Chapter 1: Nature & Scope of Business Economics

Unit 1: Introduction

Definition:

1. The word 'Economics' originates from the **Greek work ''*Oikonomia*'**
a) '*Oiko*', which means **'House'**, and
b) '*Nomia*', which means **'Management'.**
c) Thus, Economics means **'House Management'**.

2. Till 19th century, Economics was also known as **'Political Economy'**

3. The book named **'An Inquiry into the Nature and Causes of the Wealth of Nations'** (1776), by **Adam Smith** is considered as the first modern work of Economics.

Wants Vs Needs

Want- Something that is desired. **want** is simply something that a person would like to have.0078

Need- Something that is necessary for survival (such as food **and** shelter), whereas a

Fundamentals of Economics

Fundamentals of Economics

a) Human beings have **unlimited wants**, and

b) The means to satisfy these wants are **relatively scarce**. This Scarcity is faced by household, Business and Government/ Nation.

c) Further, how the available resources shall be allocated to their **highest valued uses**.

1. Economics also studies,

a) of how individual and society **transform the scarce resources** into goods and services

b) how we **distribute these goods and services** among ourselves.

c) processes by which **productive capacity of these resources is increased**.

2. The study of Economics **cannot ensure** that **all problems will be appropriately tackled**; but it would enable us to examine a problem in its right perspective and to deal with the same.

Meaning and role of decision making in Economics

Case study:- *Imagine you are Managing Director of a company, Aditya Limited, an existing profit making FMCG company. You want to set new product line of footwear. You want to discuss it with the other members of board. What points you will consider before acceptance or rejection of a project. (Investment amount, Competitor, other options for investment)*

1. **Decision making**- refers to the process of **selecting an appropriate alternative** that will provide the most efficient means of attaining a desired end, from two or more alternative courses of action'.
2. Thus decision making arises **only if there is choice available**.
3. In other words, the **question of choice arises because** our productive resources such as land, labour, capital, and management are limited and can be employed in **alternative uses.**
4. Decision making is **not simple and straightforward** as the economic environment is highly complex and dynamic.
5. Also because decisions are to be taken under conditions of **imperfect knowledge and uncertainty**.

Examples of business decisions- Continue or shut down decision, New Product, Make or buy, Marketing etc.

Conclusion –

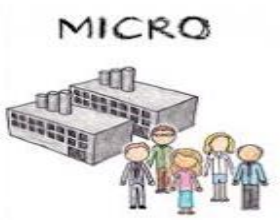
1) Resources having single use – No Decision making
2) Unlimited Resources – No Decision Making
3) Limited Resources + Alternatives = Decision making

Business Economics

1. Economic theories are **hypothetical** and **simplistic** in character as they are based on economic models built on simplifying assumptions.
2. The economic world is **extremely complex** as there is a lot of interdependence among the decisions and activities of economic entities.
3. There is a **gap between** the propositions of **economic theory** and happenings in the **real economic world**.
4. Business Economics **bridge the gap** between theory and practice, Thus also known as **Applied Economics**

5. **Economic theories provide the tools** which explain various concepts such as demand, supply, costs, price, competition etc.
6. **Business Economics applies these tools** in the process of business decision making.
7. Business Economics is also known as **Managerial Economics** because it generally refers to the integration of economic theory with business practice.
8. Business Economics is not only valuable to business decision makers, but also useful for managers of '**not-for-profit' organisations**.
9. **Business Economics** may be defined as the use of economic analysis to make business decisions involving the best use of an organization's scarce resources.- ***Joel Dean***

Micro and Macro Economics



Difference between Micro and Macro Economics

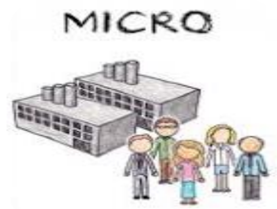
Micro Economics	Macro Economics
The term is derived from **Greek work 'Mikros'** which means **'Small'**	The term is derived from **Greek work "Makros'** which means **'large'**
"Micro Economics is the study of particular firm, particular household, individual price, wages, income, individual industries, particular commodities"- **Prof. Boulding**	"Macro Economics examines the Forest and not the Trees. Thus, it analyses and establish the functional relationship between **large aggregates"- Prof.Mc.Connel**
It is the study of economic behavior of **individual** firm or industry in national economy	It is the study of **overall economic phenomena** as a whole rather than its parts
It is also called as **'Price Theory'** as it explains the composition of total production.	It is also called as **'Income Theory'** as it explains level of total production, total consumption, total savings and total investment and the rice or fall in these levels
Examples:- a) Product pricing;	**Examples-** a) National Income and National Output

b) Factor pricing, c) Location of industry. d) Consumer behavior, e) Behavior of firms. f) The economic conditions of a section of society, etc. g) Lock out in TELCO h) Finding the causes of failure of X & co.	b) The level of employment and rate of economic growth. c) The general price level and interest rates; d) Balance of trade and balance of payments, e) External value of currency and f) The overall level of savings and investment; g) Per capita income of India. h) Inflation in India. i) The national economy's annual rate of growth j) Increase in the corporate income tax rate will affect the national unemployment.

Nature of Business Economics

1. **Business Economics is a Science-** as it explains **cause and effect relationships**. It follows **scientific methods** and **empirically tests** the validity of the results.

2. **Business Economics is an art** as it involves practical application of rules and principles for the attainment of set objectives.

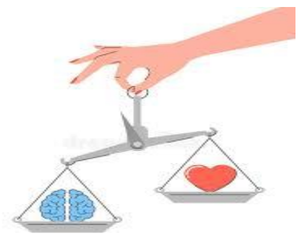


3. **Micro Economics based-** Since Business Economics is concerned more with the decision making problems of individual establishments.

4. **Macro Analysis based-**Business unit is **affected by its external environment** such as, the general price level, income and employment level, taxation, wages and regulation etc.

5. **Analysis from Private Enterprises Economy viewpoint-**Business Economics uses the theory of markets and private enterprise. It uses the theory of the firm and resource allocation in the backdrop of a private enterprise economy.

6. **Inter-Disciplinary-** Business Economics is **interdisciplinary in nature** as it incorporates tools from other disciplines such as Mathematics, Operations Research, Management Theory, accounting, marketing, Finance, Statistics and Econometrics.



7. **Pragmatic Approach-** While Micro-Economics is **abstract and purely theoretical** and analyses economic phenomena under unrealistic assumptions, Business Economics is **pragmatic in its approach** as it tackles practical problems which the firms face in the real world.

8. **Normative and positive –** Business Economics focus more on Normative compared to positive

Points	Positive Economics or Pure economics	Normative Economics
Meaning	It is **based on facts** and there is **no** point of **ambiguity** or **second view**	It tells us about **how the things should be.**
Tells us about-	Descriptive in nature and It states **'what is'**	Prescriptive in nature and describes **'what ought to be'.**
Explains	It explains **cause & effect** relationship and there will be no value judgments/suggestions.	It passes **value judgments /suggestions** and offers advice.
Based on	It is based on **past data** and can be **checked** with data	**Cannot be verified** because it is **opinion based** and not fact based
Debatable	No Matter of debate	Matter of Debate
Suggested by	According to **Robbins**, Economics is neutral between ends.	It is based on welfare economics - (**Marshall &Pigou**) Complete neutrality between ends is, however, neither feasible nor desirable.
Nature	descriptive in nature	Prescriptive in nature
Example	1. India has population of 140 crore as per latest census. 2. Apple is good for health. 3. Planned economies allocate resources via government	1. India is a secular country. 2. Eating Non-veg food is bad for health 3. Reducing inequality should be major priority for mixed economy.

	departments. 4. Most transitional economies have experienced problems of falling output and rising prices. 5. There is a greater degree of consumer sovereignty in the market. 6. Faster economic growth should result if an economy has a higher level of investment. 7. Higher levels of unemployment will lead to higher levels of inflation. 8. The average level of growth in the economy was faster in the 1990s than the 1980s. 9. Analysis of the relationship between the price and quantity demanded. (Law of demand).	4. Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure. 5. Govt. ought to guarantee that farmer's income will not fall if harvest is poor.

Scope of Business Economics

The scope of Business Economics may be discussed under the two heads

1. **Microeconomics applied to operational or internal Issues-** Operational issues include all those issues that arise within the organization and fall within the purview and control of the management. These issues are internal in nature.

a) **Demand Analysis-** analysing demand due to change in the determinants of demand such as, price, income, etc.

b) **Demand Forecasting-** to forecast adequate demand to support production and sale

c) **Cost analysis-** Cost analysis enables the firm to recognize the **behavior of costs** ,so as to maximize profits

d) **Production analysis-** Production theory explains the **relationship between inputs and output.**

e) **Inventory Management-** To help the firm in maintain optimum stock of inventories.

f) **Market Structure and Pricing Policies-** Analysis of the structure of the market, *nature and extent of competition* ,degree of market power, prices are determined under different kinds of market conditions and assists the firm in framing suitable price policies.

g) **Resource Allocation-** best course of action for optimum utilisation of available resources.

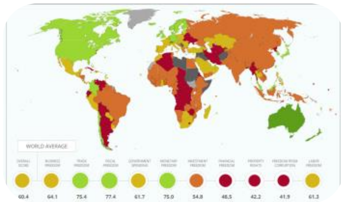
h) **Profit analysis-** measurement and management of profits under conditions of uncertainty.

i) **Risk & Uncertainty Analysis-**Analysis of risks & uncertainties for formulating plans on the basis of past data, current information & future prediction.

j) **Theory of Capital and Investment Decisions-** evaluate its investment decisions and allocation of scarce capital among competing uses of funds.

2. **Macroeconomics applied to environmental or external Issues-** These factors are beyond the control of an organization

a) The type of economic system.
b) Stage of business cycle.
c) Working of financial sector and capital market.
d) The general trends in national income, employment, prices, saving and investment.
e) Government's economic policies like industrial policy, competition policy, monetary and fiscal policy, price policy, foreign trade policy and globalization policies.



f) Socio-economic organizations like trade unions, producer and consumer unions and cooperatives.
g) Social and political environment.

Unit 2: BASIC PROBLEMS OF AN ECONOMY AND ROLE OF PRICE MECHANISM

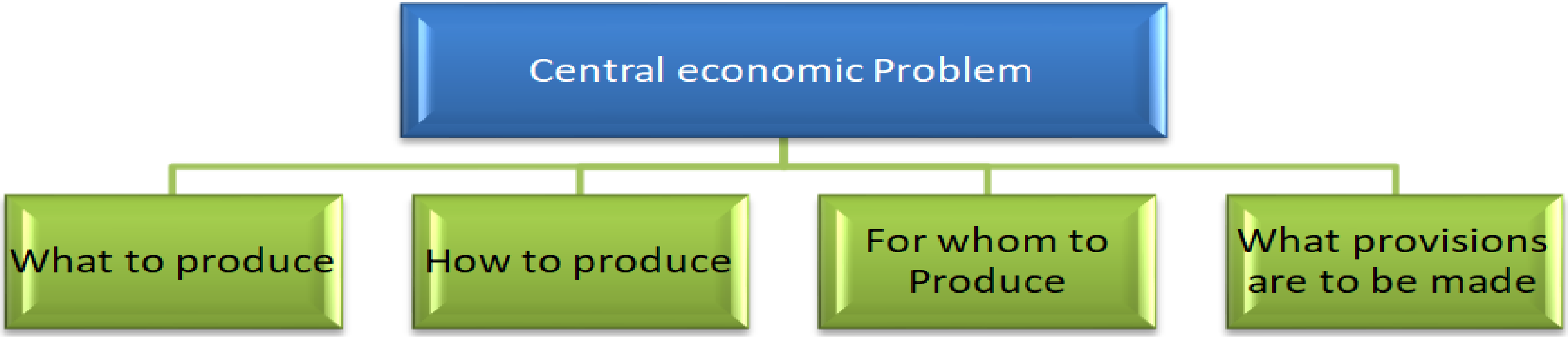
Central Economic Problems:

a) All countries, without exceptions, face the problem of scarcity because their resources are **limited** and these resources have **alternative uses.**

b) If the resources were unlimited, people would be able to satisfy all their wants and there would be no economic problem.

c) Alternatively, if a resource has only a single use, then also the economic problem would not arise.

d) The central economic problem is further divided into four basic economic problems.



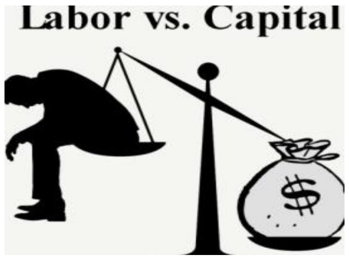
The 4 Central Economic Problems:

a)What to produce?

1) Society has to decide **which goods and services** should be produced
2)Every Society has also to decide in **what quantities** each of these goods would be produced.

b)How to Produce?

1) The society has to decide the **method of production**, i.e. whether to use labour- intensive techniques or capital - intensive techniques.
2)Obviously, the choice would depend on the availability of different factors of production (i.e. labour and capital) and **their relative prices.**



c)For whom to produce?

1) Society has to decide on how the goods (and services) should be distributed among the members of the society.
2)In other words, it has to decide about the **shares of different people** in the national product.

d)What provisions (if any) are to be made for economic growth?

A society has to decide how much **saving and investment** (i.e. how much sacrifice of current consumption) should be made for future progress. Otherwise it will become **static and lead to decline in standards of living**.

The Capitalist Economy:

1. Capitalist economy is also known as free **market economy** or **laissez-faire economy.**
2. Here all means of production are owned and controlled by private individuals for profit.
3. In short, **private property is the mainstay of capitalism** and **profit motive is its driving force**.
4. **Decisions of consumers and businesses** determine economic activity with **limited role of government** in the management.

Solution to central Economic problems under Capitalist Economy

Capitalist economy uses the **impersonal forces of market demand and supply or the price mechanism** to solve its central problems.

1. **What to produce? -**

a) **Decided by consumers** who show their preferences by spending on the goods which they want. And decides What to produce

b) **Consumer is the King under capitalism.**

2. **How to produce? -**

a) An entrepreneur will produce goods and services choosing that technique of production which **renders his cost of production minimum**.

b) If labour is relatively cheap, he will use labour- intensive method and if labour is relatively costlier he will use capital-intensive method.

3. **For Whom to produce?-**

a) Goods and services in a capitalist economy will be produced for those **who have buying capacity**.

b) Buying capacity of an individual depends upon his income and property he owns.

4. **What provisions are to be made for economic growth?-**

a) **Savings are done by consumers** and **investments are done by entrepreneurs**.

b) Consumers' savings, are governed by the rate of interest prevailing in the market

c) Investment decisions depend upon the rate of return on capital.

Socialist Economy

1. The concept of socialist economy was propounded by **Karl Marx** and **Frederic Engels** in their work **'The Communist Manifesto' published in 1848.**

2. Socialist economy is characterized by collective ownership by state

Mixed Economy

1. The mixed economic system depends on both **markets** and **governments** for allocation of resources.
2. In a mixed economy, the aim is to develop a system which tries to include the best features of both the controlled economy and the market economy while excluding the demerits of both.
3. In mixed economy there are three sectors of industries-

1)Private Sector-Production and distribution in this sector are managed and controlled by private individuals and groups However, private enterprise may be regulated by the government directly and/or indirectly by a number of policy instruments.

2)Public Sector-Industries in this sector are not primarily profit-oriented, but are set up by the State for the welfare of the community.

3)Joint Sector- A sector in which both the government and the private enterprises have equal access, and join hands to produce commodities and services, leading to the establishment of joint sectors.

Characteristic of All three types of economy

Capitalist economy	Socialist economy	Mixed Economy
a. Right to private property b. Freedom of enterprise c. Freedom of economic choice d. Profit Motive e. Consumer Sovereignty f. Competition g. Absence of Government Interference	a) Collective Ownership of means of production by state however, small farms, workshops & trading firms which may remain in private hands. b) Profit- motive and self- interest are not the driving forces c) The resources are used to achieve certain socio-economic objectives. d) Centrally planned economy e) Absence of Consumer Choice- f) Relatively Equal Income Distribution- g) Minimum role of Price Mechanism or Market forces- h) Absence of Competition	Government itself must run important and selected industries and eliminate the free play of profit motive and self-interest.

Merits of All three types of economy

Capitalist economy	Socialist economy	Mixed Economy
1. Self-regulating through price mechanism. 2. Rewards efficiency and punishes inefficiency. 3. Faster economic growth 4. Optimum allocation of resources 5. Operative efficiency. 6. Lower cost of production 7. Better standard of living of consumers 8. Incentive for innovation and Technological progress. 9. Right to private Property 10. No costs for collecting and processing of information	1. Equitable distribution of wealth and income 2. Rapid and balanced economic development 3. Planned Economy- 4. Minimum Wastage and optimum utislisation of resource- 5. Unemployment is minimized, 6. Absence of profit motive 7. Right to work and minimum standard of living 8. High Social security	1. Economic freedom and existence of private property 2. Price mechanism 3. Consumer sovereignty and freedom of choice. 4. Appropriate incentives 5. Encourages enterprise and risk taking. 6. Advantages of economic planning 7. Comparatively greater economic and social equality and freedom 8. No cut throat competition

De-Merits of All three types of economy

Capitalist economy	Socialist economy	Mixed Economy
1. Precedence of property rights over human rights. 2. Inequality and social injustice 3. Wide differences in economic opportunities. 4. Does not represent the real needs of the society. 5. Exploitation of labour 6. Consumer sovereignty is a myth 7. Misallocation of resources 8. Less of merit goods 9. Unplanned production. 10. Waste of productive resources 11. Formation of monopolies 12. Environmental degradation.	1. Inefficiency and delays, corruption, red-tapism, favoritism, 2. All material means of production are under the control and direction of state. 3. Takes away right of private property. 4. No incentive for hard work 5. Administered prices 6. State monopolies become uncontrollable 7. Consumers have no freedom of choice. 8. No importance to personal efficiency and productivity. 9. The extreme form of socialism is not at all practicable	1. Excessive controls the private sector. 2. Poor implementation 3. Undue delays

Chapter 2: UNIT A "Utility Analysis and Consumer Behavior"

1. Utility:

1. Utility is **Power** of a commodity to **satisfy human wants**. In Other words, **want satisfying power** of a commodity is called as utility.


2. Utility is **subjective** term and differs from person to person



3. **Utility does not mean usefulness**. Therefore even the items like cigarettes, liquor, etc may be said to have utility from economic point of view


4. In Economics the concept of utility is **ethically neutral.**
5. Utility theories seek to explain how a **consumer spends his income** on different goods and services so as to attain **maximum satisfaction.**

Lets understand something new today

Necessaries:

1) Necessaries are those which are **essential for living**.
2) Necessaries are further sub-divided into **necessaries for life or existence**, necessaries for **efficiency and conventional necessaries**.
3) Necessaries for life are things necessary to meet the **minimum physiological needs** for the maintenance of life such as minimum amount of food, clothing and shelter.
4) Man requires something more than the necessities of life to maintain longevity, energy and efficiency of work, such as nourishing food, adequate clothing, clean water, comfortable dwelling, education, recreation etc. These are necessaries for efficiency.
5) Conventional necessaries arise either due to pressure of habit or due to compelling social customs and conventions.

Comforts:

While necessaries make life possible comforts make life comfortable and satisfying. Comforts are less urgent than necessaries. Tasty and wholesome food, good house, clothes that suit different occasions, audio-visual and labour saving equipments etc .make life more comfortable.

Luxuries:

Luxuries are those wants which are superfluous and expensive. They are not essential for living. Items such as expensive clothing, exclusive vintage cars, classy furniture and goods used for vanity etc. fall under this category.

2. Difference between Cardinal and Ordinal Approach to utility

	Cardinal Approach	Ordinal Approach
Assumptions	Utility is **measurable** and **quantifiable** aspect and can be expressed in numbers	Utility cannot be expressed in terms of money, i.e. Utility is **not quantifiable**
Rationale	Human satisfaction **can be expressed in monetary terms,** and price of a commodity in the market indicates the level of consumer satisfaction	Human Satisfaction is **psychological phenomenon** and cannot be measured quantitatively
Economists	**Alfred Marshall**	**Hicks and Allen**
Measurement	**Utils**	**Only ranking**
Approach and Theories	• Marginal Utility Approach • Law of diminishing marginal utility. • Law of Equi-Marginal utility	Indifference curve approach (This Approach is superior than Cardinal Approach)

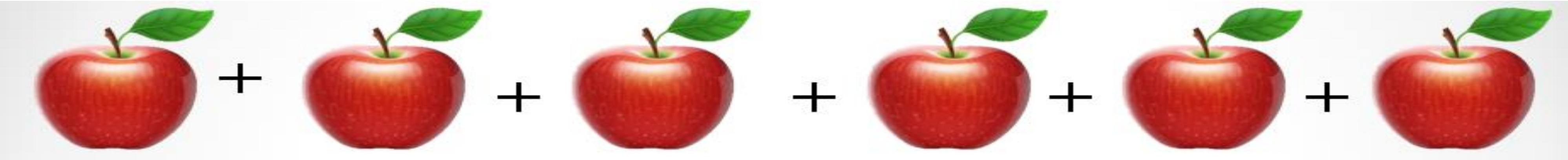
3. Cardinal Approach

Example: *Mr. Rasna likes to eat Oranges. The first Orange he eats gives him lots of satisfaction. The second Orange he eats gives him lesser satisfaction than the earlier one and so on. If he eats 9 Oranges in a row continuously, he may lose interest in oranges. In other words utility goes on reducing and reaches zero and further negative.* **Let the price be 40**

Quantity of Oranges consumed per day	Total utility	Marginal Utility	Price	Consumer's Surplus in Rs.
0	0	0	0	0
1	60	60	40	20
2	110	50	40	10
3	150	40	40	0
4	180	30	40	-10
5	200	20	40	-20
6	210	10	40	-30
7	210	0	40	-40
8	200	-10	40	-50
9	180	-20	40	-60

3.1 Total utility and Marginal utility

The Cardinal Approach to utility is given by Aflred



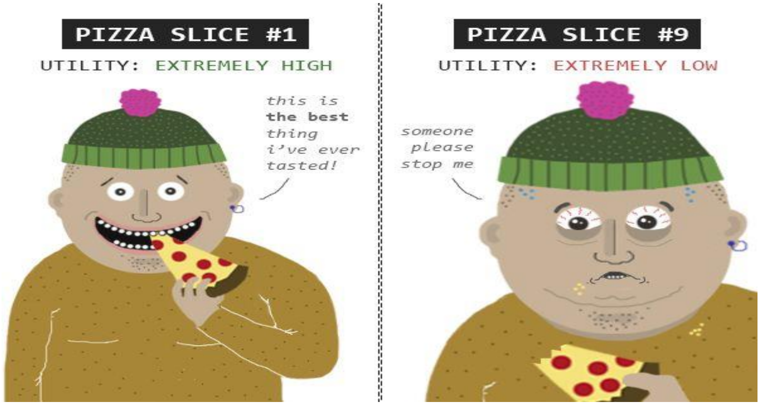
1. **Total Utility-** The **sum total** of utility derived from different units of commodity consumed by a consumer is called as total utility.
2. **Marginal Utility-**It is the additional utility derived from additional unit of a commodity. It is the **Slope of Total Utility**
3. Marginal Utility can also be defined as *change in the total utility resulting from one- unit change (tu_n-$tu_{(n-1)}$)* in consumption of commodity, **per unit of time.**

3.2 Assumptions under Marginal utility analysis and cardinal approach

1. **Cardinal Measurability of Utility-** means that the utility is **measurable** and **quantifiable**. A person can express the satisfaction derived from consumption of a commodity in quantitative terms.
2. **Comparability of Utility across the goods-** The Satisfaction derived by a person from different commodities can be compared.
3. **Independence of Utilities-** Utilities derived from different commodities are independent of one another and does not affects one another.
4. **Constant Marginal Utility of Money-** It is assumed that marginal utility of money is **constant.**
   The amount of money a person is prepared to pay for a unit of good rather than go without it, is the measure of utility which he derived from the goods.

3.3 Law of diminishing Marginal utility

Law:



a) The **Law of Diminishing Marginal Utility** states that all else equal as consumption increases the **marginal utility** derived from each additional **unit declines**.

b) As a consumer consumes more of stock, the extra satisfaction that he derives from an extra unit, declines with the increase in consumption of that item.

Explanation:

a) Human beings have virtually unlimited wants, However each single want is **satiable (capable of being satisfied)**

b) Since each want is satiable, as a consumer consumes more and more of an item, the satisfaction derived from addition unit goes on **decreasing**. In other words the intensity of his want goes on decreasing, and at a particular point of time he no longer wants it.

c) After a point of time after continuous consumption the consumer reaches the '**point of Satiation**' and gets no extra Satisfaction

d) Beyond a particular point instead of Utility consumer faces **negative Utility** or **Disutility**

e) Further, Goods are **imperfect substitute** of each other. If same goods have capacity to satisfy other wants then their marginal utility would not have decreased.

Assumptions to Law of Marginal utility:

1. **Standard Units-** The law will hold good when units are of **suitable size**.
2. **Homogeneous units-** Different units consumed should be identical in all respect
3. **Constant Income-** The law will hold good when income of the person is constant.
4. **Constant Taste/ fashion-** The Fashion, habit or taste of the consumer must remain constant. If the liking of the person increases on additional consumption the law will not hold good.
5. **Continuous consumption-** There should be no time gap between consumption of one unit and another unit. Therefore Consumption of one Orange per day for 9 days will not have diminishing marginal utility, but 9 Oranges in one day will be covered by this law.
6. **Cardinal approach-** Law applies only if cardinal approach to measurement of utility is assumed.

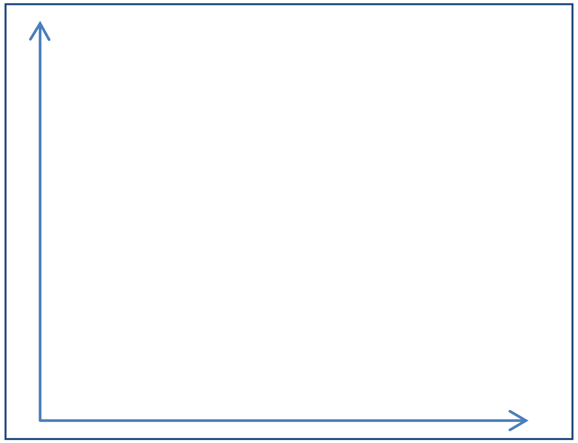
Exception to Law of Marginal utility

1. **Personal Aspects-** law of Diminishing Marginal utility does not apply to music, hobbies, etc where personal preference is dominant.

2. **Money is excluded-** law of Diminishing Marginal utility does not apply money and items like gold, etc. where a greater quantity may increase the lust for it.

