on taxable supply of goods and/or services made by a taxable person or by his agent. Excludes tax payable on a reverse-charge basis.
12. **Outward supply** refers to the supply of goods and/or services, whether by sale, transfer, barter, exchange, licence, rental, lease, or disposal, or any other means made or agreed to be made during business.
13. **Person** includes:
    - An individual
    - A Hindu undivided family
    - A company
    - A firm

- A Limited Liability Partnership
- An association of persons or a body of individuals, whether incorporated or not, in India or outside India
- Any corporation set up by or under any Central, State, or Provincial Act or a government company as defined in section 2(45) of the Companies Act, 2013 (18 of 2013)
- A body corporate incorporated by or under the laws of a country outside India
- A cooperative society registered under any law relating to cooperative societies
- A local authority
- Central government or a State government.
- Society as defined under the Societies Registration Act, 1860 (21 of 1860)
- A trust
- Every artificial juridical person, not falling within any of the preceding sub-clauses

14. **Place of business** includes:
    - A place from where the business is ordinarily carried on, including a warehouse, a godown, or any other place where a taxable person stores his goods, or provides or receives goods and/or services
    - A place where a taxable person keeps his books of account
    - A place where a taxable person is engaged in business through an agent
15. **Principal** means a person on whose behalf an agent carries on the business of supply or receipt of goods and/or services.
16. **Principal place of business** means the location of business specified as the principal place of business in the certificate of registration.
17. **Principal supply** means the supply of goods and/or services that form the significant element of a composite supply and any other related supply being ancillary.
18. **Recipient** of supply of goods and/or services means:
    - Where the consideration is payable, the person liable to pay that consideration.
    - Where no consideration is payable, the person to whom the goods and/or services are delivered/rendered or made available.

Includes an agent working on behalf of the recipient in relation to the goods and/or services provided.

1. **Registered importer** refers to the importer registered per the provisions of Central Excise Rules, 2002.
2. **Related persons** include:
    - Officers or directors of one another's business
    - Legally recognised partners in business
    - The employer and the employee
    - Someone who directly or indirectly owns, controls, or holds 25 percent or more of the outstanding voting stock or shares of both
    - One of them directly or indirectly controls the other
    - A third person directly or indirectly controls both
    - Together they directly or indirectly control a third person
    - They are members of the same family

3. **Removal** in relation to goods means:
    - Dispatch of the goods for delivery by the supplier or by any other person acting on behalf of such supplier
    - Collection of the goods by the recipient or by any other person acting on behalf of such recipient
4. **Return** refers to any return prescribed or required to be furnished.
5. **Reverse charge** means the tax liability on the recipient of the supply of goods and/or services instead of the supplier of such goods and/or services.
6. **Securities** shall mean as per subsection (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956).
7. **Services** means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.
8. **SGST** means the State Goods and Services Tax Act, 2017. State tax means the tax imposed under SGST Act, 2017.
9. **Supplier** signifies the person providing the said goods and/or services and shall include an agent acting as such on behalf of such supplier about the goods and/or services provided.
10. **Supply** includes all forms of supply of goods and/or services such as sale, transfer, barter, exchange, license, rental, lease, or disposal made or agreed to be made for a consideration by a person in the course of business and also includes import of services for a consideration whether or not in the course of business.
11. **Taxable person** is an individual who carries on any business at any place in any state of India and who is registered or required to be registered under GST.
12. **Turnover in a state** or in Union Territory means the aggregate value of all taxable supplies, exempt supplies, exports of goods and/or services made within a state or Union Territory by a taxable person and interstate supplies of goods and/or services made from the state or Union Territory excluding taxes. Like aggregate turnover, the value of inward supplies on which taxation is based on reverse-charge mechanism shall not be admitted.
13. **Usual place of residence** means:
    - In the case of an individual, the place where he ordinarily resides
    - In other cases, the place where the person is incorporated or otherwise legally constituted
14. **Zero-rated supply,** as per section 16 of IGST Act, 2017, means supply of any goods and/or services including:
    - export of goods or services or both; or
    - supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

## OTHER KEY POINTS OF GST

### GST

*Goods and Services Tax*, commonly known as GST, is a single, indirect, multi-stage, destination based consumption tax, which will replace almost all the existing Central and State taxes, including but not limited to CENVAT, Octroi, Sales Tax and Excise Duty etc. GST has replaced all existing direct and indirect, Central and State taxes, from 1st July, 2017.

## GSTIN

GSTIN, i.e. Goods and Services Tax Identification Number is a business's legal and unique identity with the government of India in the GST regime. GSTIN is a 15 alphanumeric character, PAN based distinctive number, allotted state-wise.

## CGST, SGST and IGST

GST consists of three major taxes – Central GST, i.e. CGST, State GST i.e. SGST and Integrated GST i.e. IGST. The different taxes would enable the tax payers to take credit against each other, enhancing ease and transparency in the taxation cycle.

- *CGST:*
  Central GST [CGST] is the GST, to be levied by the Centre, on inter-state businesses.
- *SGST:*
  State GST [SGST] is the GST, to be levied by the State, on inter-state businesses.
- *IGST:*
  Integrated GST [IGST] is the GST, to be levied by the Centre, on intra-state businesses and imports.