3. **Other possessions-** Utility may be affected by presence or absence of articles which are substitute or complimentary. Example- utility of coffee may be affected by availability sugar.

Conclusion: Most IMP



1. Total Utility increases at **diminishing rate.**
2. Marginal Utility is **Downward Sloping curve**, moving from **left to right**
3. Marginal utility is **negatively sloped curve.**
4. ***Where Marginal Utility is negative, Total utility decreases.***
5. Marginal utility **goes on decreasing** and **becomes negative beyond a certain point of time**.
6. Marginal utility varies **inversely with the supply**. If the supply is greater, its MU will be less.
7. MU of the goods increases as the quantity of **complementary goods** with the consumer **increases**- Example, Tea and sugar are complementary goods. If more tea is acquired MU of sugar also increases.
8. MU of the goods decreases as the quantity of **substitute goods** with the consumer increases. Example, tea and coffee are substitute goods. If Consumer purchases more coffee, MU of tea decreases.

Units	MU	Units	MU	Units	MU
1	100	1	80	1	60
2	80	2	70	2	55
3	60	3	60	3	50
4	40	4	50	4	45
5	20	5	40	5	40
6	0	6	30	6	35
7	-20	7	20	7	30

3.4 Law of Equi- marginal utility

As per the law of Equi- marginal utility, If marginal utility of money spent on commodity X is greater than marginal utility of money spent on commodity Y, then the consumer will withdraw some money from purchase of Product Y and will spent on purchase of X, till MU of money in two cases becomes equal.

And

The consumer will attain maximum satisfaction, and will be in equilibrium when MU of money spent on various goods that he buys, are equal.

3.5 Consumer surplus and Consumer Equilibrium

Consumer Surplus:

1. Consumer surplus means, what a consumer is ready to pay – what he actually pays.
2. The consumer continues to buy a commodity till MU = Price of the commodity
3. For all the earlier units purchased, MU > price paid. This difference is called as consumer's surplus
4. ***Amount which a person is ready to pay is nothing but Marginal Utility***
5. Therefore, **Consumer surplus = MU - Price**

3.6 Application of Consumer Surplus

a) It is a **measure of the welfare that people gain** from consuming G&S.

b) It is **very important to a business firm to reflect** on the amount of consumer surplus enjoyed by customers

c) Helps business managers make better decisions about **setting prices and able to pay higher prices** for the same products, then firms can profitably use price discrimination.

d) **Large scale investment decisions** involve cost benefit analysis which takes into account the extent of consumer surplus which the projects may fetch.

e) Consumer surplus usually acts as a **guide to finance ministers** when they decide on the products on which taxes have to be imposed and the extent to which a commodity tax has to be raised.

3.7 Consumer's Equilibrium:

f) As per the law of diminishing marginal utility, the additional consumption of item leads to decreasing MU.

g) The consumer will be willing to buy a commodity, as long as the MU(additional satisfaction) derived is equal to price of the commodity. In other words, consumer will not buy a commodity if the price he pays is more that the additional satisfaction he derives.

h) Thus the consumer is in **equilibrium when price of the commodity = Marginal utility.**

i) Similarly for more than two products, consumer will be in equilibrium if-

$$\frac{MU_X}{Price_X} = \frac{MU_Y}{Price_Y} = \frac{MU_Z}{Price_Z}$$

j) The consumer will attain maximum satisfaction, and will be in equilibrium when **MU of money spent on various goods that he buys, are equal.**

Conclusions: refer schedule above

a) Consumer is in equilibrium at 3 units, where price = MU.

b) Consumer surplus is INR 20 and INR 10 at consumption level of 1 Orange and 2 oranges respectively.

3.8 Limitations to Consumer surplus

1. The concept of Consumer's surplus is **relevant only if cardinal approach to measurement of utility** is assumed.

2. Consumer's surplus cannot be **measured precisely**, since it is difficult to measure the MU of different units of commodity consumed by a person.

3. Consumer's surplus derived is affected by availability of **substitutes.**

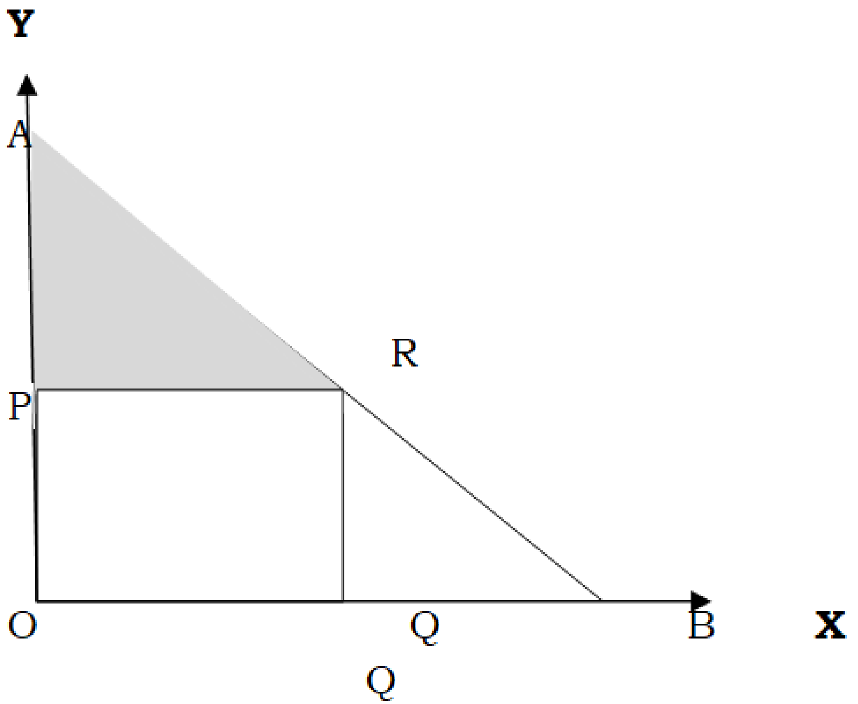
4. In case of **necessaries**, consumer's surplus is infinite since the MU of first few units are **infinitely large.**

5. Concept of consumer's surplus does not apply in case of **prestigious items** such as Diamond, gold.

6. It is assumed that MU of the **money is constant,** which is unrealistic. As more purchases are made and consumer's stock of money diminishes, MU of money also changes

3.9 Graphical Presentation

Graphical representation:



a) Total Utility = Area under OARQ.

b) Price paid = Area under OPRQ.

c) Consumer surplus = Area under PAR (Area under OARQ- Area under OPRQ).

d) If market price = OP, then consumer will be in equilibrium, when he buys OQ units of commodity

4. Ordinal Approach:

The Ordinal approach to utility analysis was given by Hicks and Allen and hence it is also called as **Hicks and Allen Approach.**

This Approach is called as Ordinal Approach because here we can order the Commodities

4.1 Indifference curve analysis- Assumptions

1. **Ordinal Approach to utility-**
   a) This means that **UTILITY is not measurable in monetary terms.**
   b) A person can express satisfaction derived from consumption of commodity, in **relative or comparative term.**

2. **Consistency in ranking-**
   c) As per ordinal approach it is assumed that the consumer has consistent consumption pattern. Thus Consumer choice are assumed to be **Transitive**
   a) If a consumer prefers X to Y and Y to Z , this automatically means that he must prefer X to Z.

3. **Rational Consumer-** It is assumed that the consumer is rational and possesses full information about all the relevant aspects of economic environment in which he lives.

4. **Ranking and preferences-**
   a) The consumer is capable of ranking all combination of goods according to satisfaction they yield.
   b) If a consumer prefers A to B then he cannot tell quantitatively how much he prefers A over B.

5. **Number of Goods-**
   a) If combination A has more quantity than combination B, then A must be preferred over B. This is because the **customer prefers more to less, and tries to maximize his satisfaction.**

4.2 Indifference curve analysis

Indifference Curve is also called as **Iso-Utility Curve** or **Equal Utility Curve**

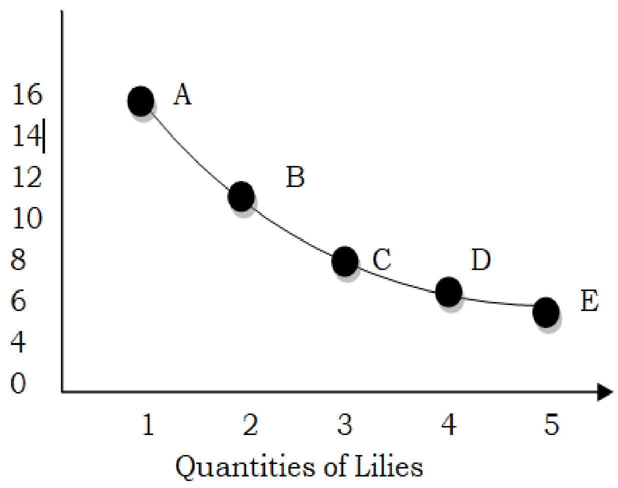
1. An Indifference curve is a curve which represents all those combination of goods which gives **same satisfaction** to the consumer.
2. In Indifference curve analysis, customer's preference is **arranged/ranked** in order of his preference, *rather than measuring them in terms of money.*
3. Since all the combinations on IC curve give him equal/ same satisfaction, he prefers them equally and does not mind which combination he gets. He remains **indifferent** among those combinations.
4. **General assumption in consumer behavior under Indifference curve analysis is that more goods are preferred to less of them.**

Example

Combination	Roses	Lilies	Marginal Rate of substitution (MRS)
A	15	1	-
B	11	2	4 Roses per lily
C	8	3	3 Roses per lily
D	6	4	2 Roses per lily
E	5	5	1 Roses per lily

1. MRS Shows **diminishing Trend**. This is due to **Reducing Quantity** of commodity and thus reducing trend.
2. Had the goods being **perfect substitute** MRS will be **straight line curve**

Indifference curve



4.3 Indifference Map

1. A set of indifference curves is called as **Indifference Map.**
2. An indifference map depicts complete picture of customer's taste and preferences.
3. The consumer is *indifferent for any combination lying on same IC.*
4. However he prefers **combination on Higher IC to combinations on lower IC**, as the combinations of higher IC give more satisfaction. So $IC_4 > IC_3 > IC_2 > IC_1$.
5. **Farther the IC from the origin, higher is the satisfaction level.**

4.4 Marginal rate of Substitutions

1. Marginal rate of substitutions (**MRS**) indicates how much of one commodity is substituted for how much of another commodity.
2. MRS is indicated by **Slope of IC curve** at a particular point. Thus, MRS indicates movement along an IC.
3. MRS show **decreasing trend** similar to concept of diminishing marginal utility.

4.5 Property of indifference curve

1. **Downward sloping to right-**
   a) IC curve is **negatively sloped.** This is because when the quantity of one commodity is increased, the quantity of other commodity is reduced.
2. **Convex to the origin-**
   a) IC is L- shaped to origin, with a bent instead of right angle.
   b) This is due to **diminishing nature of MRS.**
3. **All point on an IC gives same satisfaction-**
   a) *All the combination on an IC gives same satisfaction to the consumer*.
   b) Hence the consumer is indifferent among different point on IC.
4. **Higher level of satisfaction-**
   a) In an indifference map, every *higher IC gives higher satisfaction to the consumer*.
   b) Combination lying on higher IC contains more of either on one or both goods and more goods are preferred to less of them.

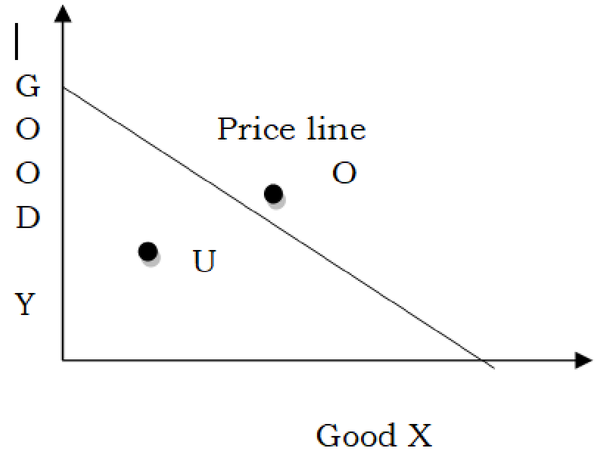
5. Non Intersecting

a) ***No two IC will cut/ intersect/touch each other***

b) Since every higher IC gives higher satisfaction, the same level of satisfaction cannot lie on two ICs. And if they intersect it will show that two different levels are equal, which is not possible.

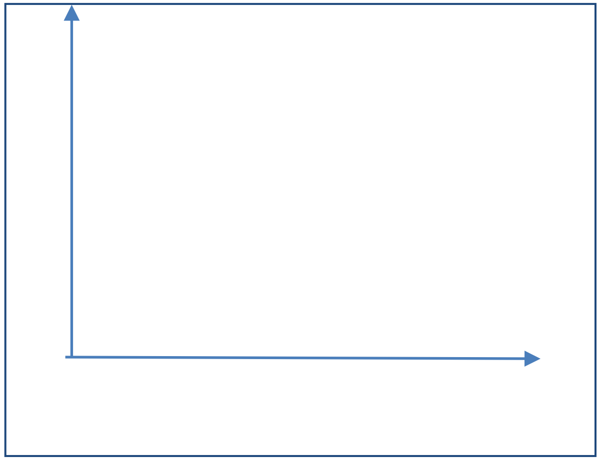
4.6 Budget line

1. A Budget line shows all those combinations of two goods which a consumer **can buy spending his given money income on two goods at their given prices.**
2. Budget line is also called as **Price line, Price opportunity line, Price- income line, Budget constraint line.**
3. Every point
   a) **on Budget line** represents full spending by the consumer.
   b) **below budget line** represents under spending by the consumer (Point U),
   c) **above the budget line** will be beyond the reach of consumer (Point O)



4.7 Consumer Equilibrium under indifference curve approach

1. In the given diagram Pl is the Budget line and A,B,C are the point on price/budget line. Every point on budget line costs same to the consumer.



2. In order to maximize his satisfaction the consumer will try to reach to farthest IC, but will be forced to remain on price line.
3. Point B gives maximum satisfaction to the consumer since it lies on farthest IC, and also lies on budget line.
4. The point B constitutes consumer's equilibrium and at that point consumer will buy Q_X and Q_y quantities of goods X and Y.
5. Consumer will not be able to reach IC_3 and IC_4 with his current budget, and Point A and C will not be preferred as they lie on lower IC.

Assumptions:

1. The consumer has fixed money income which he hast to spend wholly on goods X and goods Y.
2. Prices of goods X and Goods Y are given and are constant.
3. The consumer has given an indifference map which shows his scale of preferences for various combinations of two goods X and Y.

4.8 Relationship of MRS and price at equilibrium,

1. At equilibrium, slope of price line is equal to slope of Indifference curve.
2. At equilibrium price line is **tangential** to farthest IC.
3. At equilibrium, slope of price line is equal to slope of Indifference curve IC_2
4. Slope of the line is P_X/P_Y.
5. Slope of indifference curve indicates Marginal rate of substitution of X for Y. $MRS_{XY}=MU_X/MU_Y$.
6. Hence at equilibrium $MRS_{XY}=MU_X/MU_Y= P_X/P_Y$, alternatively, $MU_X/ P_X = MU_Y/P_Y$.

4.9 The indifference curve analysis is superior to utility analysis:

(i) It dispenses with the assumption of measurability of utility

(ii) It studies more than one commodity at a time

(iii) It does not assume constancy of marginal utility of money

(iv) It segregates income effect from substitution effect.

Chapter 2: UNIT 2 - Demand Analysis

Part A. - Basics

1. Meaning

1. Demand' refers to the quantity of a good or service that consumers are **willing and able** to purchase at various prices during a **given period of time.**

2. Effective demand of any goods or services depends on the following factors
   (a) **Willingness means Desire** for a specific commodity,
   (b) **Ability means Resources or purchasing power**
   (c) **willingness to use those means** for that purchase, and
   (d) Availability of commodity at certain, **(i) Price (ii) place or (iii) time.**

3. Two things are to be noted about the quantity demanded.
   (a) The quantity demanded is **always expressed at a given price**.
   (b) The quantity demanded is a **flow**. And not a single isolated purchase. Hence we express demand as **'so much quantity per period of time'.**

2. Types of Demand

1. Individual Demand/ Firm Demand.-

a) DD of a particular consumer at various prices.
b) It is a **sub-system** of total demand.

2. Market Demand/ Industry Demand.

(a) Market demand is the **demand of whole market** at various prices of the commodity.

(b) It is the **sum total demand of all individual demand** in the market.

3. Price Demand

(a) It refers to quantity of goods or services which will be purchase by the consumer at **various prices**

4. Income demand

(a) It refers to quantity of goods or services which will be purchase by the consumer at **various income level**

(b) Accordingly as the income level increases, **superior goods have greater demand** and as the level of income lowers, **inferior goods have higher demand**.

5. Cross demand

(a) It refers to quantity of goods or services which will be purchase by the consumer based on the change in price of related commodities.

(b) Example Substitute goods or complementary goods.

6. Short run demand- changes immediately due to change in Price. If the rate of electricity are reduced, the existing users will make greater use of electrical appliances

7. **Long run demand-** <u>change takes place after long time due to change in price</u>. For example, if electricity rates are reduced, in the short run, the existing users will make greater use of electric appliances. In the long-run, more and more people will be induced to use electric appliances.

8. **Derived demand**-The demand for a commodity that arises because of the **demand for some other commodity called 'parent product',** 'is called derived demand. For example, the demand for cement is derived demand, being directly related to building activity.

9. **Autonomous demand**- If the demand for a product **is independent of the demand for other goods,** then it is called autonomous demand. It arises on its own out of an innate desire of the consumer to consume or to possess the commodity.

10. **Producers goods** are used for the production of other goods - either consumer goods or producer goods themselves. Examples of such goods are machines, plant and equipment.

11. **Consumer goods** are used for final consumption. Eg readymade clothes, prepared food.
    It may be subdivided into-
    a) **Durable goods** are those which can be consumed more than once. Eg. cars, refrigerators and mobile phones
    b) **Non durable goods** are those which cannot be consumer more than once. It meets only current demand. Eg: Bread, milk, etc.

3. Factors of Demand

1. Price of the commodity:

(a) Other things being equal, the demand for a commodity is ***inversely related*** to its price.

(b) This means that a rise in the price of a commodity brings about a fall in the quantity purchased and vice-versa.

(c) This happens because of **income effect** and **substitution effect.**

2. Price of related commodities- Related commodities are of two types: **(a) complementary goods and (b) competing goods or substitutes.**

(a) ***Complementary goods-***

i. Complementary goods are those goods which are consumed **together or simultaneously**.

ii. When two commodities are complements, ***a fall in the price of one*** (other things being equal) ***will cause the demand for the other to rise***.

iii. For example; tea and sugar, automobile and petrol and pen and ink.

(b) ***Substitute goods-***

i. Two commodities are called competing goods or substitutes when they satisfy the same want and can be used with **ease in place of one another.**

ii. When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a

fall in the quantity demanded of its substitutes.

iii. Demand of a commodity is **directly** related with price of substitute goods.

iv. For example, tea and coffee, ink pen and ball pen, are substitutes for each other and can be used in place of one another easily.

3. Income of the consumer

(a) In most cases, the **larger the income, larger is the quantity demanded.**

(b) But, the change in quantity demanded and the change in income need **not be of same proportion**.

(c) As the level of income rises, increase in **demand of necessities** is **proportionally less** than increase in income.

(d) As the income level increase and people become richer, there is a relative decline in the importance of food and other non durable goods in the overall consumption basket and a rise in the importance of durable goods such as a TV, car, house etc.

(e) However, there are some commodities for which the quantity demanded decreases with an increase in money income beyond this level. These goods are called **inferior goods**.[Also called as **Giffen goods**]

अमीर को फार्क पडता नहीं:: गरिब को फार्क परवडता:

4. Tastes and preferences of consumers-

(a) Goods which are <u>in fashion are demanded more</u> than goods which are of out of fashion.

(b) Tastes and preferences of consumers are also influence by **'Demonstration effect'** or **'bandwagon effect'**, i.e. by seeing another person use a particular product/

commodity.

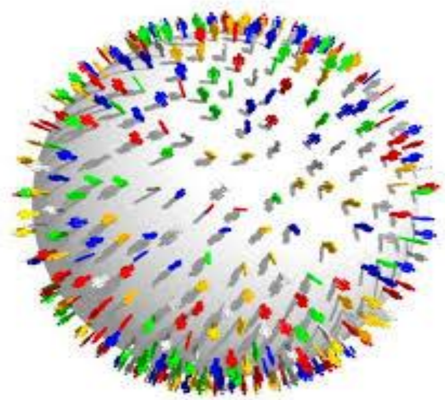
(c) Also sometimes, when a product becomes common among all, some people decrease or altogether stop its consumption.

(d) On the other hand, if the goods which are common among the rich, though high priced is consumed as a symbol of status. E.g. Some people develop habit of drinking wine as they believe its attachment with status. This is called **'snob effect'**. Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called **'Veblen effect'**

5. Population aspect-

(a) **Size of the population**-directly related to Demand

(b) **Composition of population:** If the population consists of more of children, demand for toys, baby foods, toffees, etc. will be more



(c) **The level of National Income and its Distribution:**

i. If the national income is unevenly distributed, less income, and less demand

ii. If the national income is evenly distributed, more income, and more demand

(d) **Consumer-credit facility and interest rates:** Availability of credit facilities induces people to purchase more than what their current incomes permit them. Also, Low rates of interest encourage people to borrow and therefore demand will be more.

6. There are many other factors which influences the demand

Part B- Theory of Demand

1. Law of Demand:

(a) Other things being equal, **if the price of a commodity falls, the quantity demanded of it will rise and if the price of a commodity rises, its quantity demanded will decline.**

(b) There is an **inverse relationship between price and quantity demanded**, other things being equal.

Other Factors remaining constant-

The other things which are assumed to be equal or constant are:-

(a) Prices of related commodities (complementary goods or substitute goods)

(b) Income of consumers

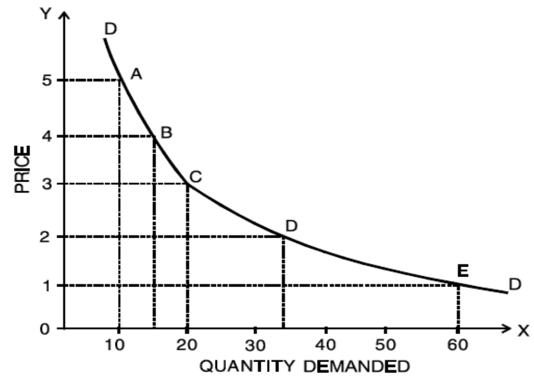
(c) Tastes and preferences of consumers, and

(d) Such other factors which influence demand.

If these factors which determine demand also undergo a change, then the inverse price-demand relationship may not hold good. Thus, the constancy of these other factors is an important assumption of the law of demand.

1. Illustration:

Price	Quantity demanded
5	10
4	15
3	20
2	35
1	60



2. Features of the Demand Curve

1. Demand curve **slopes downwards from left to right**
2. Demand curve is **negatively sloped**
3. Demand curve may sometimes be a **straight-line** or sometimes a **free hand curve**
4. Demand curve is also called **Average Revenue curve (ARC).** Since the price paid for each unit by the consumer is revenue per unit for the seller.[CH 7]
5. The Market Demand curve is **a lateral summation** of individual Demand curve, and also slopes downwards from left to right. [CH 7]

2. Rationale of the Law of Demand – reasons why law of Demand exhibits inverse relationship

1. Law of diminishing marginal utility

(a) Consumer will buy more quantity at lower price because they want to equalise the marginal utility of the commodity and price.

(b) The **Diminishing Marginal utility and equalising price** is the cause of downward sloping of demand curve

2. Substitution effect: Given by Hicks and Allen

(a) When the price of a commodity falls, it becomes **relatively cheaper** than other commodities.

(b) So, consumers now substitute the commodity whose price has fallen for other commodities which have now become relatively expensive.

(c) Therefore total demand for the commodity whose price has fallen increases

3. Income effect:

(a) When the price of a commodity falls, the consumer can buy the same quantity of the commodity with lesser money.

(b) In other words, as a result of fall in the price of the commodity, consumer's **real income or purchasing power** increases.

(c) This increase in the real income induces him to buy more of that commodity.

Note: Income Effect and Substitution effect is together called as Price effect

4. Arrival of new consumer:

(a) When the price of a commodity falls, more consumers start buying it because some of those **who could not afford to buy it earlier** may now be able to buy it.

(b) This **raises the number of consumers** of a commodity at a lower price and hence the demand increases.

5. Different uses:

(a) Certain commodities have multiple uses. If their prices fall, they will be used for varied purposes and therefore their demand for such commodities will increase

(b) On the other hand, when the price of such commodities are high (or rises) they will be put to limited uses only.

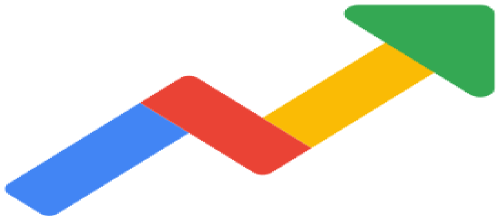
3. Exceptions to the Law of Demand

1. **Conspicuous goods:**
   - (a) Articles of **prestige value** or **snob appeal** or articles of **conspicuous consumption** are demanded only by the rich people and these articles become **more attractive** if their **prices go up**.
   - (b) This was found out by **Veblen** in his doctrine of "**Conspicuous Consumption**" and hence this effect is called **Veblen effect** or **prestige goods effect**.
   - (c) Example- Higher the price of diamonds, higher is the prestige value attached to them and hence higher is the demand for them.

2. **Giffen goods:**
   - (a) Those goods which are **inferior**, with **no close substitutes** easily available and which occupy a substantial place in consumer's budget are called '**Giffen goods**'
   - (b) Such goods exhibit **direct price-demand relationship**.
   - (c) Examples of Giffen goods are- Bajra, low quality rice and wheat etc

3. **Conspicuous necessities:**
   - (a) The demand for certain goods is affected by the **demonstration effect** of the consumption pattern of a social group to which an individual belongs.
   - (b) Due to their constant usage these goods have become necessities of life.
   - (c) For example, TVs, refrigerators, coolers, cooking gas etc.

4. **Future expectations about prices:**
   (a) When the **prices show increasing trend**, consumers tend to buy larger quantities of such commodities, expecting that the prices in the future will be still higher
   (b) For example, when there is wide-spread drought, people expect that prices of food grains would rise in future. They demand greater quantities of food grains even at the higher price.



5. **Irrational consumer-** It is assumed that consumers are rational and knowledgeable about market-conditions. However, at times, consumers tend to be irrational and make impulsive purchases without any rational calculations about the price and usefulness of the product.

6. **Demand for necessaries**
   (a) Irrespective of price changes, people have to consume the minimum quantities of necessary commodities. Example- cooking gas, Petrol.

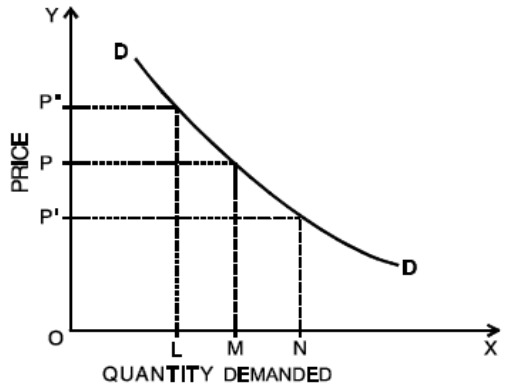
7. **Ignorant consumer:** A household may demand larger quantity of a commodity even at a higher price because it may be ignorant of the ruling price of the commodity.

8. **Speculative goods:** In the speculative market, more will be demanded when the prices are rising and less will be demanded when prices decline. Example stocks and shares showing increasing trend.

4. Demand and Quantity demanded

- Change in demand means change in demand due to the factors of demand other than price whereas
- Change in quantity demanded means change in the quantity purchased due to change in the price of a product

5. Expansion/Extension and contraction in Demand



. 3 : Expansion and Contraction of Demand

Meaning- Expansion and contraction in demand takes place as a result of **change in price**, while the other factors influencing demand remains constant.

Movement along the curve- The position of Demand curve remains the same. The consumer merely moves upwards or downwards on the **Same Demand Curve**

Example-

(a) The present price is P and the quantity demanded at Price P is M.

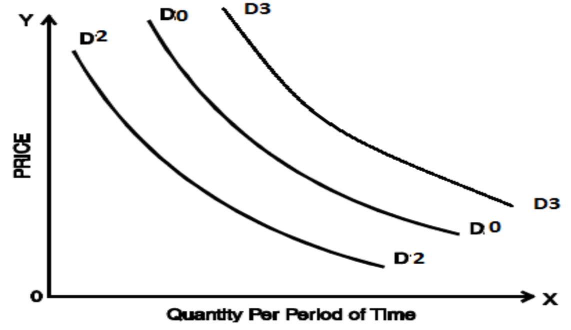
(b) **Expansion- Downward movement** along the same Demand curve is called as **Expansion of demand**. (P to P")

(c) **Contraction- Upward movement** along the same Demand curve is called as **Contraction of demand**. (P to P")

Term	Meaning	Effect
Expansion/ Extension of Demand	Quantity demanded **Increases**, due to decrease in price	**Downward** movement along same Demand curve
Contraction of Demand	Quantity demanded **decreases**, due to increase in price	**Upward** movement along same Demand curve

6. Increase in Demand

Meaning- Increase or decrease in demand as a result of changes in factors **other than price**, while price remains constant.



Shift of Demand Curve- Increase or decrease in demand indicate right ward/leftward shift of the Demand curve respectively.

Example

- ✓ **Current level** of demand is depicted by demand curve D_0
- ✓ **Increase in Demand-**When the curve shifts rightward from D_0 to D_3, it is called as increase in demand.
- ✓ **Decrease in Demand-** When the curve shifts leftward from D_0 to D_2, it is called as decrease in demand.

7. "Movement along" vs "shift of" Demand

	Movement along Demand curve	Shift of Demand curve
1	Demand curve remains the same	There is shift in Demand curve itself
2	This happens due to **price change** while the other factors remains constant	This happens due to changes in factors **other than price**, price remaining constant
3	It may be Expansion or contraction	It may be Increase or Decrease in Demand
4	Expansion=Downward movement Contraction= Upward movement	Increase= Rightward shift Decrease= Leftward shift

Part C-Elasticity of Demand

1. Elasticity of Demand

Meaning

(a) Elasticity of demand is defined as the ***responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends.***

(b) the percentage change in quantity demanded divided by the percentage change in one of the variables on which demand depends

Factors affecting demand and name of their elasticity

Factors	Name of Elasticity	Denoted by
Price of the commodity	Price Elasticity	E_P
Income of the consumer	Income Elasticity	E_I
Price of the related product	Cross Elasticity	E_C

2. Price Elasticity of Demand

Meaning:

(a) Price Elasticity of Demand (E_P) measure the ***responsiveness of quantity demanded of a commodity, to a change in Price,*** assuming all the other factors as constant.

(b) In other words, it is measured as the percentage change in quantity demanded divided by the percentage change in price, other things remaining equal.

Measuring Price elasticity of demand

- Percentage change or proportional Method
- Point Elasticity- Method of derivative
- Point Elasticity – Method of Graph
- Arc Elasticity Method
- Total Outlay Method

A. Percentage/ proportionate Method

Formula:

$$\text{Price Elasticity of Demand} = (E_P) = \frac{\text{\% change in quantity demanded}}{\text{\% change in Price}}$$

$$= \frac{(\text{Change in quantity/Original quantity}) \times 100}{(\text{Change in price/ Original Price}) \times 100}$$

$$= (\Delta q / q) \times (p / \Delta p)$$

$$= (\Delta q / \Delta p) \times (p / q)$$

Here q= quantity, p= price, Δq = change in quantity, Δp=change in price

Negative sign -since price and quantity are **inversely related** (with a few exceptions), price elasticity is negative. But, for the sake of convenience, we ignore the negative sign and consider only the numerical value of the elasticity.

Example

Quantity	Price	% change in quantity demanded= (3500-5000) ÷ 500= 30%
5000	100	% change in price =(150-100) ÷ 50%
3500	150	Therefore E_P= 30% ÷ 50%= 0.6

B. Point Elasticity – method of Derivative

Meaning

a) In point elasticity, we measure elasticity at a **given point on a demand curve.**

b) The concept of point elasticity is used for measuring price elasticity where the **change in price is infinitesimal (very small)**

c) Point elasticity makes use of **derivative** rather than finite changes in price and quantity.

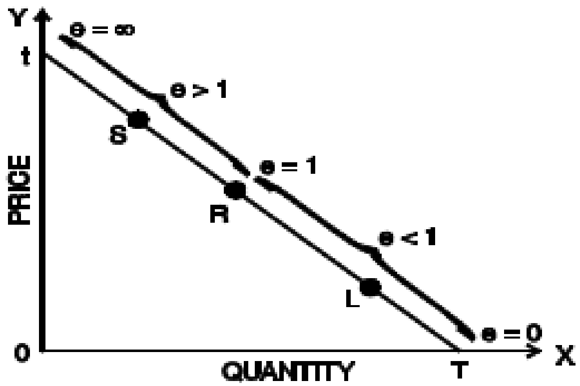
Formula :Ep = -dq p ÷ dp q

C. Point Elasticity – Geometric method

a) This method is applicable only for **Straight- line Demand curve touching both the axes**.

b) Under Graphical method Elasticity is calculate using the following formula-

E_P $\dfrac{\text{Lower segment}}{\text{Upper segment}}$

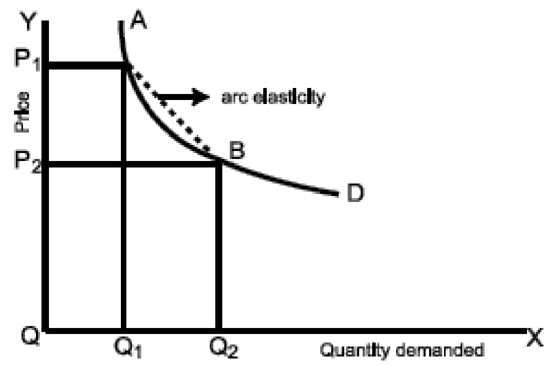


Example: Consider the following graph and find the Elasticity using Graphical method and state the reason for the same.

Point	E_P	Reason
V	tT/tt = ∞	tT is a line while tt is appoint, hence tt =0
W	ST/tS >1	Length of ST> tS
X	tR/RT = 1	Length of tR= RT
Y	LT/Lt<1	Length LT<Lt
Z	TT/tT =0	TT is a point while tT is a line

D. Arc Elasticity of Demand

1. Arc Elasticity is a measure of **average responsiveness** to Price change exhibited by a Demand curve over some defined arc of Demand curve
2. Arc Elasticity measures elasticity in case of ***large change in prices and quantities*** (i.e. over an arc) on the Demand curve rather than a point
3. Since point elasticity differs at various points on Demand curve, Arc elasticity takes **average of two prices and quantities** to measure Elasticity
4. $E_P = \frac{q_1 - q_2}{q_1 + q_2} \times \frac{p_1 + p_2}{p_1 - p_2}$



E. Total Outlay Method

Meaning:

a. In Total Outlay method, Elasticity is calculated by analysisng the **change in Total expenditure** or Outlay of the household.

b. we can only say whether the demand for a good is elastic or inelastic; we cannot find out the exact coefficient of price elasticity.

Elasticity	Situation	Effect	Example
$E_P < 1$	• Price and Expenditure moves in **same** direction. • As the price of a commodity **decreases,** total expenditure on that commodity **decreases**. • As the price of a commodity **increases,** total expenditure on that commodity **increases.** • In both the above cases, % change in quantity demanded is **less than % change in price.**	Demand is said to be less elastic, or inelastic	Situation E, F, G (Refer example below)
$E_P = 1$	• Total Expenditure remains Unchanged. • Due to change in price, Total expenditure on that commodity remains unchanged. • Increase in price is **exactly balanced** by a proportional reduction in quantity purchased.	Demand is said to be unit elastic	Situation C, D, E (Refer example below

$E_p > 1$	• Price & Expenditure moves in **opposite** direction. • As the price of a commodity **decreases**, total expenditure on that commodity **increases**. • As the price of a commodity **increases**, total expenditure on that commodity **decreases**. • In both the above cases, % change in quantity demanded is **more than % change in price**.	Demand is said to be elastic	Situation A, B, C (Refer example below

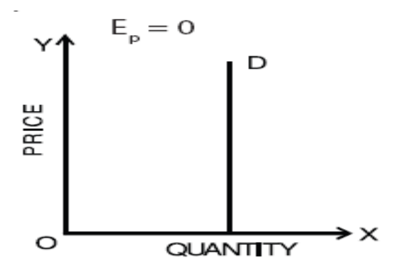
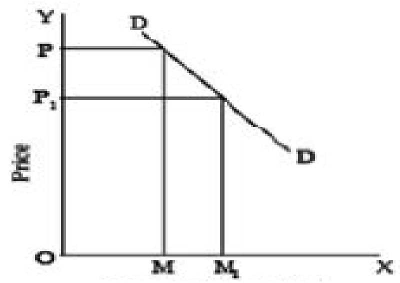
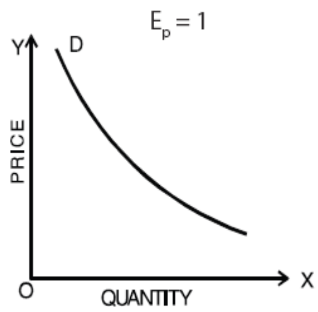
The Relationship between Price elasticity and Total Revenue (TR)

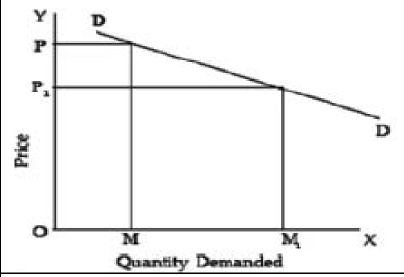
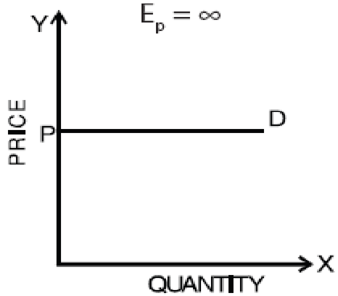
	Elastic	Unitary Elastic	Inelastic
Price Increase	TR Decreases	TR remains same	TR Increases
Price decrease	TR Increases	TR remains same	TR Decreases
	Moves in opposite direction	Remains same	Moves in same direction

Situation	Quantity Demanded (In units)	Price	Total Outlay
A	1000	50	50000
B	1500	40	60000
C	2000	37.5	75000
D	2500	30	75000
E	3000	25	75000

F	3500	20	70000
G	4000	15	60000

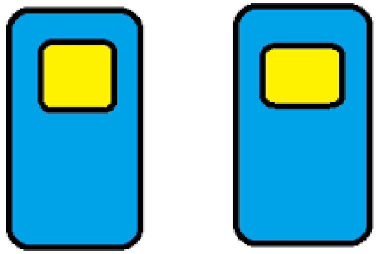
3. Interpretation of the numerical values of elasticity of demand

Description	Numerical value	Interpretation	Nature of Curve	
Perfectly inelastic	$E_P = 0$	Qty. demanded does not changes as price changes	Vertical line Parallel to Y axis	
Inelastic or less elastic	$0 < E_P < 1$	Qty demanded changes by **smaller percentage** than price	Relatively steeper Demand curve	
Unit Elastic	$E_P = 1$	Qty demanded changes exactly by same % as price	45 degree straight line Or rectangular hyperbola	

Elastic	$1 < E_P < \infty$	Quantity demanded changes by larger percentage than price	Relatively flatter demand curve	
Perfectly elastic	$E_P = \infty$	Small change in price will bring infinite change in quantity demanded	Parallel to X axis	

4. Determinants of price Elasticity

1. Availability of substitutes:



CNG Vs Petrol

- Goods having **close or perfect substitutes** have **highly elastic demand curves**.
- Goods which do not have close substitute **or few substitutes have less elastic demand** curve.

2. Position of a commodity in a consumer's budget:

- Goods having **higher proportion of consumers' spending are more elastic** to demand. Eg. Clothing, provisions and groceries, milk etc.
- Goods having **lower proportion of consumers' spending are less elastic** to demand. Eg. Matches, button, salt.

3. Number of uses to which a commodity can be put:

- Commodity having possible **multiple uses, have more elasticity to demand**. Eg. Milk.
- Goods which have **specified or particular use have inelasticity** to demand, since they can and should be used only for that purpose.

4. Time period:

- The **long run** demand for a commodity is **more elastic**. This is because consumer has a longer run to adjust his consumption pattern accordingly.
- The **short run** demand for a commodity is **less elastic** to change in price.

5. Consumer habits:

- If the consumer is **not habitual to a commodity**, demand for that particular commodity is **more elastic** and vice-versa.

6. Tied demand:

- Goods which have **autonomous demand** on their own are more elastic
- Goods having **tied or joint demand** are **less elastic**. Eg. Modular kitchen and oven.

7. Nature of the need that a commodity satisfies:

- **Luxury goods** are **price elastic** while
- **necessities** are **price inelastic or less elastic** to price change.

8. Price range:

- Goods which are in **medium range** of price level are **more elastic** to price change.
- Goods which are in **very high price** range or in **very low** price range have **inelastic** demand.

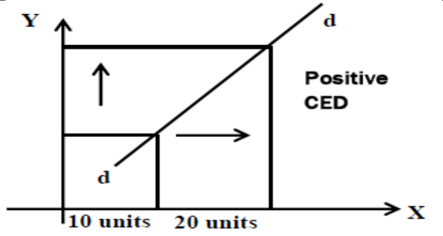
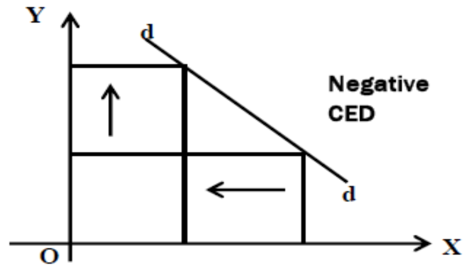
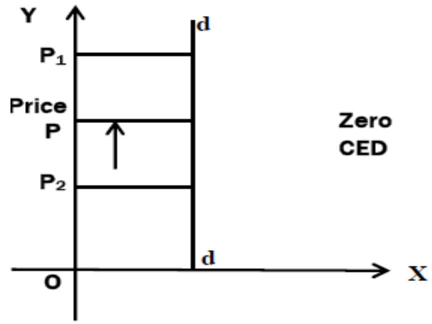
5. Income Elasticity of Demand

Meaning: Income elasticity of demand is the degree of **responsiveness of quantity demanded of a good to changes in the income of consumers,** while the other factors are constant. It is denoted by E_i.

It refers to amount of change in demand for a commodity due to change in income. It is the degree of responsiveness of demand to a change in income

$$YED/\ Ey = \frac{\text{Percentage or proportionate change in income}}{\text{Percentage or proportionate change in demand}} = \frac{\%\ \Delta Q}{\%\ \Delta Y} \quad \frac{\Delta Q}{\Delta Y} \quad \frac{Y}{Q}$$

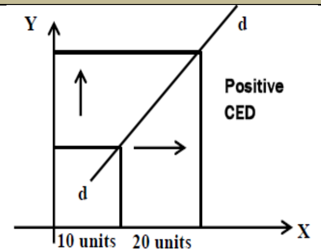
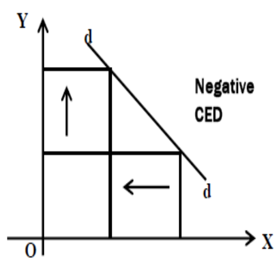
Note-Income effect is positive, so Income Elasticity of demand is also **positive**. However there may be negative Income Elasticity in case of inferior goods

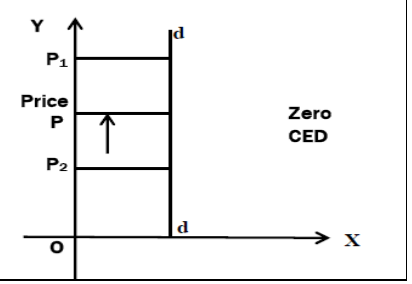
Type of Income Elastic	Relation between income & demand	Example	Formula	Curve
Positive Income Elasticity	Positive	Normal and Luxury goods	Ey = 1 Ey > 1 Ey < 1	
Negative Income Elasticity	Inverse	Inferior goods	Ey < 0	
Zero Income Elasticity	Constant (No change in demand though there is change in income)	Necessaries goods	E = 0	

6. Cross Elasticity of Demand

- It refers to amount of change in demand for one good due to change in price of other good.
- Thus cross elasticity of demand is degree of responsiveness of demand for one good to a change in price of other good.
- It is defined as a ratio between percentage or proportionate change in demand for one commodity and % or proportionate change in price of other commodity i.e.

Where x & y = Substitute/complimentary goods

Type of Cross Elasticity	Relation between price of one product & demand for other product	Example	Formula	Curve
Positive Cross Elasticity	Direct or Positive relation (Goods must be substitute)	**Tea & Coffee,**	CED = 1 CED > 1 CED < 1	
Negative Cross Elasticity	Inverse relation (Goods must be complementary goods)	**Car & Petrol**	**CED < 0**	

Zero Cross Elasticity	Constant (No change in demand of one product though there is change in price of other product) goods must be unrelated	**Cloth & salt**	**CED = 0**	

Examples for Practice

- **Factors affecting Elasticity of Demand or Determinants of Elasticity of Demand:**

Factors	Explanation	Type of Elasticity of demand
Nature of the commodity	Necessities.	Inelastic
	Luxurious goods.	Elastic
Level of income	Goods demanded by high income group.	Inelastic
	Goods demanded by low income group.	Elastic
Custom and habit	Goods purchase under influence of Custom and habit.	Inelastic
Proportion of expenditure	Commodity on which Proportion of expenditure is low.	Inelastic
	Commodity on which Proportion of expenditure is large.	Elastic
Level of price and	When price level of a commodity is too high and change in price is smaller.	Inelastic

change in price		
	If price level is low and change in price is large.	Elastic
Number of uses	Commodity which has limited uses.	Inelastic
	Commodity which used to satisfy several wants.	Elastic
Substitutes	Commodity which have less substitutes.	Inelastic
	Commodity having several substitutes.	Elastic
Urgency	Commodity which is required urgently.	Inelastic
	Commodity which is not required urgently.	Elastic
The Period	Demand for commodity is inelastic in long run.	Elastic
	Demand for commodity is elastic in short period.	Inelastic
Tied demand or Joint demand	Demand for those goods, which are tied to others.	Inelastic
	Demand for those goods, which are demanded independently.	Elastic
Consumer habits	Demand for commodity used by habitual consumer.	Inelastic

5. Advertisement Elasticity

1. **Advertisement elasticity of sales or promotional elasticity** of demand is the responsiveness of a good's demand to changes in the firm's spending on advertising.
2. The advertising elasticity of demand measures the percentage change in demand that occurs given a one percent change in advertising expenditure.
3. Advertising elasticity measures the effectiveness of an advertisement campaign in bringing about new sales.
4. **Advertising elasticity of demand is typically positive**. Higher the value of advertising elasticity greater will be the responsiveness of demand to change in advertisement. Advertisement elasticity varies between zero and infinity.
5. It is measured by using the formula;
   Ea = % Change in Quantity Demanded/ % Change in Spending on advertisement

Elasticity	Interpretation
Ea = 0	Demand does not respond at all to increase in advertisement expenditure
Ea >0 but < 1	Increase in demand is less than proportionate to the increase in advertisement expenditure
Ea = 1	Demand increase in the same proportion in which advertisement expenditure increase
Ea> 1	Demand increase at a higher rate than increase in advertisement expenditure

Part D :- Methods of demand Forecasting

- Demand Forecasting is Science and Arts.
- It is Important for Planning and decision making
- Demand forecasting is not fool-proof and correct
- It can be done at National as well as International Level

1. Survey of Buyers' Intentions:

This method **involves direct interview of potential customers** by asking them what they are planning to buy during the forthcoming time period, usually a year.

The survey may be conducted by any of the following methods:

a) **Complete enumeration method** where nearly all potential customers are interviewed.

b) **Sample survey method** under which only a scientifically chosen sample of potential customers are interviewed

c) **End–use method**, especially used in forecasting **demand for inputs**, involves identification of all final users, fixing suitable technical norms of consumption of the product under study.

Merits/Demerits

a) Burden of forecasting is put on the customers.

b) A number of biases may creep into the surveys.

c) The customers may themselves misjudge their requirements.

d) Their plans may alter due to various factors which are not identified at the time of the survey.

2. Collective opinion method/ sales force opinion method/ grass roots approach.

a) Firms having a wide network of **sales personnel** to forecast future demand in their respective territories.

b) These estimates of salesmen are **consolidated** to find out the total estimated sales.

a) These estimates are **reviewed** to eliminate the bias of optimism on the part of some salesmen and further examined **with proposed changes**

b) Although this method is simple, it is **subjective as personal opinions** can possibly influence the forecast.

c) Moreover salesmen may be **unaware of the broader economic changes**.

3. Expert Opinion method: Delphi Technique

a) The **Delphi technique** was developed by **Olaf Helmer** at the **Rand Corporation of the USA**.

b) Under this method, firms solicit the **opinion of experts through series questionnaires**.

c) Experts are asked to **provide forecasts and reasons**. Experts are provided with information and opinion feedbacks of others at different rounds without revealing the identity of the opinion provider.

d) These **opinions are then exchanged among the various experts** and the process goes on until convergence of opinions is arrived at. This method is best suited in circumstances where intractable changes are occurring and the relevant knowledge is distributed among experts.

e) It also has the **advantages of speed and cheapness**.

4. Statistical methods:

It is considered superior methods because it is more scientific, reliable & free from subjectivity.

a. Trend Projection method: This method is also known **classical method**. Past data pertaining to long period, when arranged chronologically, yield a '**time series**' which represent graph.

i. **Graphical method**

ii. **Fitting trend equation or least square method.**(sum of the squared differences between the calculated and observed value is minimized.)

b. Regression analysis: Under this method, a <u>relationship is established between the quantity demanded (dependent variable) and the independent variables</u> (explanatory variables) such as income, price of the good, prices of related goods etc. Once the relationship is established, we derive regression equation assuming the relationship to be linear. The equation will be of the form **$Y = a + bX$.**

5. Controlled Experiments:

a) Under this method, future demand is estimated by <u>conducting market studies</u> and <u>experiments on consumer behaviour</u> under actual, though controlled market conditions.

b) This method is also known as **market experiment method.**

c) <u>'controlled laboratory experiments' or 'consumer clinics'</u> under which consumers are given a specified sum of money and asked to spend in a store on goods with varying prices, packages, displays etc. The responses of the consumers are studied and used for demand forecasting.

6. Barometric method of forecasting:

a) For this purpose, an **index of relevant economic indicators** is constructed.

b) Movements in these indicators are used as basis for forecasting the likely economic environment in the near future. There are **leading indicators, coincidental indicators and lagging indicators**. The leading indicators move up or down ahead of some other series.

c) For example, impact of Corona Virus indicated fall in demand of Luxurious goods

My Notes

Chapter 4: UNIT 3 Theory of Supply

1. Meaning of supply

- Supply refers to amount of a commodity seller is **able to sell and willing to sell** in the market at a certain price per unit of time.

- **Ability to sell** of a seller depends upon stock of a commodity;
- **willingness to sell** depends upon price of a commodity.

Factors affecting individual supply	Explanation
Cost of Production	*This factor primarily affects the ability to supply* High cost of production- Less supply Low cost of production -More supply
Price	Higher Price – More supply Less price – Less Supply
Stock	Higher stock – More supply Less stock – Less Supply
Time	Short time period – Less Supply Long time period – More supply.
Other Factors	✓ Improved Techniques of Production ✓ Infrastructure ✓ Weather conditions

	✓ Taxation policy ✓ Monetary Policy ✓ Trade policy ✓ Natural Resources If the above factors are favorable, supply will increase. But if the factors are not favorable, supply will decrease
Nature of Competition	✓ More Under Competitive Market ✓ Less under Monopoly
Prices of related goods	If the prices of other goods rise, they become relatively more profitable to the firm to produce and sell than the good in question. When a seller can get a higher price for a good, producing and selling it becomes more profitable. Producers will allocate more resources towards its production even by drawing resources from other goods they produce.

2. Law of Supply

- The law of supply is explained by Dr. Alfred Marshall.
- under given conditions supply rises with the rise in price and falls with the fall in price.
- Law of supply states that "other things being equal" **there is a direct relationship between price and supply.**
- **Stock is Prospective Supply**

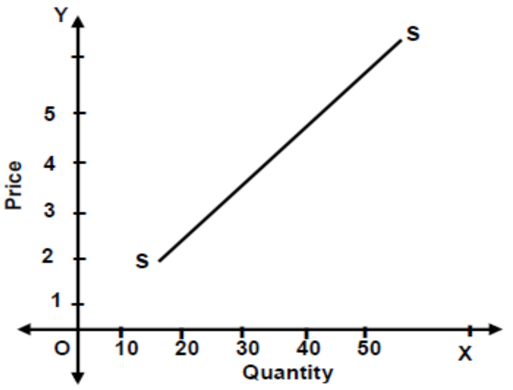
Law of supply is explained by following Table & Curve

Explanation of schedule

- When the price is low at Rs. 5. 10 units supplied by seller
- When price starts increasing, a seller supplies more units.
- It shows direct relationship between price of commodity and quantity supplied.