## Reverse Charge

Reverse Charge is a mechanism and supervisory arrangement to monitor and increase the tax coverage, compliance, synchronization and track-ability amongst unorganized, partly organized and fully organized sectors.
Generally, the supplier of goods or services is liable to pay GST. However, in specified cases like imports and other notified supplies, the liability may switch to the recipient under the reverse charge mechanism. Reverse charge means the liability to pay tax rests on the recipient of supply of goods or services instead of the supplier, however only on special categories of supply.

## Mixed Supply

A mixed supply is a combination of two or more individual supplies of goods or services or any other arrangement of goods or services made by a GST payer for a single price. The components of the mixed supply are not organically bundled but it is an intentional fusion from business perspective.
A mixed supply could be a gifting set comprising of a pen, a tie, a wallet and a key ring.

## Composite Supply

A composite supply is an organic combination of two or more individual supplies of goods and services or any other natural arrangement of goods or services made by a GST payer for a single price.
A composite supply is further broken into two parts:

- ***Principal Supply***: The major and the foremost element in the Composite Supply of goods or services.
- ***Dependent Supply***: This is the depending element and rests on the Principal Supply.

A composite supply could be a breakfast coupled with the stay package in a hotel, which would be seen as a natural blend. In this case, stay package is the Principal Supply and the breakfast is a Composite Supply.

## Continuous Supply

A continuous supply is a supply, when the goods and / or services are supplied at a specific interval [fortnight / monthly] and the payments are also received in the same manner.
A composite supply could be the services provided by a telecom operator.

## ITC

Input tax credit [ITC] is the credit manufacturers receive for paying input taxes towards inputs used in the manufacture of products. Likewise, a dealer is entitled to input tax credit, if he has purchased goods for resale.
To avoid double taxation on items used as inputs to make other items, credit of taxes paid on the inputs can be taken by the maker of the next item while paying tax on the output. If the tax paid on inputs is higher than the tax on the output, the excess can be claimed as a refund.
Input Tax Credit is not generic for PAN India, differs state-wise and does not apply to the composite tax payers.

### GSTR

GSTR, i.e. GST Return is a document capturing the details of the income, which a tax payer is supposed to file with the authorities to calculate his tax liability. There are total eleven types of GST returns, starting from GSTR-1 to GSTR-11, capturing and catering to different forms of tax payers.

A GST primarily includes:

- Sales data
- Purchase data
- Output GST [Derived from Sales]
- Input Tax Credit [ GST paid on purchases]

### GST Compliance Rating

GST Compliance Rating is primarily a numerical value and a score between [0 -10] assigned by the government to all the tax payers, which speaks about being their GST compliance. The rating is assigned to all the GSTIN and GSTUIN holders based on a number of factors including but not limited to your return filing habits on time, accuracy of your fed data etc. among many others.

Though the actual rating format is still to be announced, however it should be similar to having a 0-10 scale, where zero accounts for the lowest score and 10 denotes a cent percent compliance.

To avail the **ITC** and also keep it flowing seamlessly, the rating would be a critical factor. If the ITC is not available smoothly, the working capital will also be impacted adversely. The rating will also impact the legitimate buyers to avail the input tax credit, if the suppliers is not complying up to the mark.

### B to B

Any sale or transaction that takes place between to registered persons will be deemed a B to B sale.

### B to C

Any sale or transaction that takes place between one registered person and one or more unregistered persons will be a B to C sale – sale of goods by a retail business to consumers will typically be a B to C sale.

### CGST

Central Goods and Services Tax or CGST is the component of GST that is collected by the central government on sales of goods and services. It now replaces the taxes levied by the central government such as service tax.

### GSTIN

GSTIN or Goods and Services Taxpayer Identification Number is a unique number assigned to each registered entity. It is 15 characters (combination of digits and letters) long and is based on the PAN of the business.

### HSN

The Harmonised System of Nomenclature of HSN is an internal system of naming goods. HSN is assigned to goods by organising them in a hierarchical manner and is 8 digits long. However, a good can be identified broadly by using no less than 2 digits, and very specifically by using all the 8 digits. Depending on the turnover or nature of sale, a business might be required to quote a 2-digit HSN, a 4-digit HSN or an 8-digit HSN (mandatory for exports).

### IGST

Integrated Goods and Services Tax or IGST is the GST applicable on sale of movement of goods and services between two states. It is uniform across all states and the revenue from this tax will be split between the central government and the state of supply.

### ITC

Input Tax Credit or ITC is the tax that a business pays on a purchase and that it can use to reduce its tax liability when it makes a sale.

**SAC**
Service Accounting Code or SAC is the nomenclature adopted by the GST Council for identifying services delivered under GST. This is similar to the classification that was in existence under the Services Tax regime.

**RCM**
Reverse Charge Mechanism or RCM is the mechanism under which the recipient of a good or service pays GST on behalf of the supplier. It is used as an exception, for example, when the supplier of a good or service is not registered.

**SGST**
State Goods and Services Tax or SGST is the state's component of tax on movement or sales of goods and services within a state. This tax replaces the earlier taxes levied by various state governments on sale of goods

# MY COUNTRY IS THE WORLD &
# MY RELIGION IS TO DO GOOD.

*HILAL AHMAD*

***SECOND EDITION***

HILAL AHMAD

**Contact Me on Facebook-**
**https://www.facebook.com/ahmadhilal850**

**Subscribe me**

**https://www.youtube.com/channel/UCeej8Zas0XJ-PgMaUdfIstA**