Price	Supply
1	10
2	20
3	30
4	40
5	50

Features of Supply curve



- The sloping of the Supply Curve **explains the Law of Supply**, which describes a **direct** Price—Demand relationship.
- Supply Curve **slopes upwards** from left to the right.
- Supply Curve is **positively sloped.**
- Supply Curve may be sometimes a **straight—line** or sometimes a free hand **curve.**
- The Market Supply Curve is a **lateral summation** (totaling) **of Individual Supply Curves** of all Producing Firms, and also slopes upwards from left to the right.

3. Assumptions of Law of Supply

- ✓ No change in cost of production
- ✓ No change in technology
- ✓ No change in infrastructural facilities
- ✓ No change in amount of Natural Resources
- ✓ No change in Taxation policy
- ✓ No change in monetary and trade policy
- ✓ Normal weather conditions

4. Exceptions to law of Supply

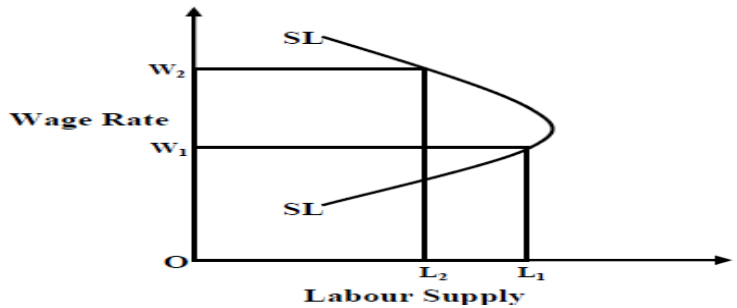
1. Labour supply

a) We notice that initially with the increase in wage rate labour supply increases but when wages increase beyond a certain limit labour supply will decrease.

b) This is represented by ***backward bending labour supply curve***.

Labour Supply Schedule

Wage rate	Labour supply	Total income
Rs.100/hr	12 hr.	1200/day
Rs.250/hr.	15 hr.	3750/day
Rs.700/hr.	10 hr.	7000/day



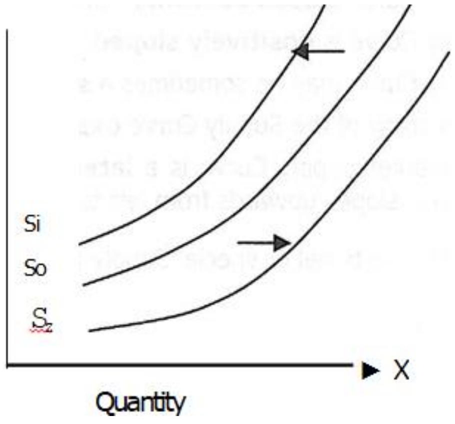
2. **Need for cash** - If a seller is going to supply his product because he needs certain amount of cash, then at a lower price he will supply more and at a higher price he will supply less.

3. **Savings** -If a person wants a fixed amount of income in the form of interest then, he will save more at a lower rate of interest and save less at a higher rate of interest.

4. **Future Expectations** - With a small rise in price, if seller expects a further rise in future he will decrease the supply.

Similarly, with little fall in price if seller expects a further fall in future he will increase the supply.

5. Expansion and Contraction in Quantity supplied



1. **Meaning:** Expansion and Contraction in the quantity supplied takes place **as a result of changes in price,** while all other factors influencing Supply remain constant.

2. **Movement on the Supply Curve:** Change in quantity supplied refers to downward or upward movement by the Producer Firm, on same Supply Curve. The position of the Supply Curve remains the same.

3. **Example:**

a) Present price is P and quantity supplied is Q units.

b) When price falls, the quantity supplied _________, on the same supply curve.

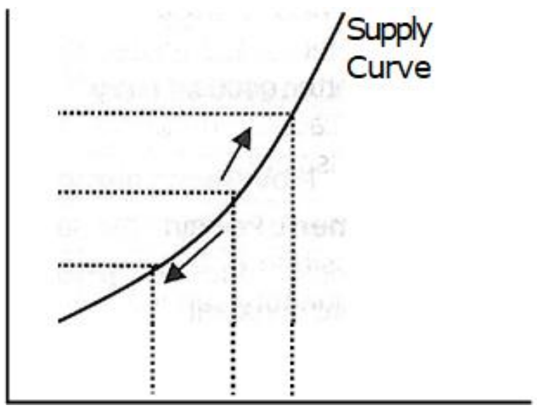
c) Similarly, when price rises from P to P_i, the quantity supplied ________________, on the same supply curve.

d) Upward Movement along the same SS curve is_________________

e) Downward Movement along the same SS curve is_________________

6. Increase and Decrease in Supply

1. **Meaning:** Increase & Decrease in Supply take place as a result of changes in **factors other than price**, while price remains constant.
2. **Shift of Supply Curve:** Increase / Decrease in Supply indicates rightward / leftward shift of the Supply curve respectively.

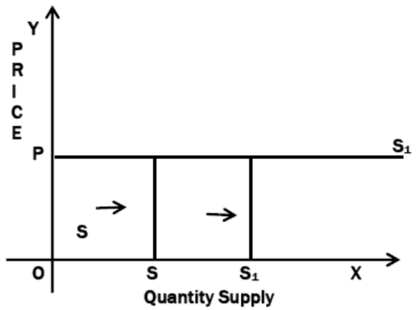
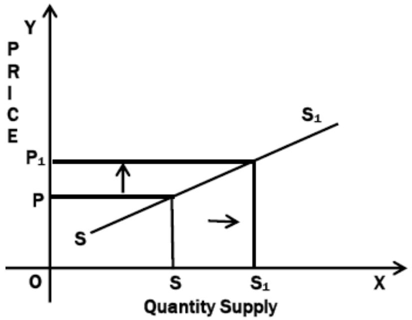


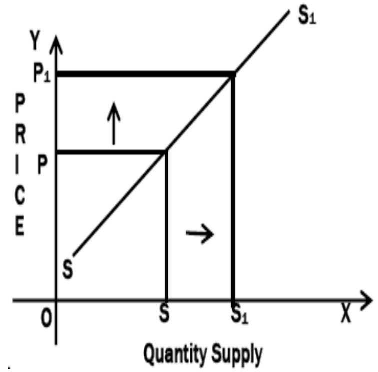
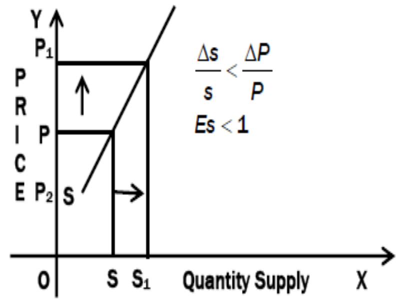
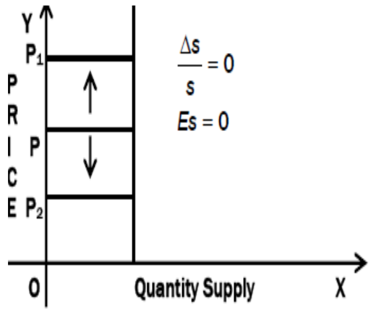
A. **Increase in Supply:** When Supply Curve shifts ____________ from So to S2, it is called ___________in Supply.

B. **Decrease in Supply:** When Supply Curve shifts ____________ from So to Si, it is called ____________in Supply.

7. Price elasticity of supply

- Elasticity of Supply **refers to amount of change in supply due to change in price of a commodity**.
- Elasticity of Supply refers to degree of **responsiveness of supply to change in its price**.
- Elasticity of Supply refers to the *ratio between percentage or proportionate change in supply and percentage or proportionate change in price*

Types	Curve	Equations
Perfectly Elastic Supply Supply of a commodity continuously changes with very minute change in price. supply curve will be **horizontal**		Es = ∞
Relatively Elastic Supply Percentage change in supply of a commodity is higher than percentage change in price. Supply Curve will be **Flatter**		Es> 1

Unitary Elastic Supply Percentage change in demand of a commodity is equal to percentage change in price. Supply curve will be **45o Line**		Es = 1
Relatively Inelastic Supply When percentage change in supply of a commodity is less than percentage change in price. Supply curve will be **Steeper**		Es< 1
Perfectly Inelastic Supply When demand for a commodity is fixed and it does not change for any change in price it is described as perfectly inelastic supply. In Perfectly Inelastic supply, the demand curve will be **Vertical**		Es = 0

8. Methods of measurement of Elasticity of supply

1. Percentage / Proportionate Method: According to this method elasticity of supply is calculated by dividing a % or proportionate change in supply with the % or proportionate change in price. As explained above

$$\frac{\%\ \text{Change in supply}}{\%\ \text{Change in Price}} \qquad \frac{\frac{S1-S2}{S1} \times 100}{\frac{P1-P2}{P1} \times 100}$$

2. Point Method: This method is used to find out elasticity at a point on supply curve. The elasticity at a point on the supply curve can be measured with the help of following formula.

$$ES = \frac{dq}{dp} \times \frac{p}{q}$$

3 Arc Elasticity: when the price change is somewhat larger and we have to measure elasticity over an arc rather than at a specific point on it, in such cases, the concept of arc elasticity is used. In arc elasticity we use the average of the two prices and quantities (Original & new)

ES = $\frac{Q_1 - Q_2}{Q_1 + Q_2} \times \frac{P_1 + P_2}{P_1 - P_2}$	Where P1and Q1 are original price and quantity respectively and P1 and P2 are new price and quantity respectively.

9. Determinants of Elasticity of Supply

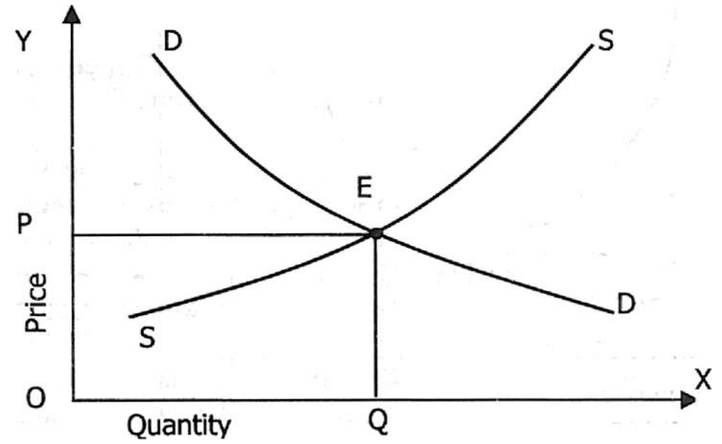
More Elastic	Less Elastic
⌗ The longer the period of time ⌗ large number of producers ⌗ there is high degree of competition ⌗ fewer barriers of entry ⌗ Supply will be elastic if firms are not working to full capacity /Spare capacity ⌗ If key raw materials and inputs are easily and cheaply available ⌗ If firms have adequate stocks ⌗ The ease with which factor substitution can be made. ⌗ If both capital and labour are occupationally mobile	⌗ Increase in production causes substantial increase in costs ⌗ Products that involve more complex production processes ⌗ Require relatively longer time to produce ⌗ shorter time period ⌗ If a production process involves use of materials which are in short supply ⌗ those that take longer delivery period ⌗ which are highly specialized

10. EQUILIBRIUM PRICE

AND EFFECT OF INCREASE / DECREASE IN DEMAND & SUPPLY

Price Determination

The interaction between Demand and Supply leads to the determination of **Price and Quantity.** It is the level at which both Buyers and Sellers are ready to buy / sell the product.



It is also Known as Market Clearance point
Determination of Market Price is the centreal theme of Micro economics hence it is also called as Price theory

11. You are required to determine the impact of following changes & draw new Graph

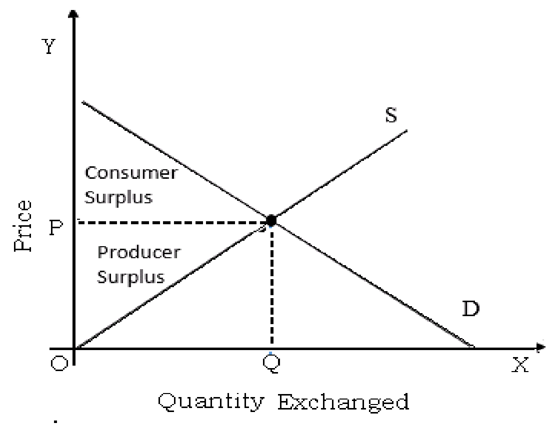
Original Demand denoted by 'D' and Original Supply denoted by 'S'; P= Price and Q= Quantity at current level

1) Original Demand Increased from D to D1 while Supply remains constant
2) Original Demand decreased from D to D2 while Supply remains constant
3) Original Demand Remains constant while Supply increased from S to S1
4) Original Demand Remains constant while Supply decreased from S to S2
5) Both DD and SS increases but increase in DD is greater than SS

6) Both DD and SS increases but increase in DD is less than SS
7) Both DD and SS decreases but decrease in DD is more than SS
8) Both DD and SS decreases but decrease in DD is less than SS
9) DD increased and SS decreases
10) SS increased and DD decreases

12. Concept of Producer Surplus

Market Equilibrium and Social Efficiency



Social efficiency represents the net gains to society from all exchanges that are made in a particular market.
It consists of two components:

i. consumer surplus and
ii. producer surplus.

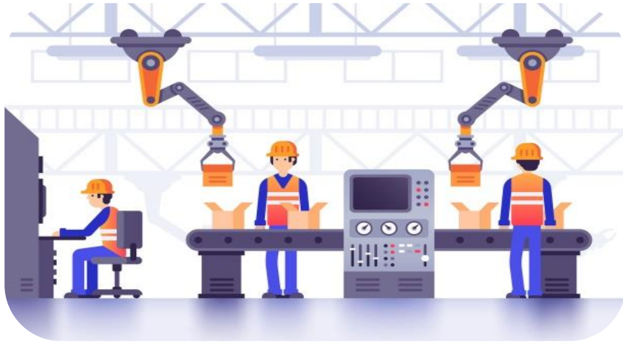
a. We have already learned that consumer surplus is a **measure of consumer welfare.**
b. There is welfare gain to producers as well when they participate in the market, namely producer surplus. Producer surplus is the benefit derived by producers from the sale of a unit above and beyond their cost of producing that unit.

c. This occurs when the price they receive in the market is more than the minimum price at which they would be prepared to supply.
d. It is represented by the area above the supply curve and below the price line For all quantities below OQ, we find that there is a difference between the price that producers are willing to accept for supplying the good and the price that prevails in the market (P).Producer surplus disappears when market price is at equilibrium i.e the price at which sellers are willing to offer for sale is equal to the price that they receive.
e. From figure 35, we find that at price P, when the market is in equilibrium, social efficiency is achieved with both producers and consumers enjoying maximum possible surplus.

Chapter 3: Unit A THEORY OF PRODUCTION

PART A- Production Concept

1. Meaning:



1. According to **James Bates and J.R. Parkinson** "Production is the organized activity of **transforming resources in to finished products** in the form of goods and services and the objective of production is to **satisfy the demand** of such Transformed Resources".

2. Man Cannot Create Matter

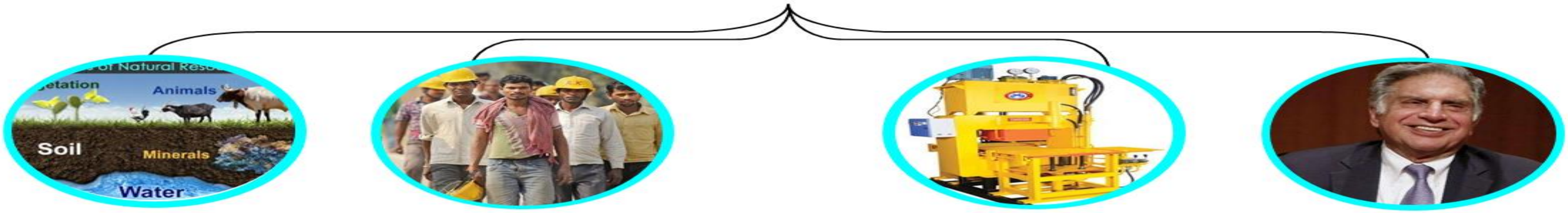
3. Production = **Creation of Utility and it also includes Addition of Utility.**

2. Methods of Creation of Utility

Form Utility- Conversion of Raw material into Finished goods.	**Place Utility -** Changing place of resources this can be obtained from extraction & transferring goods from one place to another	**Time Utility-** Making available material at times when they are not normally available.	**Personal Utility-** Making use of personal skills in the form of services.
			
Conversion of wooden into furniture	Removal of gold, coal from earth & sand from sea.	Frozen eatable products.	Skill as organizer, dancer, painter

Take example of woolen cloths - Wool made into woolen cloth is Form utility. Transported from Manufacturer to Retailer is Place utility. Stored throughout the year and made available in winter is time utility. The salesman show cast his skill to sell the product is Personal Utility

3. Factors of Production



A. LAND

1. Every free gift of nature on Surface of the earth + below the surface of the earth+ above the surface of the earth
2. No Social Cost: Since no sacrifice is made in creation of land.
3. Permanent factor and Indestructible (Ricardo)
4. Passive factor:
5. Heterogeneous factor and site value differs from place to place
6. Mobility: Geographically land is ____________ but occupationally it is ________________.
7. Subject to diminishing returns:
8. Supply: Supply of level is perfectly ________________.

B. Labour –

1. **Mental or physical exertion** to produce G&S, for **economic reward.**
2. **Perishable Nature-** Labourer **cannot store** his Labour
3. Labour is Active factor of Production
4. Labour is said to have no **reserve price**
5. **Weak bargaining power.**
6. **Self- Source-** Labour is **inseparable** from the Labourer himself.
7. **Variations** in skill and productivity
8. **Productivity** differs from person to person
9. **Supply of labour cannot be Changed rapidly**
10. **Peculiar relationship between labour supply and Wage rate-** Backward bending Supply curve
    a) **Direct Relationship: Generally**
    b) **Reverse Relationship at Higher Prices**
    c) **Reverse Relationship at Lower Prices**

Labour	Not a Labour
Services of Maid Servant.	Services of Housewife.
Singing against payment of a fee.	Singing in the company of friends for the sake of

C. Capital-

1. **Part of wealth** which is used for further production of wealth, or which **yields an income**.
2. Capital is a **stock concept**
3. Capital refers to only that part of wealth, that is used for further production.
4. **Not all wealth is capital but all capital is wealth**
5. **Produced means** of Production
6. Man—made means / factor
7. Capital is Mobile
8. Perishable factor- that's why we charge depreciation
9. It is **Secondary Factor of production**

1. Types of Capital:

a) **Fixed Capital:** Those types of capital goods that are used again and again for production such as machinery.
b) **Working Capital/ circulating capital:** They refer to those types of capital that are used up at once. Such as raw materials
c) **Sunk Capital:** Those types of capital that have specific use hence no occupational mobility e.g. sewing machine.
d) **Floating Capital:** Capital goods which have various alternative uses and occupational mobility. E.g. A computer.
e) **Money Capital:** Money funds used in production is known as money capital.
f) **Real Capital:** It refers to real productive asset, lime Plant &Machinery.
g) **Human Capital-** Refers to ability and skills of Individual
h) **Tangible Capital –** Can be perceived by sense.

i) **Individual Capital –** is personal property owned by individual

j) **Social Capital –** Belongs to society as whole

Note: Land and labour are primary or original factors of production, but capital is not a primary or original factor; it is a produced factor of production.

2. Stages in capital Formation –

Capital Formation is also Known as Investment

a) **Savings:** Ability to save depends upon the income capacity of individual.

b) **Mobilization of Savings:** network of banking and other financial institutions

c) **Investments:** It is done by business sector

D. Entrepreneur

i. Meaning:

a. A Person, who combines the various factors of production in the right proportions, initiates the process of production and bears the risk involved in it.

b. Also Called as **Organizer**, **Manager** or the **Risk—Taker**.

c. Without the Entrepreneur, the other factors of production would remain unutilized or idle.

d. Holds final responsibility of the business.

e. Entrepreneurship gets its reward (i.e. Profit), only after all other factors of production have been rewarded, i.e.

after Rent, Wages and Interest.

ii. Functions of an Entrepreneur

1. Initiating and Running the business:
2. Risk—Bearing: **important function of an entrepreneur**
3. Innovations:

iii. Enterprise Objective

1. **Organic Objectives** – Survival then Growth and Expansion
2. **Economic Objectives**- Profit Maximizing Objective
3. **Social Objectives:** Avoid anti—social practices, opportunities for gainful employment , continuous and sufficient supply of unadulterated goods ,does not cause any type of pollution.
4. **Human Objectives:** All the objectives towards its employees
5. **National Objectives**:

iv. Constrains in achieving the objectives

a) Lack of Information
b) Infrastructure
c) Factors of Production
d) Economic Aspects

v. Enterprise's Problems

a) Objective

b) Location of Plant

c) Size of Plant:

d) Physical Facilities

e) Finance:

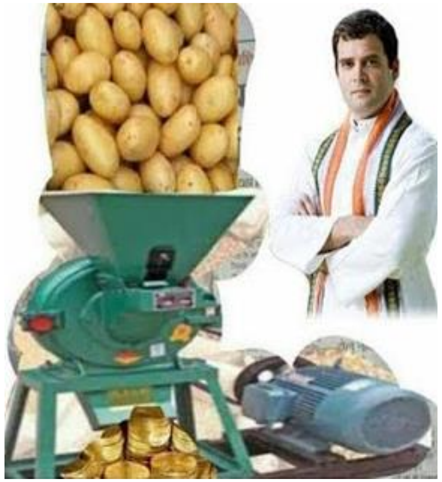
f) Organisation Structure:

g) Legal Compliance:

h) Industrial Relations:

PART B – PRODUCTION FUNCTION

A. Meaning:



1. Production Function is the **technological relationship** between ***physical inputs and physical outputs***
2. It States **maximum amount of output** that can be produced with **given quantities of inputs**, in the existing state of technology.
3. Production Function gives the ***minimum quantities of various inputs that are required to yield a given quantity of output.***

B. Cobb-Douglas Production Function

1. **Paul H. Douglas and C.W. Cobb** of U.S.A studied production function of American Manufacturing Industries.
2. **Output is manufacturing production and inputs used are Labour and Capital.**
3. Cobb-Douglas Production Function is $Q=KL^{a}C^{(1-a)}$,

   Where, *Q is output, L is Quantity of Labour and C the quantity of Capital. K and a are Positive Constants.*
4. Labour contributed about 3/4w and Capital about1/4th of the increase in the Manufacturing Production.

C. Short run and long run production function

	Short Run	Long Run
Meaning	It is the period of time which is **too short for a Firm** to install New Machineries / Capital Equipments to increase production.	It is the period of time in which **all the factors production are variable**. So, the Firm will be able to install new machineries / Equipments, apart from increasing the units of Labour, Materials, etc.
Fixed Factor	**Only one Factor of Production is kept constant or fixed.**	There is **no Fixed Factor** of Production in the long—run.
Proportion between Factors	**Proportion between factors changes,** i.e. more use of the Variable Factor, keeping Fixed Factor as constant.	Quantity of Factors changes, i.e. more use Factors, keeping the **proportion as constant.**
Theory .	**Law of Variable Proportions** is applicable in the short—run.	**Law of Returns to Scale** is applicable in the long—run.

D. Assumptions:

- It is related to a **particular unit of time**.
- The **technical knowledge** during that period of time **remains constant**.
- The factors of production are **divisible into most viable units**.
- The producer is using the **best technique available**.

Refer schedule below and consider the example-

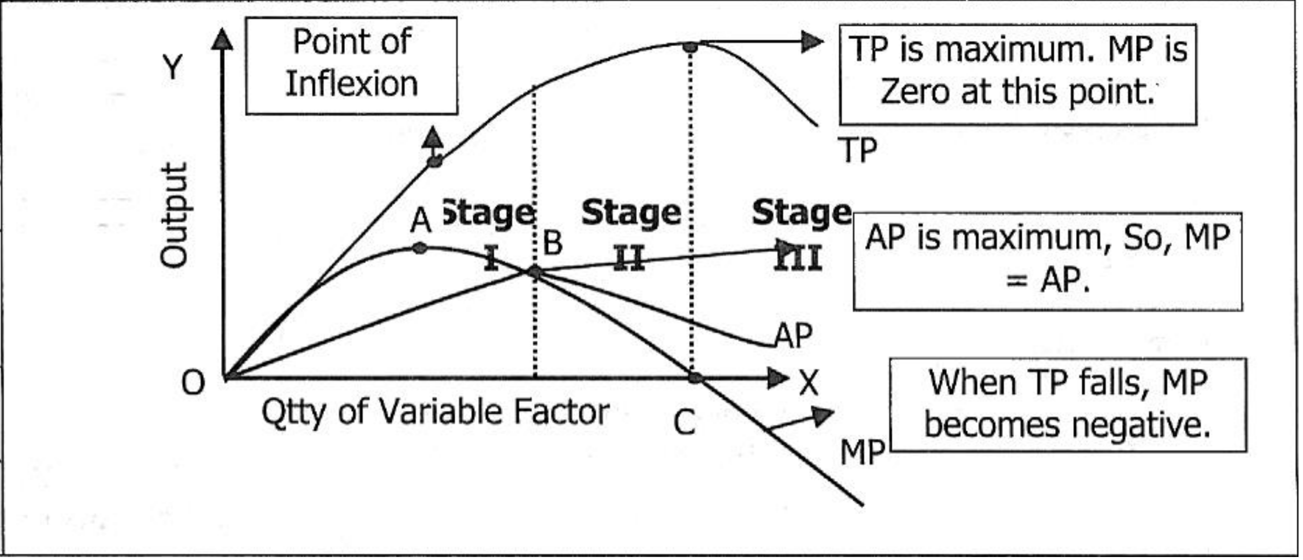
Terms Involved:

Total Production	TP is the **total output resulting from the efforts of all the factors of production** combined together at any time.
Average Production	Average *product* or average physical product (APP) may be defined as **total product per unit employment of the variable input.** Thus **AP = TP/Units of variable input (labour)**
Marginal Production (MP)	**MP is the change in TP due to change in the quantity of variable factor** i.e. labour. In other words, it is the **additional TP due to an additional unit of input**. MP = Change TP *I* change in Labors OR **$Mp = MP = TP_n - TP_{n\_1}$**
Schedule	

Labour	TP	AP	MP	Analysis
1	2	2	2	MP &AP both increases; MP>AP; TP also increases
2	5	2.5	3	
3	9	3	4	
4	**12**	**3**	**3**	MP=AP, AP = maximum
5	14	2.8	2	MP &AP both decreases, MP<AP; TP increases
6	15	2.5	1	MP = 0, TP=maximum
7	15	2.1	0	
8	14	1.7	-1	AP > MP both decreases TP decreases
9	12	1.3	-2	

Relationship between Total Product and Marginal Product I

Rule	Relationship between TP and MP
1	When TP increases at an **increasing rate**, MP shows an increase.
2	When TP increases at a **decreasing rate**, MP shows a decrease.
3	When TP is **maximum**, MP is **zero**.
4	When TP **decreases**, MP becomes **negative**.



Note: The point on the TP Curve when MP is maximum, is called **Point of Inflexion**

Relationship between Average Product and Marginal Product

a. When AP rises, MP >AP.

b. When AP is maximum, MP =AP.

c. MP **declines slightly earlier** than AP

d. MP Curve cuts AP Curve **from above** when **AP is maximum.**

e. When AP decreases, MP <AP.

f. MP Curve declines steeply than AP.

g. MP may become zero and negative later, but AP continues to remain positive

LAW OF VARIABLEPROPORTION

1. The **Law of Variable Proportions** analyses the production function with **one factor as variable**, keeping quantities of other factors fixed.
2. So, the Law refers to **input—output relationship**, when the output is increased by varying the quantity of one input.
3. This Law **operates only in the short—run,** i.e. when all factors of production can not be increased or decreased simultaneously.
4. This Law is **also called** — (i) Law of Proportionality, (ii) Law of Diminishing Returns, (iii) Law of Diminishing Marginal Physical Productivity.

Explanations to Various Stages

1. Explanation to Stage 1

a) **Full Use of Fixed Indivisible Factors-** Fixed Factors are more intensively and effectively utilized. This causes the production to increase at a rapid rate.

b) **Efficiency of Variable Factors-** Through Specialization

c) **No Scarcity of Variable factor**

d) **Reaching the right combination**

2. Explanation to Stage 2-

a) Inadequacy of Fixed Factor

b) Less efficiency of Variable Factor

c) Imperfect Substitutes

d) Wrong combinations

Note: Stage II is called Law of Diminishing Returns since MP and AP both show decreasing trend. However, both MP and AP remain positive

3. Explanation to Stage 3

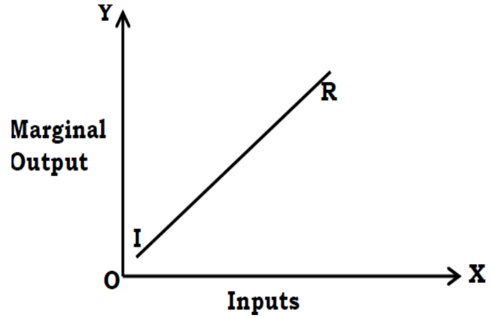
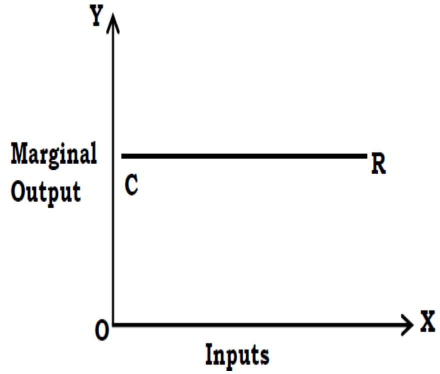
a) Variable Factor becomes too excessive, Due to this, the total output falls instead of rising.

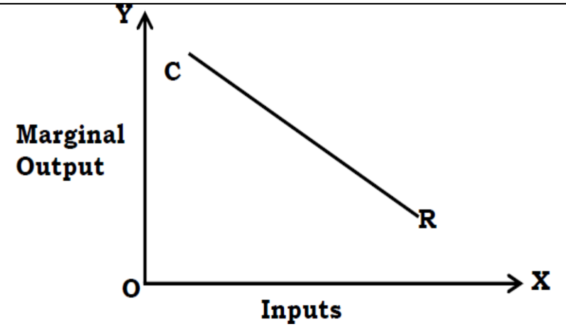
Note: Stage II is called Law of Negative Marginal Returns

Since the second stage is the most important, So stage II will be stage of operation and because of that in practice we normally refer to the law of variable proportion as the law of diminishing returns.

Stage 1 and stage 3 are called as stage of Economics Nonsense or Economic Absurdity

Law of Return to scales – Long Run

LAW OF RETURNS TO SCALE		
Law	In the long run, all factor inputs in the production function can be changed. The behavior of output consequent to change in the quantities of all factor inputs in the same proportion(i.e. keeping, the factor proportions unaltered) is known as 'returns to scale'.	
Types of returns to scale	• Increasing Returns to Scale: • Constant Returns to Scale: • Diminishing Returns to scale:	
Increasing Returns to Scale	1. Increasing returns to scale occur when a simultaneous increase in all the inputs in the same given proportion result in a more than proportionate increase in the output. 2. For example, if input is increased by 100% but the output increases by 125%	
Constant Returns to Scale:	1. Returns to scale are said to be constant when a proportionate increase in all the inputs results in proportionate increase in output. For example if input is increased by 100% but the output also increases by 100%. 2. Constant return to scale is also called 'Linear Homogeneous Production Function'.	

Diminishing Returns to scale:	1. Diminishing returns to scale occur when a **simultaneous increase in *all* inputs in the same given proportion result in a less than proportionate increase in the output.** 2. For example, if Input is increased by 100% but the output increases only by 75%	

Cobb-Douglas Production Function exhibits returns to scale in production:

a+b>1	Increasing returns to scale. Output increased more than proportionate to use of factors (labour and capital)
a+b =1	Constant returns to scale. Output increased in same proportion with all factors.
a+b<1	Decreasing returns to scale. Output decreased more than proportionate to use of factors (labour and capital)

Causes of the **application** of the law returns to scale

- Internal and external economics of scale.
- Internal and external diseconomies of scale.

1. Internal Economies and Diseconomies to Scale

Use of greater degree of division of Labour and specialised machinery at higher levels of output are generally termed as **Internal Economies.**

Technical	Managerial	Commercial	Risk— bearing	Financial
All these factors are within the control of an organization and thus are internal Factors. These factors initially acts Economies but after a pint becomes diseconomies				

2. External Economies are explained below —

Cheaper Raw Materials and Capital Equipment for entire industry	Technological development for entire industry	Development of Skilled Labour	Growth of ancillary industries	Better transportation and marketing

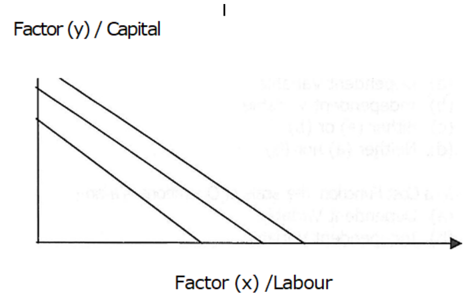
3. External Diseconomies:

Rise in Factor Prices:	Higher Costs:	Government Restrictions:

Production Optimisation

Isoquant Curve/ Equal—Product Curves/ Production Indifference Curves/ Isoproduct Curves

1. Isoquant Curve:



1. **"Iso" means equal** and **"quant" means quantity**. Hence, an Isoquant represents a *constant quantity of output.*
2. An Isoquant is a Curve that shows all the combinations of inputs that yield the **same** level of output.
3. So, the Producer is indifferent as to which combination he chooses.
4. Thus, Isoquants are similar to Indifference Curves in the Theory of Consumer Behaviour.

2. Illustration: Consider two Factor Inputs (Labour and Capital) required for producing 100 units of a Product. Different combinations in which the same output of 100 units of Product can be achieved are given below.

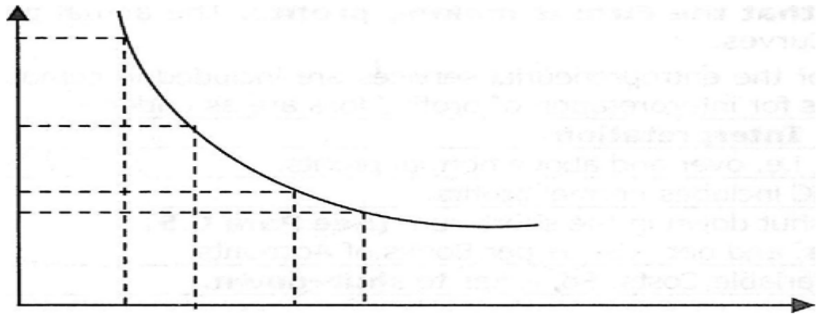
Combination	Units of Labour (x)	Units of Capital (y)	Product Output	MRTS (See Note)
A	5	9	100 units	
B	10	6	100 units	(9- 6)/(10-5) = 0.6
C	15	4	100 units	(6 – 4)/(15 -10) = 0.4
D	20	3	100 units	(4-3)/(20-15)= 0.2

- MRTS always shows diminishing trend.
- MRTS=Marginal Rate of Technical Substitution
- MRTS= Change in units of capital/ change in units of labour

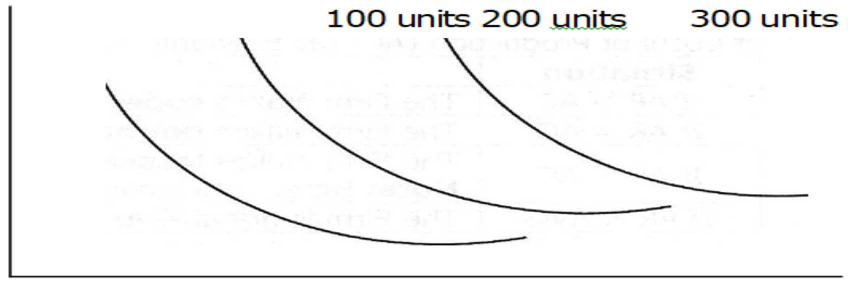
Features of Isoquants:

1. Isoquants are **convex** to the origin, due to diminishing trend of MRTS
2. Isoquants are **negatively sloped**, i.e. downwards from left to right.
3. Isoquant **do not touch either axis**, since it indicates that Output can be producing by using only one factor, which is not considered under the study of Isoquants.
4. An Isoquant lying **above** and to the **right** of another Isoquant represents a **higher level of output.**
5. Two Isoquants cannot cut each other, i.e. Isoquants are **non—intersecting.**
6. Isoquants **need not be parallel.**

Diagram: The Isoquant Curve is drawn as below —
Capita (y)



Isoquant Map
When many Isoquants are drawn for different **levels of output,** it is called Isoquant Map[4] as given below.



ISOCOST LINES/ Equal—Cost Lines or Budget Line or the Budget Constraint Line

Isocost Lines:

1. Isocost Line shows the various alternative combinations of two Factor Inputs, which a Firm can buy with given amount of money.

2. All points on a Budget Line would cost the Firm the same amount. Whatever the combination of Factor Inputs the Firm chooses; the Total Cost to the Firm remains the same.

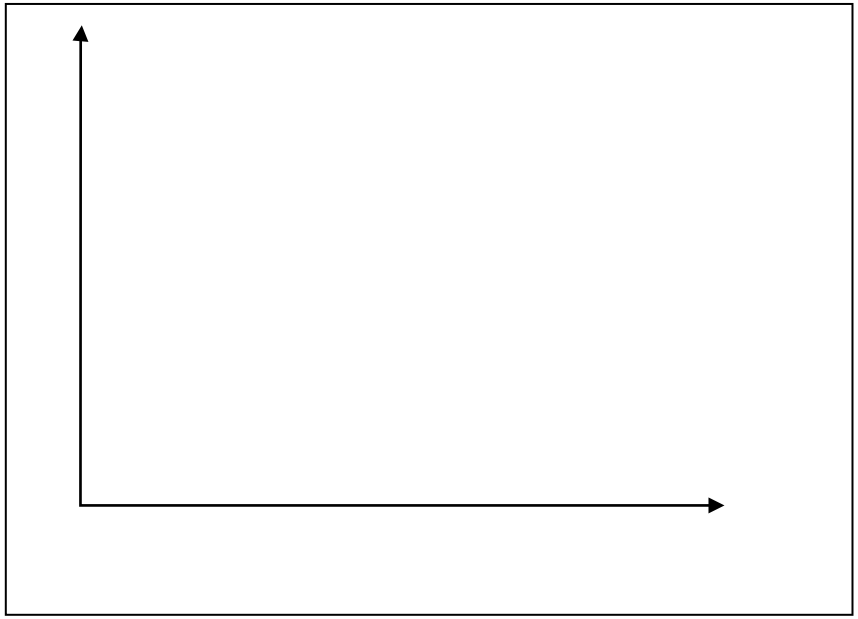
3. Whenever there is a parallel shifting of the Isocost Line due to a change in Total Expenditure, then the slope of the Isocost Line would remain the same.

Production Optimisation

Meaning:

1. A Firm may try to **minimise its cost** for producing a given level of output, or it may try to **maximise the output** for a given cost or outlay.
2. A Profit Maximising Firm is **interested to know what combination of factors of production** (or inputs) would minimise its Cost of Production for a given output, and also the optimum level of output.
3. *This is obtained by combining the Firm's Production and Cost Functions, namely Isoquants and Isocost Lines respectively.*
4. Isoquants represent the technical conditions of production for a product, and Isocost Lines represent various **"levels of cost"**(given the prices of two factors). Together, these can help the Firm to optimize its production.

Space of diagram



Some IMP Name in this chapter:-

1. **Frank Knight -** Profit is the reward for bearing uncertainties.
2. **Schumpeter,** the true function of an entrepreneur is to introduce innovations.
3. **R.L. Marris's -** theory of firm assumes that the goal that managers of a corporate firm set for themselves is to maximize the firm's balanced growth rate subject to managerial and financial constraints.
4. **H A Simon** argues that firms have 'satisficing' behaviour and strive for profits that are satisfactory.
5. **Baumol's** theory of sales maximisation holds that sales revenue maximization rather than profit maximisation is the ultimate goal of the business firms.
6. **A. A. Berle and G.C.** Means pointed out that in large business corporations, management is separated from ownership and therefore the managers enjoy discretionary powers to set goals of the firm they manage. Williamson's model of maximisation of managerial utility function is an important contribution to managerial theory of firms' behaviour.
7. **Cyert and March** suggests four possible functional goals in addition to profit goal namely, production goal, inventory goal, sales goal and market share goal.

Difference Between ISO Quant and Indifference Curve

a. ISO Quant Curve – Level of Production and thus Quantifiable
b. Indifference Curve – Level of Satisfaction which cannot be Quantified

Chapter 3: UNIT 2

THEORY OF COST AND REVENUE

PART A – COST CONCEPT

Meaning

1. Business decisions are generally based on **cost of production** i.e. the money value of inputs and output is considered.

2. In other words, **cost analysis is concerned with the financial aspects of production.**

Types of cost

Name	Explanation
• Explicit cost • Out-of-Pocket Costs • Outlay Costs. • Accounting Costs	1. Costs which **involve cash payment** towards factors of production. 2. **Recorded in books** of accounts. 3. Rent, Wages & Salaries, Interest on Loans borrowed for business, etc. 
• Implicit cost • Notional cost • Imputed cost • Opportunity Costs.	1. Costs **do not involve any cash payment** to outsiders. It is used for **Decision Making** 2. It is the monetary reward for all factor of production owned by entrepreneur himself 3. **Not recorded in books** of account. 

	4. Interest on own Capital, Rent of own premises, Salary to Entrepreneur, etc.
Economic Costs	Explicit Costs + Implicit Costs.
Opportunity Cost 	1. It refers to the value of **sacrifice made**, or benefit of **opportunity foregone** in accepting a **next best alternative** course of action. 2. Opportunity Cost arises only when alternatives are available. If a resource can be put only to a particular use, there are no Opportunity Costs. 3. Opportunity Costs **do not involve any cash payment** as such. 4. It is considered **only for decision—making** and analytical purposes. 5. Examples: A person quits his job and enters into business. Here, the Salary foregone from employment constitutes Opportunity Cost.
• Direct cost • Traceable cost	1. Direct costs are those which have **direct relationship with a component of operation** like manufacturing a product, organizing a process or an activity etc. 2. They are **charged directly** to product 3. They can be generally **quantified and expressed per unit of output**, e.g. 5 kg of Raw Materials per unit of product, etc. 
• Indirect cost • Non-traceable cost 	1. Indirect costs are those which are **not easily and definitely identifiable** in relation to a plant, product, process or department. 2. Therefore, such costs are **not visibly traceable** to specific goods, services, operations, etc.; but are nevertheless charged to different jobs or products in **standard accounting** practice and **Apportioned on suitable basis**. 3. Factory Rent, Electric Power, and other Common Costs incurred for general operation of business benefiting all products jointly.
Committed Fixed Costs	Also known as **"Unavoidable"** Fixed Costs. These costs cannot be controlled.

Discretionary Fixed Costs	Also known as **"Avoidable"** Fixed Costs. These costs can be controlled.
Historical cost / Sunk Cost	Historical cost refers to the cost **incurred in the past** on the acquisition of a productive asset such as machinery, building etc.
Replacement cost	Replacement cost is the money expenditure that has to be incurred **for replacing an old asset**.
Incremental cost	Incremental cost refers to the **additional cost** incurred by a firm.
Private cost	**Private costs** are costs actually incurred or provided for by firms and are either **explicit or implicit**.
Social Cost	1. **Social cost** =**private cost** + **external cost.** 2. It includes the cost of resources for which the firm is not required to pay price such as atmosphere, rivers, roadways etc. and the cost in terms of dis-utility created such as air, water and environment pollution.

Strike the incorrect

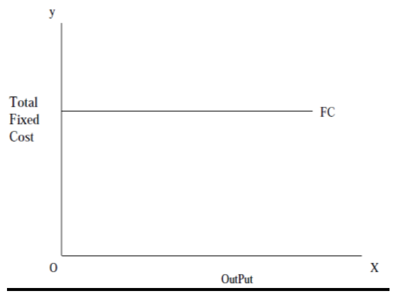
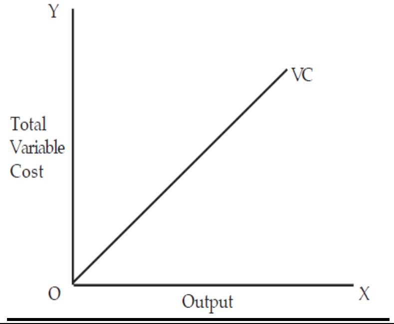
1. Rent is paid to the Landlord, Salary/ wages paid to employee/ workers, Interest on Capital is borrowed and used in business is **Explicit / Implicit** cost.
2. Land is owned by the Entrepreneur, Own people are employed in the firm, Entrepreneur employs his own funds as Capital is **Explicit / Implicit** cost.
3. Entrepreneur himself manages the business is **Explicit / Implicit** cost.

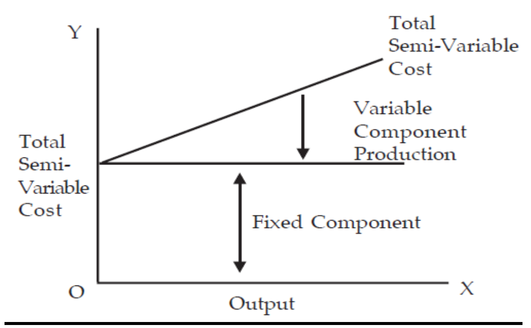
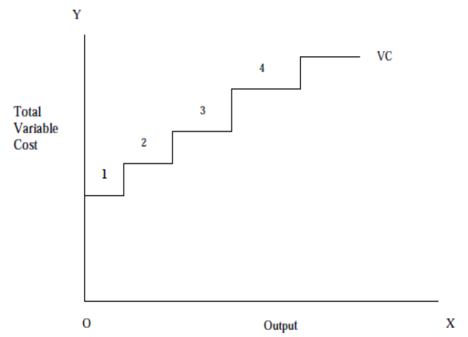
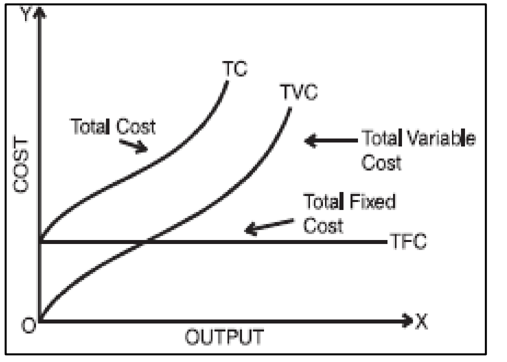
Difference Between Normal profit, Supernormal Profit and Economics Loss	
Explicit Cost + Implicit cost = Revenue	Normal profit
Explicit Cost + Implicit cost < Revenue	Super Normal profit
Explicit Cost + Implicit cost > Revenue	Economics Loss

Important types of cost

Output (Unit)	Total fixed cost TFC	Total variable TVC	Total cost TC	Average fixed cost AFC	Average variables AVC	Average Total Cost AC	Marginal Cost Rs. MC
0	10	-	10	-	-	-	-
1	10	10	20	10	10	20	10
2	10	18	28	5	9	14	8
3	10	24	34	3.33	8	11.3	6
4	10	28	38	2.5	7	9.5	4
5	10	32	42	2	6.4	8.4	4
6	10	38	48	1.67	6.33	8	6
7	10	46	56	1.43	6.57	8	8
8	10	56	66	1.25	7	8.25	10
9	10	68	78	1.11	7.55	8.67	12

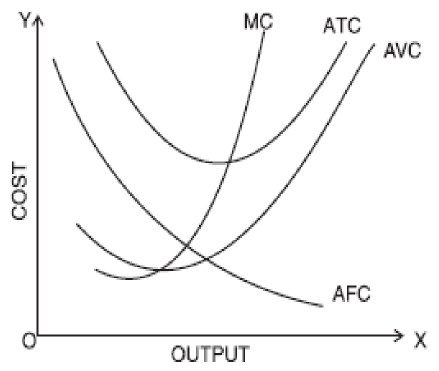
Type	Nature
Fixed Costs	1. Fixed Costs are costs that do not vary with output. 2. They are period—related. 3. They are taken as a function of time and not of output. 4. They are incurred even at zero level of output. 5. Fixed Cost per unit of output decreases with increase in output, and vice—versa. 6. Rent, Insurance, Interest on Loans, Depreciation, etc. are Fixed Costs. 
Variable Costs	1. Variable Costs are costs that vary, based on the level of output. 2. They are product—related. 3. They are taken as a function of output and not of time. 4. They are incurred only when production commences. 5. Variable Costs are avoidable costs. 6. Variable Cost per unit of output generally remains constant, if Total Variable Costs vary proportionately with output. 7. Cost of Raw Materials and Wages are Variable Costs. 
Marginal Costs	1. Marginal Cost is the addition made to the total cost by production of an additional unit of output. 2. Marginal Costs per unit = $\frac{\text{Difference in Total Cost (TC) between two output levels}}{\text{Difference in Output Quantity at those levels}}$ 3. $TC_n - TC_{n-1}$ 4. Marginal Cost (MC) Curve of a Firm declines first, reaches its minimum and then rises. Hence, Marginal Cost Curve of a Firm is U—shaped. 
Cost Function	Mathematical relationship between cost of a product and the various determinants of cost

Short Run	1. Period in which **some factors are fixed and some factors are variable.** Fixed factor have *fixed cost and variable factor have variable cost*. 2. *So, law of variable proportion applies* here. In short-run, output can be increased or decreased by changing variable factors only but fixed factors cannot be varied
Total Fixed cost **(Short run)**	TFC is parallel to X-axis. In the figure given below, even at zero output-fixed cost remain the same in the short run. e.g. rent and insurance 
Total Variable cost (TVC)	Variable Costs are those costs that change with changes in level of output. It has inverse's' shape and *start from origin.* Figure given below shows that as output is zero cost is also zero and as output increases cost increases. e.g. raw material, power etc. 
Semi-variable **And Semi Fixed**	There are some costs which are neither perfectly variable, nor absolutely fixed in relation to the changes in the size of output. **Example: Elasticity charges include both a fixed charge and a charge based on consumption.**

Cost	 	
Short run Total cost behaviour	1. It can be noticed that TFC is constant at all levels of output. 2. TVC increases with the increase in output but rate of increase is changing. 3. Initially TVC increases at decreasing rate but after some time it increases at increasing rate. 4. Behaviour of TVC is determined by law of variable proportion. 5. TC increases with increase in output. Changes in TC are determined by TVC. 6. TFC curve is a horizontal line starting from y-axis. 7. TVC curve is upward slopping. Initially it is fatter and later on steeper. 8. TC curve is upward sloping starting from y-axis.	

Short Run Average Cost	
Average Fixed Cost (AFC)	1. Average fixed cost is the <u>total fixed cost divided by the output</u>. 2. **TFC/Q.** 3. The general shape of the **AFC curve is downward sloping** it does not touch the X-axis as **AFC cannot be zero**. 4. It is **not 'U' shape.** This curve is also called **Rectangular Hyperbola.**

Average Variable Cost (AVC)	1. Average variable cost is the total variable cost divided by the output. 2. **TVC/Q.** 3. The average cost curve will **first fall**, then **reach a minimum** and then **rise again**. 4. It has **'U' shape**.
Average Total Cost (ATC)	1. Average total cost is total cost divided by the output. 2. **TC/Q or AFC+AVC.** 3. The ATC curve **first falls**, **reaches it's minimum** and **then rises**. 4. The ATC curve is **'U' shape** due to law of variable proportions.
Marginal Cost (MC)	1. Marginal cost is the change in total cost due to change in the output. 2. MC= Change in Total Cost / Change in Qty. produced 3. MC = Change Total Variable Cost / Change Qty. produced. 4. The MC curve is also **'U' shape**
Behavior of Average - costs in Short - Run	• AFC goes on diminishing with the increase in output but it never becomes zero. • AVC initially declines but later on goes on increasing. • ATC initially decreases, constant for a while & finally goes on increasing. • MC initially decreases & finally increases. • The point at which ATC is minimum. It is equal to MC. • AFC curve is a 'rectangular hyperbola' because AFC x Q is always constant.



Relationship between Average Cost and Marginal Cost Curves

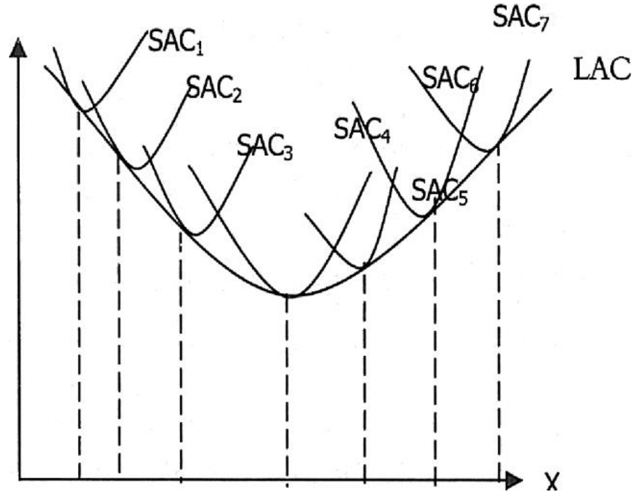
1. **When AC falls** as a result of an increase in output, **MC is less than AC.**
2. **When AC is minimum, MC = AC. So, MC Curve cuts the AC Curve at its minimum.**
3. **When AC increases due to increase in output, MC is greater than AC.**

Relationship between ATC and MC

- ✓ Initially ATC & MC both decline with increase in output. In this situation ATC > MC.
- ✓ When ATC is minimum ATC = MC.
- ✓ When ATC & MC both are increasing MC > ATC.
- ✓ When AC is decreasing, MC may be decreasing or increasing.
- ✓ When AC is increasing MC must be increasing.

Long run average cost curve

1. **LAC Curve:** A Long Run Average Cost Curve (denoted as **LAC Curve**) depicts the functional relationship between output and the long—run cost of production.
2. **No distinction of Fixed - Variable:** All factors of production are variable in long—run.
3. AC **cannot** be higher in the long—run, than in the short—run. Thus, LAC is the **least—cost** combination, for any particular output level.
4. **Planning Curve:** LAC Curve is called Planning Curve.
5. SAC (Short—Term Average Cost) Curves are called Plant Curves.
6. **LAC derived from SAC:** LAC Curve is derived as an envelop / tangent of all SAC Curves.



Further, the

7. LAC Curve is a **U—Shaped Curve**, due to the operation of Law of Returns to Scale.
8. **Selecting the suitable SAC Curve at different output levels:**
9. ***Note: The Firm should select the SAC, not the lowest point of that SAC.***
10. **Deriving LAC Curve in case of numerous / infinite SAC Curves:**
11. In the diagram, the LAC Curve is drawn as a smooth curve, so as to be **tangent** to each of the SAC Curves.
12. **Note:** LAC Curve is tangent to each of the SAC Curves, not the minimum points of the SAC Curves. So

When LAC Curve is —	LAC will be tangent to —	Principle
Declining	The **falling portions** of the SAC Curves.	Returns to Scale will first increase, due to internal and external economies. So, LAC will decline.
Rising	The **rising portions** of the SAC Curves.	Returns to Scale will decrease later, due to internal and external diseconomies. So, LAC will rise.

Thus, as a result of initial fall and subsequent increase in LAC, it will be a **U—shaped Curve**.

Note that The Modern LAC Curves are 'L shaped'

REVENUE CONCEPT

Qty (Q)	Price pu (AR=P)	TR = PxQ	MR	Space for Diagram
1	22	22	22	
2	20	40	18	
3	18	54	14	
4	16	64	10	
5	14	70	6	
6	12	72	2	
7	10	70	-2	
8	8	64	-6	
9	6	54	-10	
10	4	40	-14	

Meaning	1. **Revenue refers to money received by a seller by selling his product in the market**. 2. Hence, revenue is sales receipts or sales proceeds.
Total Revenue	1. It is the total money received from the sale of all units of the product. 2. **Total Revenue = Price x Quantity (P x Q)**
Average Revenue (AR)	1. **Average Revenue = Total Revenue/Quantity (TR/Q)** 2. Average Revenue is always equal to Price
Marginal Revenue (MR)	1. MR is the change in TR resulting from the sale of an additional unit of a commodity. 2. **Marginal Revenue = Change in TR/ Change in Qty.** 3. **Marginal Revenue**= TRn – TRn-1

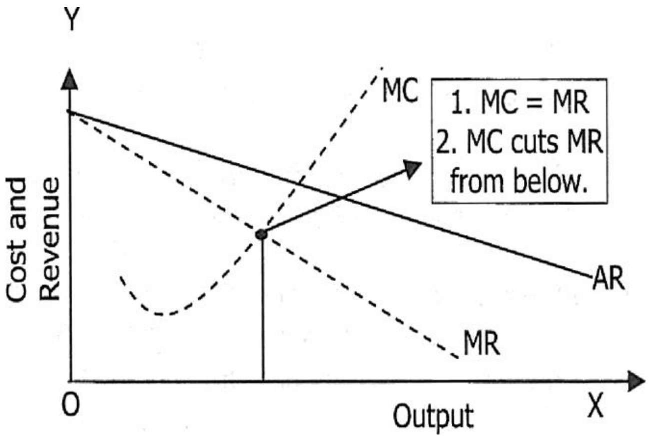
MR, AR, TR and Elasticity of Demand	Marginal Revenue = Average Revenue (E – 1/E) Where E = Price elasticity of demand 1. If E = 1, Then MR = 0 2. If E > 1, Then MR will be Positive 3. If E < 1, Then MR will be Negative
Behaviour of TR, AR & MR	1. A firm should produce at all if Total Revenue(TR) from its product is equal to or exceeds its Total Variable Cost (TVC) or say TR ≥ TVC (Price ≥ AVC). 2. If TR = TVC, firm's maximum loss will be equal to its Fixed Cost. As we know P x Q = TR and AVC x Q = TVC 3. It will be profitable for the firm to increase output whenever MR > MC and decrease output whenever MR < MC and the firm should continue production till 4. **MR = MC and MC curve should cut to MR from below.**

Summary of Relationships:

TR and MR	▪ If TR increases, MR will be positive. ▪ When TR is maximum, MR = 0. ▪ If TR decreases, MR will be negative.
MR and AR	▪ MR and AR both decline, but MR falls rapidly than AR ▪ AR Curve is flatter than MR. ▪ MR can be zero and even negative, while AR will never cross below the X axis. ▪ At the point where MR = 0, Elasticity of Demand on AR Curve will be 1.

Equilibrium Point of the Firm

Y



1. It will be profitable for the Firm to expand its output whenever Marginal Revenue (MR) is greater than Marginal Cost (MC), and to keep on increasing output **until MR = MC.**

2. If any unit of production adds more to Revenue than to Cost, production and sale of that unit will **increase** profits. Similarly, if it adds more to Cost than to Revenue, it will decrease profits.

3. Profits will be **maximum** at the point where Additional Revenue (MR) from a unit equals its Additional Cost (MC). So, **MC = MR.**

4. Further, the **MC Curve should cut the MR Curve from below** (and not from above). This is so because, upto this point MR > MC, hence there is an incentive for further production. Beyond this point, MC > MR.

5. This position (i.e. where MC = MR, and MC cuts MR from below) is called **Equilibrium position** for the Firm.

6. Thus, Note: For achieving Equilibrium Position, the conditions to be satisfied are —**MC = MR, and MC Curve should cut MR Curve from below**, i.e. MC should have +ve slope.

7. Merely being in Equilibrium position does not mean that the Firm is making profits. The actual position of profits can be known only on the basis of AR and AC Curves

Situation	Interpretation
If AR > AC	The Firm Makes Super – normal profits, i.e. over and above normal profits
IF AR = AC	The Firm Makes Normal profits, since AC includes normal profits
If AR < AC	The Firm makes losses, but it need not shut down in the short-run.(See para C.5) Notes : Here , loss means Economic Loss, And not loss as per Books of Accounts.

A. Market basics

Meaning:

1) Market is a **place where Buyers and Sellers meet and bargain** over a commodity for a price.
2) Also, market can be defined simply as all those **buyers and sellers** of a good or **service who influence price.**

Elements of a Market: The elements of a Market are —

1) Buyers and Sellers,
2) Product or Service,
3) Bargaining for a Price,
4) Knowledge about market conditions, and
5) One Price for a Product or Service at a given time.

Do You Know??

- Difference between 'value in use' and 'value in exchange'.
  - Value in use refers to usefulness or utility i.e the attribute which a thing may have to satisfy human needs.
  - Value in exchange or economic value is the amount of goods and services which we may obtained in the market in exchange of a particular thing. It is measured by the amount someone is willing to give up in other goods and services in order to obtain a good or service.
- In Economics, we are only concerned with exchange value. Considerations such as sentimental value mean little in a market economy

B. Types of Market

The Market Structures analysed in Economics are --

Perfect Competition	Monopoly:	Monopolistic Competition	Oligopoly	Monopsony-
Many Sellers selling identical products to many Buyers.	Single Seller producing differentiated products for many Buyers.	Many Sellers offering differentiated products to many Buyers.	A Few Sellers selling competing products to many Buyers.	Monopsony is a market characterized by a Single Buyer of a product or service.
				

Other forms of the market are

1. **Duopoly-** Duopoly is a market situation in which there are only two Firms in the market. It is a sub—set of Oligopoly.
2. **Oligopsony-** Oligopsony is a market characterized by a small number of large buyers.
3. **Bilateral Monopoly-** 1It is a market structure in which there is only a Single Buyer and a Single Seller. Thus, it is a combination of Monopoly Market and a Monopsony Market

Classification of Market:

Markets are generally classified into-

a. Product markets- markets for goods and services in which households buy the goods and services they want from firms. Product markets allocate goods to consumers,

b. Factor markets- those in which firms buy the resources they need – land, labour, capital and entrepreneurship- to produce goods and services. Factor markets allocate productive resources to producers. The prices in factor markets are known as factor prices.

Area	Time	Nature of Transaction	Regulation	Volume of Business	Types of Competition
Local market	Very Short period- Also Known as **MARKET PERIOD**	Spot Market	Regulated Market	Wholesale market	Perfectly competitive
Perishable and Bulky Goods	Market for Flower, fish etc. Supply is Fixed				
Regional Market	Short period	Future Market	Unregulated Market	Retail Market	Imperfectly Competitive
Kolhapuri Chappal					
National Market	Long Period				

Hindi books					
International Market	Very long/ **Secular Period**				
High Value Small Bulk					

Alfred Marshall conceived the 'Time' element in markets and on the basis of this, markets are classified into

C. Perfect Competition

Features of Perfect Competition

1. **Large number of Buyers & Sellers**
2. Sellers offer **Homogeneous/ identical Products**
3. No individual Buyer or Seller will be in a position to influence the demand or supply in the market.
4. Firm is **free to enter the market or to go** out of market.
5. There is a **perfect knowledge**, on the part of Buyers and Sellers.
6. There are **adequate facilities** for the movement of goods from one center to another
7. All Firms individually are **Price Takers**. Because-

   If he lowers the price

   ____

   ____

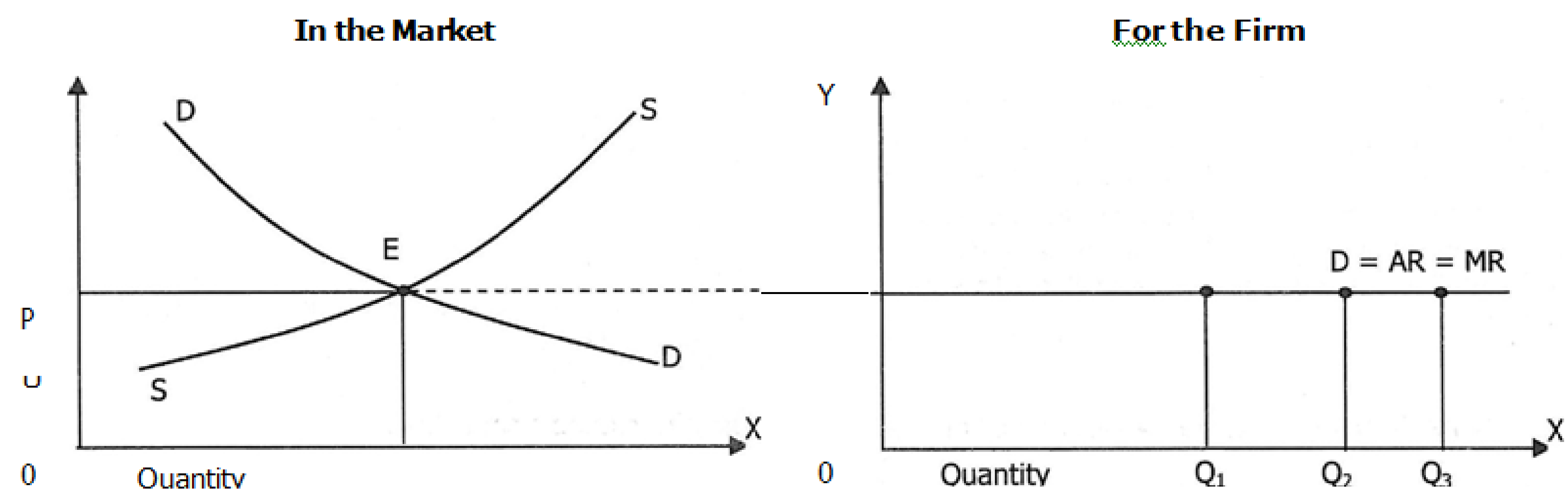
   and if he increases the price

   ____

   ____.
8. The goods are dealt on at a **uniform price** throughout the market
9. Buyers have **no preference** as between different Sellers
10. Sellers are **indifferent** as to whom they sell
11. There is **perfect mobility of factors of production**. Why?_______________________.
12. Perfect Competition is a **MYTH**

How Demand Curve is determined

1. In Perfect competition there is **Uniform Market Price**
2. **All the firms are Price Taker** and same price prevails in the market.
3. Price **Elasticity** of Demand **is infinity**.
4. Hence, the Equilibrium Price determined by Market Demand and Supply forces, constitutes the Demand Curve for the Firm. **This Price is also the Average Revenue** (AR).
5. and **Marginal Revenue (MR) for the Firm**, since the price is uniform in the market. So, in Perfect Competition, **D = AR = MR = Price**



Quick Recap

Draw MC curve		Draw demand/Average Revenue/ Marginal revenue curve	
Draw Average cost curve		Draw short run equilibrium price curve in Market	

Short Run price determination, Optimum output/Equilibrium and profit Determination

For achieving Equilibrium, the conditions to be satisfied are –

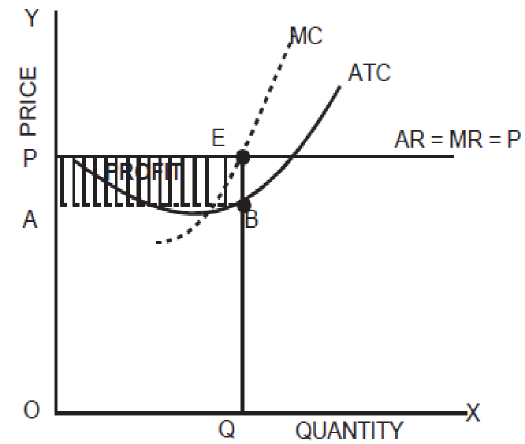
1. MC = MR, and
2. MC Curve should cut MR Curve from below, i.e. MC should have positive slope.

For Profit determination

1. Merely being in **Equilibrium position does not mean** that the Firm is making **profits**. The actual position of profits can be known only on the basis of **AR and AC** Curves.
2. In the short run, a firm may earn <u>supernormal profits</u>, <u>normal profits</u> or <u>losses</u> depending upon its cost conditions.

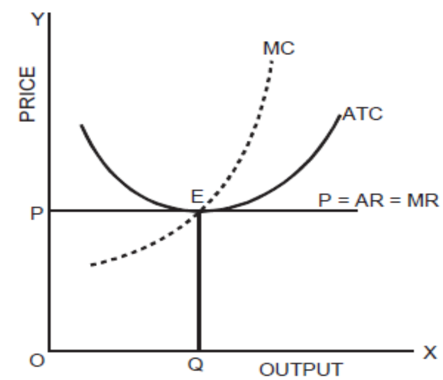
Super profits/ Economic Profits/ abnormal profits and super normal profits:

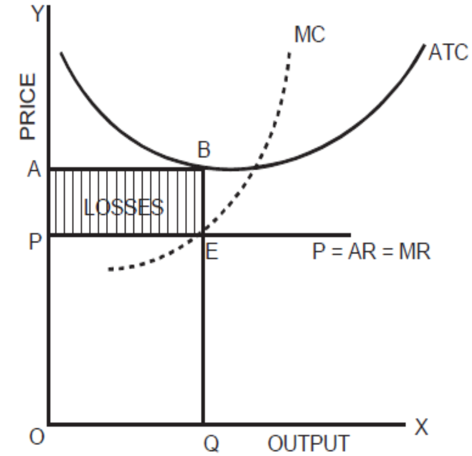
- When a firm earn super normal profits its **Average revenue are more than average total cost** or,
- AR > ATC.



Normal profits:

- When the firm **just meets its average total cost**, it earns normal profits
- Normal profit is normal rate of return on capital and the remuneration for the risk bearing function of the entrepreneur.
- Here AR = ATC.
- It is also called **B.E.P (Break-even-Point)** means No Loss No Profit.
- It is called ***Marginal Firm.***

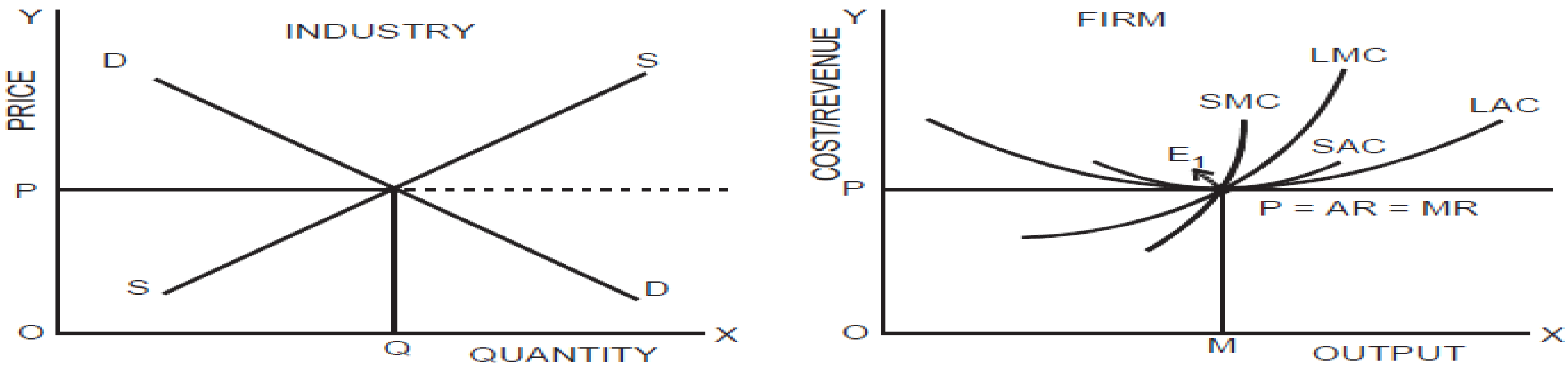


Losses: • A firm may incur losses if AR < ATC. • At losses the firm shall cover at least its variable cost. IF variable cost is covered Max loss will be = FC or part of it • If firm is unable to meet its variable cost, it will be better for it to shut down.	
Shut Down point: • A Firm will shut down, if AR < AVC, at a point where MC = MR (MC cutting from below).	

In perfect competition firm, MC curve above AVC is considered the supply curve

Long – run Equilibrium of a firm under Perfect Competition.

In the Long run the firms will be earning just **NORMAL PROFITS.**



In the above figure industry has decided the price 'P' and firm has taken over the same price at the same time firm is earning just normal profits.

In the long run, following conditions are satisfied: **The Firm is called as Optimal Firm**

- The output is produced at the **minimum feasible cost or minimum LAC**
- Consumers pay the **minimum possible price** which just covers Marginal cost = MC=AR=P
- Full utilization of plants is possible, MC = AC
- There is no wastage of resources. **optimal allocation**
- Firms earn **only normal profits i.e. AC = AR.**
- Firms maximize profits i.e. MC = MR, but level of profits will be normal.
- There are Optimum Number of firm in Industry
- In the long run **LMC = LMR = P = LAR = LAC = SMC = SAC**
- When LAC falls LAC> LMC and when LAC raises LMC > LAC.

Long Run Equilibrium in the_Industry

The **Industry** is said to have attained **long—run equilibrium** when —

1. All the Firms are earning normal profits only, i.e. all the Firms are in long—run equilibrium, and
2. There is **no further entry or exit of Firms** to / from the market.

Question 1: What can be the profit/ loss condition in long run in Perfect competition?

Answer:____

Question 2: Why not Super- Normal profit?

Answer- Super profit will attract new firms›››› Supply will increase›››››››› Market Price will fall››››››› upward shift of Cost Curves›››››› super profit will be wiped out

Question 3: Why Not Losses?

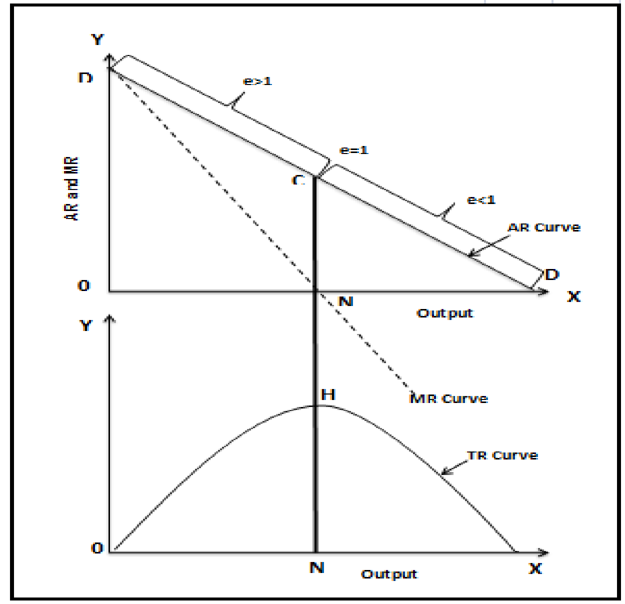
Answer- Existing Firms will leave the industry ››››››reduction in supply›››››› increase in Market Price›››››Cost Curves may fall›››››››››loss will be recovered

Relationship between AR, MR, TR and Price Elasticity of Demand

It is to be noted that marginal revenue, average revenue and price elasticity of demand are uniquely related to one another through the formula:

MR= AR (e-1)/e

e= elasticity



Thus when

i. e>1, MR is positive
ii. e=1, MR = 0
iii. e<1, MR is Negative

Behavioral Principal

1. Principle 1- A firm should not produce at all if its total variable costs are not met.

2. Principle 2 - The firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.

D. Monopoly

i. Features of Monopoly

a) Single Seller
b) Firm = Industry
c) Entry Restrictions- (i) economic, (ii) institutional, (iii) legal, or (iv) artificial.
d) No substitutes. - Cross Elasticity of Demand for the Monopolist's Product and any other product is ____________________
e) Elasticity of demand- Price Elasticity of Demand for Monopolist's Product is less than one.
f) Monopolist is a Price—Maker, not a Price—Taker.

ii. Why Monopoly exists?

Monopoly is caused by "barrier to entry". Some reasons for occurrence of Monopoly are -

1. **Strategic Control** over scarce resources
2. **Control over a unique product**.
3. **Patents and Copyrights** g
4. Governments granting **exclusive rights**
5. **Substantial Goodwill**
6. **Natural Monopoly** e.g. Natural Gas Supply, Electrical Power Distribution, etc.
7. **Stringent Legal and Regulatory Requirements**
8. Very **high initial start—up costs**
9. Use of **Anti—Competitive Practices** or Predatory Tactics.
10. Business Combinations or **Cartels**

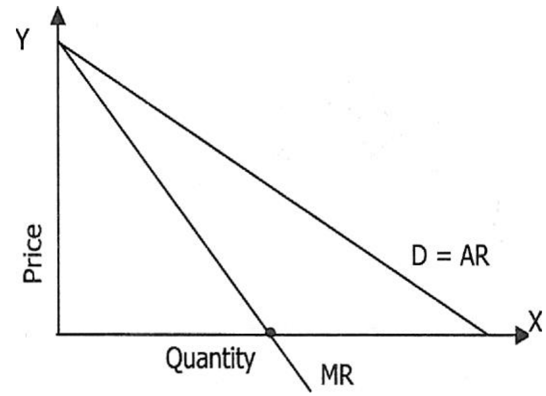
iii. **Note:**

In the practical world, Monopolies are either regulated or fully prohibited. Hence, Pure Monopolies are not common. However, a single Producer may dominate the supply of a good or group of goods. In Public Utilities, e.g. Transport, Water, Electricity Generation, etc. Monopolistic Markets existed earlier in India, so as to reap the benefits of large scale production. But these markets have now been deregulated and opened to competition. In India, Indian Railways has monopoly in Rail Transportation. Government has monopoly in Nuclear Power production.

iV. Negative Effects of Monopoly-

1. **Higher Prices** for Consumers,
2. Loss of Consumer Surplus,
3. **Inability of Consumers to substitute** the goods or services, with a more reasonably priced alternative,
4. Transfer of Income from Consumers to Monopolists,
5. **Restriction of Consumer Sovereignty** and reduction in opportunities for Consumers to consume goods they desire,
6. **Payment of lower prices by Monopolies to their Suppliers** (of goods and services), i.e. lower Factor Payments,
7. **Lower levels of Output**, that what would be produced in a competitive environment,
8. Ability of Monopolist to **influence political process** and thereby obtain a favourable legislation,
9. **Lack of Innovation**,
10. **Higher Costs of Output**, the burden of which will be shifted to Consumers
11. **Lack of Productive and Allocative Efficiency**,
12. **Possibility of misuse of** scarce **resources**,
13. Earning of Economic Profits (**above Normal Profits**) in the long run, which is unjustifiable,
14. Use of Monopoly Power to create barriers to entry by undue means,
15. Scope for **X—Inefficiency,** i.e. the difference between efficient behaviour of businesses assumed or implied by economic theory and their observed behavior in practice caused by a lack of competitive pressure, etc.

v. Determination of Demand/ Revenue curve

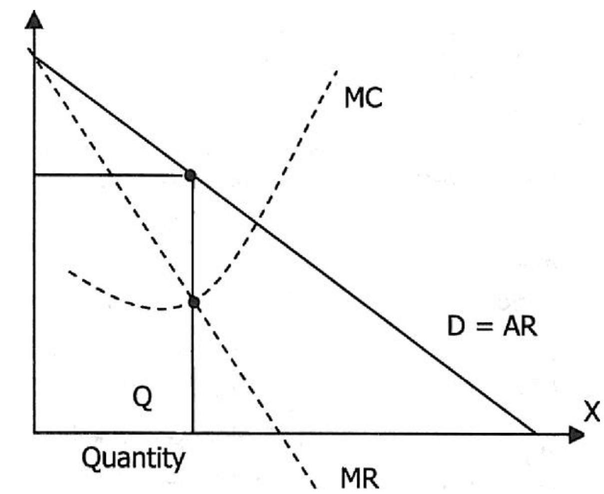
Qty (Q)	Price	TR = PxQ	AR = TR/Q	MR	Diagram
1	22	22	22	22	
2	20	40	20	18	
3	18	54	18	14	
4	16	64	16	10	
5	14	70	14	6	
6	12	72	12	2	
7	10	70	10	-2	
8	8	64	8	-6	
9	6	54	6	-10	
10	4	40	4	-14	

1. It shall be noted that **price elasticity of DD was infinite in Perfect competition** thus the DD curve was **parallel to Quantity axis**.
2. **In Monopoly**, the monopolist in order to increase his sale may lower the price. Thus the elasticity exists. However since there is no Close substitute, the **DD curve is Flatter as compared** to that in Monopolistic competition
3. Firm's Demand Curve = Average Revenue (AR).
4. **Relationship between AR & MR under Monopoly:**
   a) Both AR and MR are **negatively sloped** (downward sloping) curves.
   b) MR Curve **lies half—way between the AR Curve and the Y—axis**, i.e. it cuts the horizontal line between Y axis and AR into **two equal parts.**
   c) In other words, Slope of MR is twice of AR
   d) *AR cannot be zero, but MR can be zero or even negative.*

vi. Short Run price determination, Optimum output and profit Determination

For achieving Equilibrium, the conditions to be satisfied are-

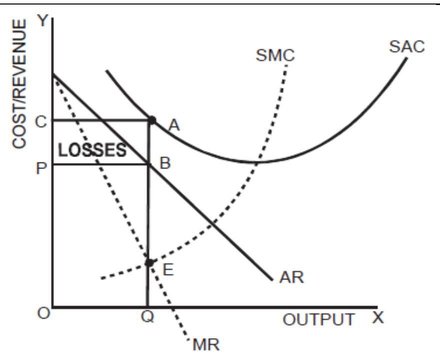
1. MC = MR, and
2. MC Curve should cut MR Curve from below, i.e. MC should have positive slope.

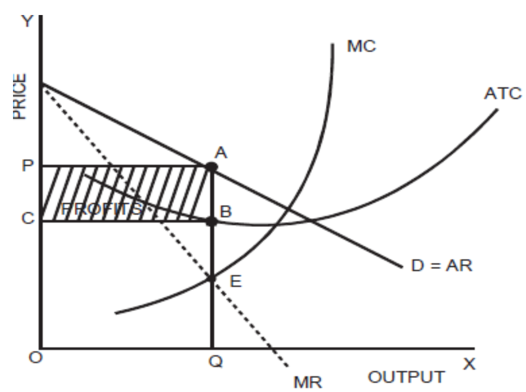


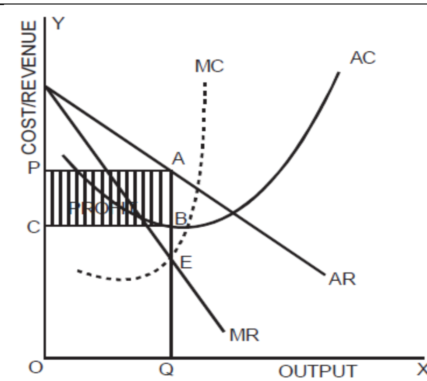
For Profit determination

1. Merely being in **Equilibrium position does not mean** that the Firm is making **profits**. The actual position of profits can be known only on the basis of **AR and AC** Curves.
2. In the short run, a firm may earn supernormal profits, normal profits or losses depending upon its cost conditions.

Short Run Positions		Long Run Positions
Super profits: • Here, AR >ATC. • Here area PABC denotes super profit.	**Losses:** • Here, AR <ATC. • The Shaded area PBAC denotes Loss	**Only Super profit (LAR > LAC):** • Monopoly firm in the long run gets ***abnormal profits*** because, the new firms are not **allowed to enter the market**.. • Under long-run a monopoly firm can produce at ***optimal or sub-optimal level***. • In other words it can produce at minimum LAC curve and also he can produce before or after the minimum LAC curve.







Price Discrimination

1. Meaning:

a) Price Discrimination occurs when a Producer sells a commodity to different Buyers, at different prices, for reasons not related to differences in cost.

2. Objectives:

a) To earn Maximum Profit
b) To Dispose of Surplus stock
c) To enjoy Economies of Scale
d) To capture foreign markets
e) To secure equity thorough pricing.

3. Examples:

a) **Doctors** may charge more from a rich patient than from a poor patient, for the same treatment.
b) **Electricity Rates** for home consumption are less than that for industrial use.
c) **Export Prices** of Products are cheaper than the domestic market selling price.
d) **Railways charge** different rates from different type of passengers e.g. AC, Non—AC, Tatkal, etc.

4. Conditions for Price discrimination

1. **Full control over supply of commodity**
2. **Division of market into two or more sub-markets**: A seller can practice price discrimination only when he is able to divide the markets into two or more sub-markets.
3. **Different price elasticity under different markets:** Monopolist charge higher price from that market whose price elasticity is less than one and can charge lower price from that market whose price elasticity is greater than one.

4. **No possibility to resale:** It should not be possible for the buyers of low-priced market to resell the product to the buyers of the high priced market

5. Degrees of price Discrimination

Prof. Pigou classified three degrees of price discrimination.

a. First degree price discrimination, the monopolist **separates the market into each individual consumer and charges them the price they are willing and able to pay** and thereby extract the entire consumer surplus.
   Eg. Doctors, lawyers, consultants etc., charging different fees, prices decided under 'bid and offer' system, auctions, and through negotiations are examples of first degree price discrimination.

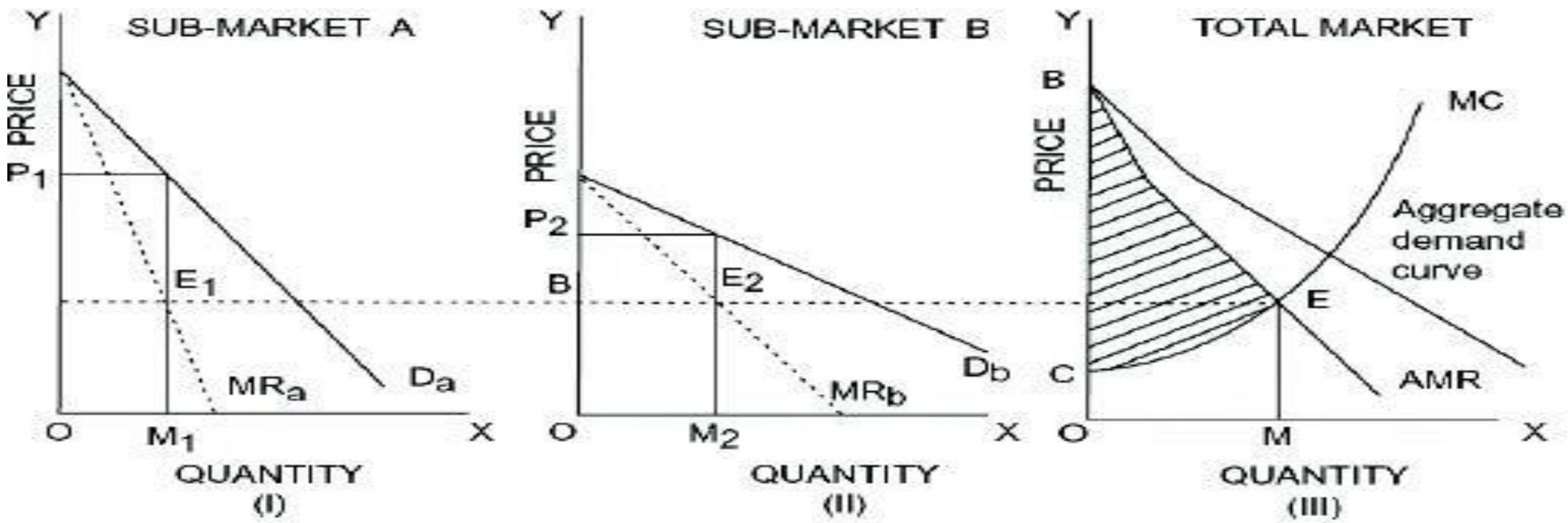
b. Second degree price discrimination- **different prices are charged for different quantities of sold**. The monopolist will take away only a part of the consumers' surplus. The two possibilities are: a) Different consumers pay different price if they buy different quantity. b) Each consumer pays different price for consecutive purchases.

c. Third degree price discrimination - **price varies by attributes such as location or by customer segment**. Here the monopolist will divide the consumers into separate sub-markets and charge different prices in different sub-markets. Examples: Dumping, charging different prices for domestic and commercial uses, lower prices in railways for senior citizens, etc.

6. Equilibrium under price discrimination

a. Under simple monopoly, a single price is charged for the whole output; but under price discrimination the monopolist will charge different prices in different sub-markets.

b. First of all, the monopolist has to divide his total market into various sub-markets on the basis of differences in elasticity of demand.



In order to reach the equilibrium position, the discriminating monopolist has to make three decisions:

i. How much total output should he produce?

ii. How the total output should be distributed between the two sub-markets? And

iii. What prices he should charge in the two sub-markets?

E. Monopolistic Competition

1. Imperfect competition is found in the industry where there are a large numbers of small sellers, selling differentiated but close substitutes products. E.g. LUX, HAMAM, LIRIL etc. This market contains features of both competitive and monopoly markets.

2. **Large number of sellers and buyers**
3. **Free entry and exit of firms.**
4. **Product differentiation:**
5. **Non price competition:**
6. **Every firm is price maker and price taker of his own product**
7. **Imperfect mobility:**
8. **AR and MR:** In monopolistic competition AR/MR will be more elastic than monopoly market.

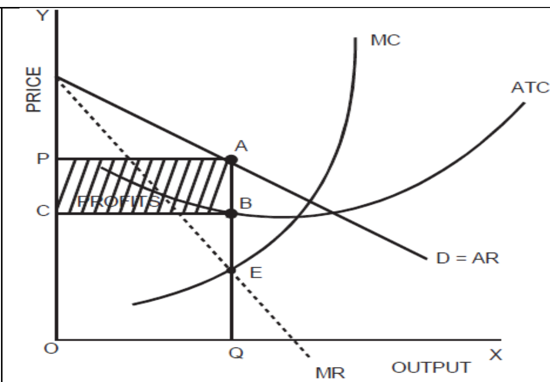
Determine Condition for Equilibrium

1. ____
2. ____

Short Run Equilibrium

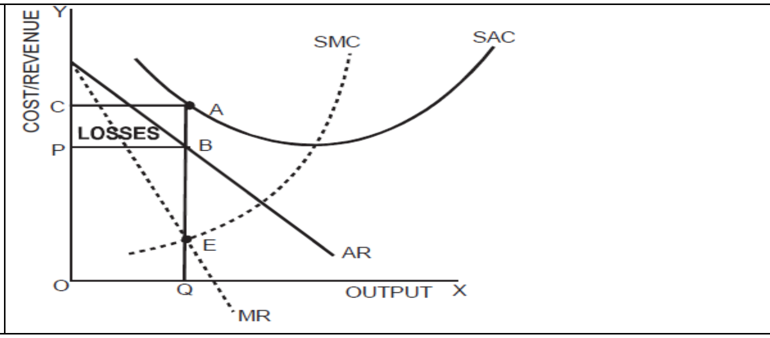
Super profits-

- To earn super profits AR >ATC.
- Normal profit is equal to the area PABC.



Losses:

- But if the AR < AC then firm will incur losses.
- In the figure given Shaded area PABC denotes loss.

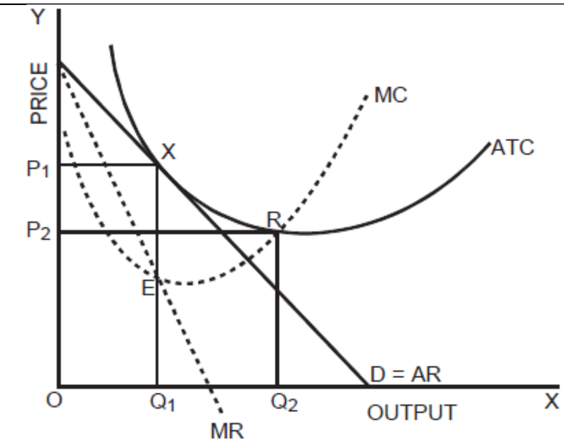


Long Run Equilibrium

Normal profit (LAR = LAC/ TAC)

1. In long Run the firm will earn **normal profits,** <u>because there is free entry and exit of firms.</u>

2. The AR curve in the long-run <u>is not tangent to the ATC curve at the lowest point</u>.
3. This shows each firm produces at before the lowest TAC/LAC or **produces less than the optimum output** and Charges from the customers a price higher than the competitive price.
4. A firm under monopolistic petition has **always excess capacity** but <u>perfect competition never has excess capacity and monopoly mayor may not be</u>



F. OLIGOPOLY MARKET

Meaning- An oligopoly is a market in which there are few producers (two to ten) of a product.

- ✓ Oligopoly is an important form of imperfect competition.
- ✓ Sellers sell homogeneous or differentiated but close substitutes products
- ✓ Example- cold drinks industry or automobile industry.

Types of Oligopoly

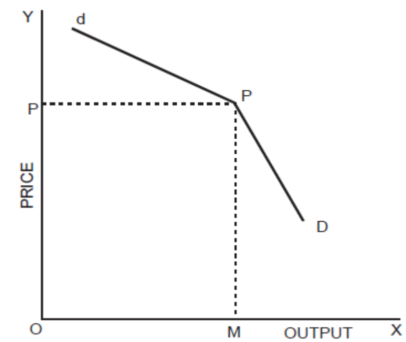
1. **Pure / Perfect oligopoly -** deals in homogeneous products- Aluminum industry
2. **Differentiated / imperfect oligopoly** - deals in product differentiated.
3. **Open oligopoly -** New firms can enter the market and compete with existing firms
4. **Closed oligopoly** - new entry is restricted.
5. **Collusive oligopoly -** common understanding or collusion in fixing price and output
6. **Competitive oligopoly** - Lack of understanding and compete with each other.
7. **Partial oligopoly -** when industry is dominated by one large firm i.e. price leader
8. **Full oligopoly** - absences of price leadership.
9. **Syndicated oligopoly-** Firms sells their products through centralized syndicate/ channel
10. **Organized oligopoly:** Firms organize into a central association for fixing price, output etc.

Features

- **Few sellers**
- **Interdependence:** In oligopoly, firm must consider the market demand and the reactions of the firms in the industry to any major decision it takes.
- **Advertising and selling costs (Non price competition):** There is a great importance advertising and selling costs in an oligopoly market. They avoid price cutting and try to compete on non-price basis

- **There is no generally accepted theory of group behaviour.** In oligopoly, the members of a group agree to pull together in promotion of common interest or they fight to promote their individual interests.
- **Substantial barriers to entry:** In oligopoly there is no free entry and no blocked entry, we can say that there is substantial barriers to the entry.

Kinked demand curve / Indeterminateness of demand curve-



1. Because ***interdependence of the firms*** in oligopoly and because of ***inability of a particular firm to pre the behaviour***, the demand curve facing an oligopolist may have a **'kink'** at the level of the prevailing suggesting stickiness in the price level.
2. The kink is formed at the prevailing price level at because the segment of the demand ***curve above the 'K' is highly elastic*** and ***the below the 'K' is inelastic***.
3. **Price rigidity:**
   a) **When an oligopolist lowers the price-** its competitors will feel that, if they do not follow the price cut their customers will run away and buy from the firm, which has lowered the price. Thus in order to maintain their customers they will also lower their prices. **Thus the upper portion of the demand curve is price elastic.**

   b) **When firm increases the price-** there will be a substantial reduction in its sales because as a result of the rise in its price, its customers will withdraw from it and go to its competitors, which will welcome the customers and will gain in sales. These happy competitors will have, therefore, no motivation to match the price rise.

Summary of Different Market

Aspect	Perfect Competition	Monopoly	Monopolistic Competition	Oligopoly
Number of Sellers	Very large	Only One	Large	A Few
Nature of Product	Homogeneous / Identical Product. No differentiation.	Highly differentiated / specialized product.	Slightly differentiated / specialized product.	Nature of Differentiation varies.
Product differentiation	None	Extreme	Slight	None to substantial
Ease of Entry / Exit	Free Entry / Exit.	Only One Seller.	Free Entry / Exit.	Only Few Sellers.
Control over Price	**Nil**	**Total**	Each Firm is a **Price-Maker** for its own product.	**Reasonable.**
Elasticity of Demand	Infinity.	Less Elastic.	More Elastic.	Kink
Demand Curve	Horizontal Line.	Negatively Sloped	Negatively Sloped.	Kinked Curve.
Examples	Foodgrains, Vegetables, etc.	Railways, Electricity Supply.	Cars, Soaps, Toothpaste, etc.	Pharma, Cold Drinks, etc.
Profit in Long—Run	Normal Profits Only.	Super—Normal Profits	Normal Profits Only.	—

Optimality in Long—Run	Each Firm is an Optimal Firm.	Can operate at sub-optimal level also.	Idle Capacity. Not an Optimal Firm.	—

Chapter 5 – Business Cycle

A. Meaning, Phases of Business cycle

- **Fluctuations in aggregate economic activity** that an economy experiences over a period of time, i.e. periods of prosperity alternating with periods of economic downturns, are called **Business Cycles** or **Trade Cycles.**
- Business Cycles refer to **alternate expansion and contraction of overall business activity** as reflected in fluctuations in measures of aggregate economic activity, like Gross National Product, Employment and Income.

- **Phases:** The four distinct phases of the Business Cycle are-
  a) Expansion / Boom / Upswing),
  b) Peak / Prosperity,
  c) Contraction / Downswing / Recession), and
  d) Trough / Depression).

- A Trade Cycle is composed of periods of
  a) **Good trade** characterized by rising prices and low unemployment levels.
  b) **Bad trade** characterized by falling prices and high unemployment levels.

B. Features of Business cycle

a) Business cycles **occur periodically**
b) **Do not exhibit the same regularity**.
c) The **duration** of these cycles **vary**.
d) The **intensity** of fluctuations also **varies.**
e) The **length of each phase is also not definite**.
f) Business cycles are **exceedingly complex phenomena**;
g) Business cycles generally originate in free market economies*****.
h) They are **pervasive** as well. Disturbances in one or more sectors get easily **transmitted to all other sectors.**
i) Although all sectors are adversely affected by business cycles, some sectors such as **capital goods industries, durable consumer goods industry** etc, are disproportionately affected.
j) Moreover, compared to agricultural sector, **the industrials sector is more prone to the adverse effects of trade cycles**.
k) It is **difficult to make an accurate prediction** of trade cycles before their occurrence.
l) Repercussions of business cycles get simultaneously felt on nearly all economic variables
m) Business cycles have **serious consequences on the well-being of the society.**
n) Business cycles are **contagious and are international in character**.

C. Phases of Business cycle

1. Expansion: Features

a) Increase in ***national output, employment, aggregate demand, capital and consumer expenditure, sales, profits, rising stock prices and bank credit.***

b) This state ***continues till there is full employment of resources and production is at its maximum*** possible level using the available productive resources.

c) Involuntary unemployment is almost zero and whatever unemployment is there is either frictional or structural Prices and costs also tend to rise faster. Good amounts of net investment occur.

d) Increasing prosperity and people enjoy high standard of living due to high levels of consumer spending, business confidence, production, factor incomes, profits and investment.

e) The growth rate **eventually slows down and reaches its peak**.

2. Peak:

a) Peak refers to the **top or the highest point** of the business cycle.

b) Output prices also rise rapidly leading to increased cost of living and greater strain on fixed income earners.

c) ***Actual demand stagnates.***

3. Contraction:

a) During contraction, there is **fall in the levels of investment and employment**.

b) **Supply far exceeds demand**. Initially, this happens only in few sectors and at a slow pace, but rapidly spreads to all sectors.

c) **Producers holds back future investment** plans, cancellation and stoppage of orders for equipment and all types of inputs including labour.

d) **Decrease in input demand** pulls input prices down; incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services.

e) The process of recession is complete and **economy into the phase of depression.**

4. Trough and Depression:

a) Depression is the **severe form of recession** and is characterized by **extremely sluggish economic activities.**

b) During this phase of the business cycle, **growth rate becomes negative**

c) National income and expenditure declines rapidly.

d) Demand for products and services decreases, prices are at their lowest and decline rapidly forcing firms to **shutdown several production facilities**.

e) A typical feature of depression is the **fall in the interest rate**.

f) **Large number of bankruptcies and liquidation** significantly reduce the magnitude of trade and commerce.

D. Question: How does the economy recover?

The economy cannot continue to contract endlessly. Economic activity reaches Trough and then starts **recovering** >>>>> marks the end of pessimism and the beginning of optimism>>>>> Reversal is first felt in the **Labour Market** >>>>> workers accepts wages lower than the prevailing rates. >>>>> **Business Confidence** slowly increases, >>>>> spurring of investment causes **recovery** of the economy. >>>>> **Banking System** now slowly starts expanding credit, matching with the business confidence. >>>>> Employment, Factor Payments, Disposable Incomes, Consumer Spending, Aggregate Demand, etc. all rises

E. Indicators- 3 Indicators (Leading, Lagging, concurrent)

Leading Indicators:

- It is a measurable economic factor that changes before the economy starts to follow a particular pattern or trend. **Variables that change before the Real Output changes**
- However, Indicators are not always accurate and Experts disagree on the timing of these Leading Indicators.

Lagging Indicators:

- Changes in these indicators are observable ***only after*** an economic trend or pattern has already occurred. **variables that change after the Real Output changes,**

Coincident or Concurrent Indicators:

- It **coincides or occurs simultaneously** with the business—cycle movements.
- It gives information about the rate of change of the expansion or contraction of an economy more or less at the **same point of time** it happens.

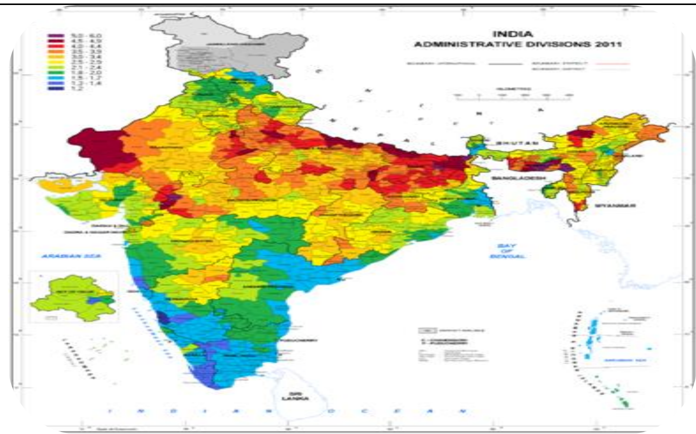
F. Role/ Importance of Business cycle in Business Decision making

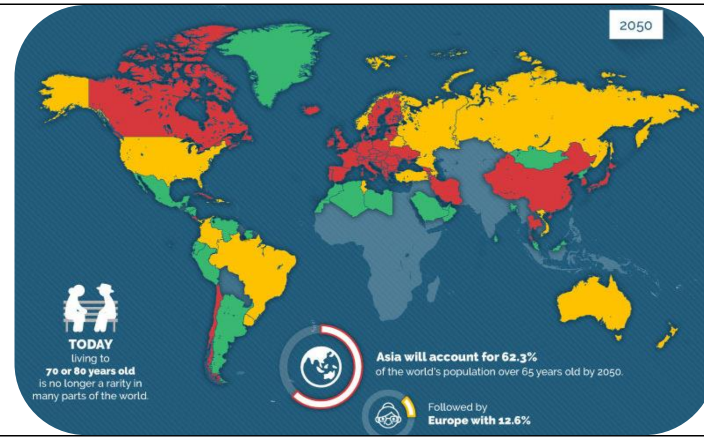
1. **Demand Impact**: Business Cycles affect demand of the products.
2. **Decision** regarding Expansion of business.
3. **Policies:** Knowledge of Business Cycles and their inherent characteristics is important for a Business Firm to frame appropriate policies.
4. **Production Aspects:** Businesses have to properly respond to the need to alter production levels relative to demand.
5. **Market Entry / Product Launch:** The phase of the Business Cycle is important for a new business to decide on entry into the market.
6. **Cyclical Businesses:**
   - Some businesses are more vulnerable to changes in the Business Cycle than others.
   - Businesses whose fortunes are closely linked to the rate of economic growth are called "Cyclical" Businesses. Examples: House—Builders, Construction, Infrastructure, Restaurants, Advertising, Overseas Tour Operators, Fashion Retailers, etc.

- During a boom, such businesses see a strong demand for their products but during a slump, they usually suffer a sharp drop in demand.
- Some Businesses may actually benefit from an economic downturn, e.g. when their products are perceived by Customers as representing good value for money, or a cheaper alternative compared to more expensive products.

G. Causes of Business Cycle

Internal causes- Endogenous factor	External Causes- Exogenous factor
Internal causes of Business Cycle are those cause which are generated within the NATION itself and are not international in character	External causes of Business Cycle are those cause which are generated out of the NATION and are international in character
⌗ Fluctuations in Effective Demand	⌗ Wars
⌗ Fluctuations in Investment- According to some economists this the primary cause of Business Cycle	⌗ Post War Reconstruction
⌗ Variations in government spending	⌗ Technology shocks
⌗ Macroeconomic policies	⌗ Natural Factors
⌗ Money Supply	⌗ Population Growth
⌗ Psychological factors	





5. Some important Points for MCQ

a) **According to Pigou,** modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism.

b) **According to Schumpeter's innovation theory**, trade cycles occur as a result of innovations which take place in the system from time to time.

c) **The cobweb theory propounded by Nicholas Kaldor** holds that business cycles result from the fact that present prices substantially influence the production at some future date.

d) **According to Hawtrey, trade cycle is purely Monetary Phenomenon**

Chapter 1: Business and commercial Knowledge- An Introduction

Scope of this Subject

- Humans engage themselves alternatively between **work and life**. We work to earn income; daily we engage in numerous transactions and exchange our income for buying various goods and services. We also live a family life and engage in social activities.
- In this chapter, we elaborate on human activities whilst **focusing on business and the domains of business and commercial knowledge**.

DOMAINS OF BUSINESS AND COMMERCIAL KNOWLEDGE

- Oxford online dictionary defines the term **'domain'** as '**a specified sphere of knowledge**. The sphere of knowledge about business and commerce is vast, eclectic and ever evolving and expanding. (Refer Table 1 below)
- **BCK is Vast:** The universe of business is vast
- **BCK is Eclectic (Multidisciplinary):** BCK is eclectic i.e., it derives from various disciplines e.g. marketing, accounting & finance, operations, human behaviour (psychology, sociology), laws, economics, ethics etc. Each discipline has a vocabulary of its own and thus contributes toward BCK vocabulary. Let learn it in Building Blocks
- **BCK is ever Evolving and Expanding:** There is always dismissal of old businesses and old ways of doing business and the emergence of new businesses and newer ways of doing the businesses.

Table 1

Domains	Illustrative list
Activities	Manufacturing, Trading (Domestic, Foreign), Commerce (Aids to Trade or Auxiliaries to Trade) Services
Scale	Micro Enterprises, Small Enterprises, Medium Enterprises , Large Enterprises
Geographic Scope	Local, National, Multinational
Ownership	State owned/ Public Sector, Private Sector (Sole Proprietorship, Partnership, Company/ Corporate Sector)
Markets	[Natural] Resources, Equipments, Commodities, Capital, Labour, Product Markets
Stakeholders	Entrepreneurs, Promoters, Customers, Investors, Business Owners, Directors, Shareholders, Managers, Employees, Suppliers, Laws & Regulators/Policy makers, Supporting / Facilitating Organisations, Society at large
Functions	Production/ Operations, Marketing, Accounting Finance & Taxation, Human Resource
Focus	Company/ Enterprise wide, A particular business line, A particular function
Concerns	Survival, Proftiability, Growth, Sustainability, Social Responsibilities, Governance, Values & Ethics
Mode	Tradtional/ Physical/ Brick & Mortar/In-store, Digital/ Online
Underlying disciplines	Economics, Laws, Philosophy, Psychology, Sociology

IMPORTANCE OF BCK FOR CHARTERED ACCOUNTANTS

- The Chartered Accountants are the **custodians of a nation's resources**.
- They are responsible for putting in place a **credible system of truthful and fair accounting** and reporting of the society's resources, their deployment and utilization.
- In this context BCK is likely to make them **more aware and responsive**.
- Each business has its own peculiarities and associated variation in notions of product, inventory, revenue, profit, etc.
- In addition to certain common laws that all businesses are subject to, each business is subjected to a **host of laws specific to it**.
- The Chartered Accountants shall be **able to conduct the audit diligently** only when they understand the nuances of the business whose accounts they prepare or audit.

HUMAN ACTIVITIES- ECONOMIC AND NON-ECONOMIC

1. All that we do to earn a living comprise economic activities. Rest are referred to as non-economic activities.
2. Economic activities are said to be **driven by rationality – what do I get in return or what is in it for me** - or self-interest.
3. Non-economic activities are driven by **emotional or sentimental reasons or altruism** i.e. selfless concern for the welfare of others. Thus, human engagements in all social, religious, cultural, personal, recreational, charity and patriotic activities are bundled together as non-economic activities.
4. Identify economic and non-economic activity

It is interesting to note that **even non-economic activities have an economic dimension** e.g. time, money and material resources are needed to make these happen

5. The **motive or the intent behind any activities** is such a singularly strong determinant of the economic and non- economic dichotomy

6. Distinguishing Characteristics of Economic Activities

a. Economic activities are income generating- It is not necessary that all these incomes may be earned in the form of money only. These may be earned in kind too.

b. Economic activities are productive- Production essentially is the **process of creation/ transformation of need satisfying goods and services**. E.g. hunting, farming, practice of the crafts, manufacture, teaching, medicine, law, accountancy. Production may be done either for subsistence i.e. **self-consumption or for market**. Production represents the **supply side** of economics

c. **Even consumption is an economic activity:** Consumption represents the demand side of economics. It is the other angle of production

d. Savings, Investment and Wealth: Unspent income comprises savings. The financial sectors are the channels through which the savings are converted into investment and wealth. The corporate sector and the government borrow these savings and invest them further.

Understanding business as an Economic Activity-

- BROADER PERSPECTIVE business may be defined as an entire spectrum of activities pertaining to production, distribution and trading (exchange) of goods and services. It is usual to classify business into industry, trade and commerce

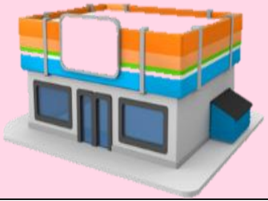
- MEDIUM PERSPECTIVE, business refers to a particular type of activity or industry such as Retail Business, Real Estate Business, and IT Business, Iron & Steel Industry, Transport Business, etc.

- NARROW PERSPECTIVE business may be defined as one's usual occupation of creating, owning and actively operating an economic organisation i.e., a firm.

a. **Job creator, not job seeker**- Business as an institution is a source of sustenance directly to the business owners and employees and indirectly to all those who derive opportunities from it.
b. **Provides momentum to economic growth** by contributing into the GDP
c. **Investment intensive**: Starting a business requires a sizeable investment of funds in accommodation, plant & machinery, inventories, etc. Many a people believe that the lack of investible funds or capital is a strong barrier to start a business.

d. **Gestation and uncertainties**: Investment takes time to fructify. And it is uncertain whether it will yield the returns as expected.
e. **Systematic, organised, efficiency oriented activity:** Business is not a random, stray, unorganised and occasional activity. It is a consciously created system of production. In fact, the phrase 'business like' (of a person) means 'carrying out tasks efficiently without wasting time or being distracted by personal or other concerns; systematic and practical (Oxford Dictionary).'
f. **Objective oriented/ purposeful:** Profit is said to the defining motive behind business
g. Idealistically, business must lead the world toward more egalitarian, participative and collective prosperity that is sustainable for generations
h. **Business ownership is a bundle of rights:** Ownership is a bundle of rights. These rights accrue because a person has invested money in it. First such right is the **titular exclusiveness.**
i. **Right to dispose off-** An important right associated with business ownership is the right to dispose off and transfer the ownership of business. It also includes transfer of **ownership by succession** after the owner's death.
j. **Business may be owned singly or jointly:** A business may be owned singly i.e. as a sole-proprietorship concern. Else it be organised as a partnership or even a larger collective such as a cooperative. **Joint family business** – a concept equalier to Hindu Undivided Families in India- views business as a family property and vests its ownership among the members of the family.

Business vs profession vs Employment

Basis of distinction	Business 	Profession	Employment 
Meaning	Entire spectrum of market oriented activities coming under industry, trade and commerce.	Independent rendering of services of specialized nature based on prescribed qualifications under the aegis of a professional body that also prescribes a code of conduct. **Professionalism is often associated with perfectionism**	Rendering of services under a contract of employment for wages / salaries. Also, called wage-employment.
Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice.	Letter of Appointment and service agreement describing Job Description
Source of livelihood	Profit	Professional Fee.	Wages & Salaries.

Prescribed qualifications	None	Strictly prescribed	Minimum qualifications for each type of job
Ethical guidance	Founder's values	Professional codes. Professions emerged in pursuit of nobility; demonstrated highest level of integrity and ethics; and hence were held in very high esteem and social status /respect	Employer's codes
Investment	Substantial requirement	Some requirement e.g. Office/ Chamber / Clinic	None
Personal autonomy / freedom	The most- you are your own boss	Quite a bit	Not much
Psychological motive	Economic achievement	Service to the clients/ society	Livelihood and stability
Certainty of income	Least. However either way.	Quite a bit	The most. Contractually determined periodic income and promotion

Stability of tenure / Durability of occupation	Uncertain	Quite certain	Quite certain
Transfer of interest/ succession	Possible	Not possible	Not possible
Example	Automobile trader	Chartered Accountant	Job at KPMG

Objectives of Business-

While talking about the objective of the business following consideration shall be laid:

1. Interdependence. Business draws its factors of production from the society and is dependent on it for the sale of its goods & services.
2. Multiple stakeholders. A firm is not only the owners. It is as much other investors /lenders, employees, customers, suppliers, competitors, the community and the larger society and the ecology of which business is a part
3. Amount of profit. Likewise, profit is a minimum concept of staying in business.
4. Primacy of Customer. If at all there is a single purpose of business, it is the creation and maintenance of customers through product quality, service, and delivering value for money.
5. Performance is the precursor to profits. To be able to earn profit, the firm has to excel in all its functionalities, viz., procurement, production, sales & marketing, accounting & finance.

The plurality of the objectives of business suggests that businesses must be assessed not only in terms of their economic returns but also their social and ecological returns.

Objectives of Business:

Economic Objectives	Organic Objectives	Social Responsibilities	Legal, Ethical and Environmental Objectives
❖ Sales, profits ❖ return on investment ❖ efficiency ❖ Economic value added (profits in excess of cost of capital invested in business) ❖ Market share	❖ Survival ❖ health (age of assets, fitness of human resources, reserves- capital, general and contingency) ❖ growth ❖ diversification of capabilities	❖ Community service ❖ Education ❖ Health ❖ sanitation ❖ heritage conservation ❖ community support during calamities & disasters ❖ Specific responsibilities toward employees,	❖ Respect for law in letter and spirit ❖ Fair practices ❖ Transparency ❖ Truthfulness ❖ Honesty & integrity. ❖ Green technologies, products ❖ preservation of air, water and soil quality

		investors, customers, suppliers, competitors, etc.	

Question 1 :- Is agriculture an industry and hence a business? What about manufacturer of agriculture products?

Its answer is "it depends." In India, much of the agriculture is **subsistence agriculture**. Moreover, agriculture income, under the **Income Tax Act**, is **exempt from tax**. Thus, for our purpose agriculture does not comprise industry and hence business. However, the manufactures where agriculture produce is processed and whose key material ingredient is agricultural produce do comprise an industry. For example, the extraction of edible oil from rice bran, mustard, coconut, soybean etc., represents agro-based industries.

Question 2:- Is 'Business Person' and 'entrepreneur' the same?

In common parlance, the terms 'business person' and 'entrepreneur' are synonymous. Even we shall be using these two terms interchangeably. However, entrepreneurs are better characterised more by their problem solving, new opportunity seeking behaviour that draws on their creativity and innovation.

FORMS OF BUSINESS

A. Sole Proprietorship. – (sole means individual)

SOLE PROPRIETORSHIP

The individual essentially relies on **personal savings and assets** (e.g. room of the house; home furniture; personal bicycle/ vehicle) to comprise the initial capita of the business.

In a modern economy it is often possible to obtain capital m**icro-finance and bank finance.** All the **profits of the enterprise accrue to the sole proprietor** and so do the risks of business. Thus Unlimited profit and unlimited risk

Succession of ownership By will [aka. Testament] or application of the law of inheritance. A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution.

If the will is non- existent [i.e. for intestate succession] the applicable law of inheritance will come into force. For example, for the Hindus, Parsis, Buddhists, Jains and Sikhs, The Hindu Succession Act, 1956 is applicable.

The brighter side

a. When an individual **makes a choice to start a business of one's own**, to be one's **own boss** sole-proprietorship emerges.
b. It can be regarded as the **easiest and the earliest form of business** as human occupation.
c. The sole entrepreneur is regarded as an **economic hero**, an **autonomous individual** who organizes production, uses creativity and ingenuity in innovation, bears risks and uncertainty.
d. Drawing analogy from music, the sole entrepreneur is not merely the composer and director of the enterprise orchestra but also a one-person band.
e. Of course, when the business grows such an autonomous behaviour becomes a **limiting factor**, as the entrepreneur/ sole-proprietor is required to share decision-making and let go control over the business.
f. The business undertaken could be on such a **small-scale** (self- employment), **micro** or a **small-scale business** enterprise or **industry.**
g. It is an interesting fact that a very high proportion of micro and small businesses in **India are unregistered**.
h. They are so well integrated with the communities that **these enjoy people's trust** and provide personalised services.
i. Together, these comprise the **unorganised or informal sector** of the economy.
j. It is significant to note that even though individually these might appear of not much impact, yet collectively such enterprises make a **tremendous contribution to the national economy.**
k. You have seen that **numerically these enterprises are the largest**. Their collective contribution to GDP (directly and indirectly too), Employment and even exports is very impactful.

Flip side

a. Products from such enterprises are often **derogatorily called "local"** (to distinguish from branded).
b. In common perception, **working conditions** in these enterprises **are poor**.
c. These enterprises are believed to **follow hire and fire policy**, **lack employee welfare** measures and lack systems to effectively deal with social and environmental concerns.
d. **Fate of the enterprise is linked with the personal well-being of the owner**. This adversely affects consistency of service and for these reasons large and multinational enterprises prefer to transact business with corporate entities.

B. Hindu Undivided Family (HUF) or Joint Hindu Family Business (JHF)

a. HUF is an entity **formed automatically by members of the common ancestry** including <u>their wives and daughters</u>.
b. As such, a joint Hindu family in India is, in fact and **by default**, a HUF.
c. A HUF **cannot be formed by a group of people who do not constitute a family**.
d. A HUF **enjoys a separate entity status under the Income Tax Act**. The Income Tax Act considers HUF as a separate entity if the joint family wishes to register itself as such for reporting income
e. Since under the Income Tax Act HUF is a separate entity from the joint family that comprises it, a HUF **cannot earn income from salary**.

f. Though the word Hindu is conspicuous, the definition of HUF **includes Buddhist, Jain and Sikh families** as well.

g. For the purposes of understanding HUF's features as a business entity, another important **relevant law is the Hindu Succession Act, 1956**.

h. Family is formed by marriage. Let's call it the first generation. Marriage in most societies is a means to creating progenies /children. Thus, there is second generation comprising the siblings. These siblings grow up, get married and have children. Now there is a third generation, a consortium of cousins. In the paternal lineage, thus there is grandfather, father and grandchildren. These three successive generations of an undivided family are known as HUF.

Features	Whether merit or limitation and how
Formed by birth in a Hindu (Buddhist, Jain and Sikh) family	**Merit.** Family members may naturally join each other in business. In contrast, in a Muslim family if the siblings wish to associate in a business, they will have to do it contractually e.g. Partnership Agreement
Family pool of resources	**Merit.** It is possible to start / expand a large business or to diversify business.
Social capital through family involvement	**Merit.** There is an instant trust among the family members as compared with the situation of partnership with strangers. Family members toil hard to build the family business.
The family members are the automatic co-owners (called **co-parceners**) by birth	**Limitation.** Ownership in family business is an ascribed rather than earned status. It can actually be quite frustrating for the outsiders e.g., hired managers who help build the business

Decision making is quick	**Merit.** In the absence of other active major members of the family, the head of the family known as **Karta** takes all the decisions. Subsequently decisions are taken by and in the family. Prevalence of mutual trust, informality of communication makes decision-making quick.
Unlimited liability of the Karta	**Limitation.** In the event of insolvency i.e., Liabilities > Assets, the owner's (here the Karta) personal assets are invoked to make up the deficit. However, the liability of the other family members is limited to the extent of their share in the co-parcenry.
Fate as a going concern	**Limitation.** Few family businesses last beyond third generation. Often family feuds result in business splits.
Succession of ownership	By will [aka. Testament] or application of the law of inheritance. A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution. If the will is non- existent [i.e. for intestate succession] the applicable law of inheritance will come into force. For example, for the Hindus, Parsis, Buddhists, Jains and Sikhs, The Hindu Succession Act, 1956 is applicable.

C. Partnership

a. Partnership implies **contractual co-ownership of business**.
b. It is a relationship between two or more persons who **agree to share the profits** of a business.
c. The business may be carried on by all or by some of the partners (called active partners) for and on behalf of all.
d. The contract- an agreement enforceable at law - **called 'deed'** is the essence of a partnership. It may be **verbal or written**. It specifies the bases of association of the persons in a partnership business e.g. capital contribution, profit sharing, etc.
e. The deed may be registered in India under the **Indian Partnership Act, 1932**.
f. Partnership enjoins **unlimited liability on the partners**.

Features	Whether merit or limitation and how
Agreement	**Merit.** The agreement makes possible co ownership of business by persons who do not share a common ancestry of a family.
Two or more persons	**Merit.** Partnership allows raising of funds beyond the resources of an individual / sole proprietor. In fact, even a company, being an artificial persons can be admitted as a partner! **Limitation.** There is a cap on the maximum number of persons. It is 10 for a banking firm and 20 for other firms. The reasons for a cap on the maximum number of persons in partnership or for that matter any other non-corporate association is the difficulty in tracing the owners/ their heirs during such

	circumstances as insolvency of the firm.
Profit sharing	**Merit.** For there is risk sharing too. However, whilst profit sharing is an essential feature of partnership, loss sharing is not. Certain partners may be admitted only in the profits of the firm e.g. minor partners.
Business object quite wide	**Merit.** A partnership cannot be formed for non-business purpose. However, the word business here includes every trade, occupation and profession.
Mutual agency	**Merit.** Mutual agency – that is one for each other and for all ensures that all the partners work in the common interest and in the interest of the firm. **Limitation.** A partner's misdeeds impact all the partners and the fate of the firm. For example, if a partner in an auditing firm becomes a party to a corporate scam, its impact may be disastrous for the firm.
Unlimited liability	**Limitation.** It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e. Liabilities > Assets, the partners' personal assets are invoked to make up the deficit. Owing to the mutual agency, the liability of all the partners is both joint and several.
Fate as a going concern is uncertain	**Limitation.** Since partnership arises out of contract, it also ceases in the same way. A partner may serve a notice of severance to the firm and the partnership comes to an end. The remaining partners may agree to carry on the business of

	the firm.
Succession of ownership	**Limitation.** Ownership is not easily transferable. A new partner can be admitted only if other partners consent.

D. Limited Liability Partnership (LLP)

a. LLP form of business organisation is the one where the **liability of the partners is limited**.
b. It has to be **mandatorily incorporated /registered** under the **Limited Liability Partnership Act, 2009.** The Ministry of Corporate Affairs, the apex body of regulation of company form of business organisation in India oversees the governance of the LLP too.
c. For the purposes of compliance with the regulations thus imposed, the LLP Act provides for **designated partners**.
d. Upon incorporation, LLP becomes a **separate legal entity** and has an identity and **perpetual succession** like of a company.
e. It is a **hybrid form of business organisation** i.e., containing the features of both the **corporate form** as well as **proprietary** form of business organization.

Features and their comparison with Traditional Partnership

Features	Comparison with Traditional Partnership	Whether merit or limitation and how
Limited liability. No personal liability of partner, except in case of fraud.	Unlimited personal liability of each partner for dues of the partnership firm. Personal assets of each partner also liable.	**Merit**. This does away with a major limitation of traditional partnership
Incorporation is mandatory.	Partnership is registered under partnership Act. Registration is not mandatory.	**Merit**. The mandatory registration brings the firm under the regulatory purview of the Ministry of Corporate Affairs. This increases its credibility.
It is a legal entity separate from its partners.	Not a legal entity separate from its partners.	**Merit**. This does away with the uncertainty of the firm's existence as a going concern.
Minimum 2 and no limit on maximum number of partners.	Minimum 2 and maximum 20 partners	**Merit**. The upper limit in the traditional partnership restricted the scope of business and future expansion plans.
ROC is the	The registrar of firms is the	**Merit**. There is body to control

administrating authority.	administering authority	that brings credibility in the eyes of stakeholders.
Statutory compliances	Not many	**Limitation.** Designated partners to ensure the compliances. However, in comparison with the companies, the compliances are fewer and simpler.
Every partner of LLP is only agent of firm	Every partner of firm is agent of firm and also of other partners	**Merit.** Absence of mutual agency enhances freedom at one hand; and, on the other hand frees the other partners of the burden of responsibility of the acts of a partner

E. Company:

a. Company indeed is a body corporate, having an existence independent of all its members.
b. It exists in the contemplation of law, has a distinct name, address (Registered Office) & identification number.
c. As a legal artifact, there can be even a One Person Company (OPC). In fact, the OPC has been the most recently introduced form of business organization in India vide The Companies Act, 2013.
d. OPC is likely to be its corporate form of sole proprietorship.
e. In addition, the Companies Act 2013 also provides for the incorporation of a dormant company that may be created for a future project or to hold an asset or intellectual property and has no significant accounting transaction.
f. In order to make the system of diffused ownership of the joint stock companies and their management work, an elaborate system of corporate functioning and the regulation of capital market has to be in place.
g. A company has to file a Memorandum of Association (MoA) and Article of Association (AoA) along with application for incorporation. The MoA, among other things, spells out the objectives of the company and its business.
h. The AoA focuses on its internal regulation

Compliance

a. There is a requirement of the **statutory audit** of the accounts of a company and **publication of its quarterly results** to keep the investors well informed.

b. The **SEBI also oversees the subsequent trading** of the company shares & the contract of listing by which the shares of a company are put up for trading on a stock exchange.

c. Publicly traded / listed companies have to meet stringent criteria of both **the Companies Act and the SEBI**. This increases the cost of compliance. In contrast, private companies have lesser compliances to meet and have greater flexibility in their internal functioning.

d. The law provides these privileges to the private companies because these are closely held and the owners have greater opportunity to exercise control over the management of these companies

e. The Indian corporate sector is numerically **dominated by private limited companies**.

Features

Features of Private Company	Features of Public Company
Minimum number of members: 02	07
Maximum number of members: 200	No limit
There are restrictions on transfer of shares	Freely tradable on stock exchange
Minimum number of directors: 02	03
Private companies are exempted from constituting such committees of the Board of Directors as Audit Committee, CSR Committee, Stakeholder Committee and the Nomination and Remuneration Committee	These committees are to be mandatorily constituted
It can start business upon incorporation	A public limited company is required to obtain Certificate of Commencement of Business in addition to the Certificate of Incorporation

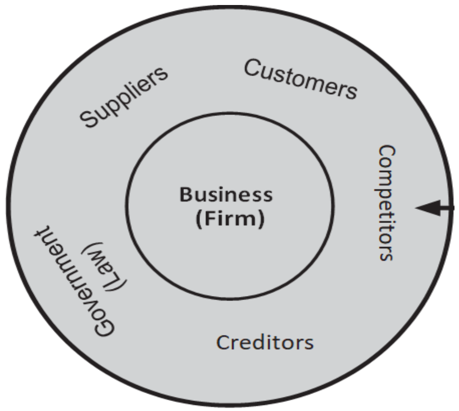
Chapter 2: Business Environment

The world keeps changing. It always has and always will. **The basic challenge for any company is survival**. And to survive over the long term, a company must have two capabilities:

- the **ability to prosper** and
- the **ability to change.**

MEANING OF BUSINESS ENVIRONMENT

Business environment represents ***all external forces***, **factors** or **conditions** that **exert some degree of impact** on the business decisions, strategies and actions taken by the firm.



a. The **success of a business** is generally dependent on its business environment.
b. A successful business has to **identify, appraise, and respond** to the various **opportunities and threats** in its environments.
c. To be successful, the business must **continuously monitor and adapt** itself to the environment if it is to survive and prosper

According to Gluek and Jauch:

"The environment includes factors outside the firm which can lead to **opportunities** for, or **threats** to the firm. Although, there are many factors, the most important of the factors are **socio- economic, technological, suppliers, competitors, and government.**"

Business Environment Further classification-

<table>
<tr><th>Internal</th><th colspan="2">External</th></tr>
<tr><td rowspan="3">Internal environment is composed of multiple elements existing within the organization, including management, current employees and corporate culture.
organization's mission statement, leadership styles and its organizational culture

• Value System
• Mission and Objectives
• Organizational Structure
• Corporate Culture
• Quality of Human Resources</td><td colspan="2">The factors that happen outside the business are known as external factors or influences.

There are two major types of external environment:</td></tr>
<tr><td>Micro Environment</td><td>Macro Environment</td></tr>
<tr><td>• Organization
• Customers
• Competitors
• Market
• Suppliers
• Intermediaries</td><td>• Economic
• Political - Legal
• Technological
• Global
• Socio - Cultural
• Demographic</td></tr>
</table>

• Labour Unions • Physical Resources and Technological Capabilities	

Organisation depends on External Environment for Inputs

CHARACTERISTICS OF BUSINESS ENVIRONMENT [CDMI]

1. **Complex**- The environment **consists of a number of factors**, events, conditions and influences arising from different sources.
2. **Dynamic-** The environment is constantly changing in nature.
3. **Multi-faceted-** This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
4. **Far reaching impact-**Any environmental change has an impact on the organization in several different ways.

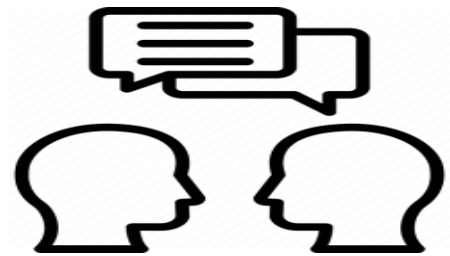
IMPORTANCE OF BUSINESS ENVIRONMENT

The interaction with the environment enables the business in-

a. **Determining Opportunities and Threats** to the business.
b. **Giving Direction for Growth and expansion** of their activities.
c. **Continuous Learning and update** their knowledge, understanding and skills to meet the predicted changes
d. **Image Building** by showing their sensitivity to the environment in which they operate. For example, making of ventilators by Ferrari in Covid-19 situation.

e. **Meeting Competition** by analysing the competitors' strategies and formulate their own strategies accordingly.

RELATIONSHIP BETWEEN ORGANIZATION AND ITS ENVIRONMENT



The relationship between the organization and its environment may be discussed in terms of **interactions between them in several major** areas which are outlined below:

a. **Exchange of information**: **Any data having commercial importance is information.** The organization **scans the external environmental**, generates important information **and uses it**. Both **current and projected information** is important for the organization.

Apart from gathering information, the organization itself **transmits information** to several external agencies either voluntarily, inadvertently or legally.

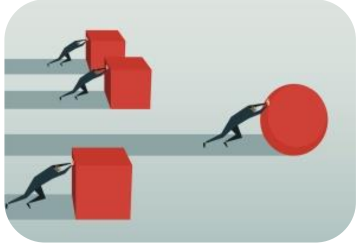
b. **Exchange of resources**: The organization **receives inputs**—finance, materials, manpower, equipment etc. from the external environment through contractual and other arrangements. The resources are often categorised as **5 M's Men, Money, Method, Machine, Material**.

The organization is dependent on the external environment for **disposal of its output** of products and services to a wide range of clientele.

c. **Exchange of influence and power:** The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources. Environment may create opportunities or threat over organisation.

Sometimes, organisations are also in position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information.

ORGANIZATION'S RESPONSE TO ITS ENVIRONMENT [way to interact]



Three classes of responses are described below:

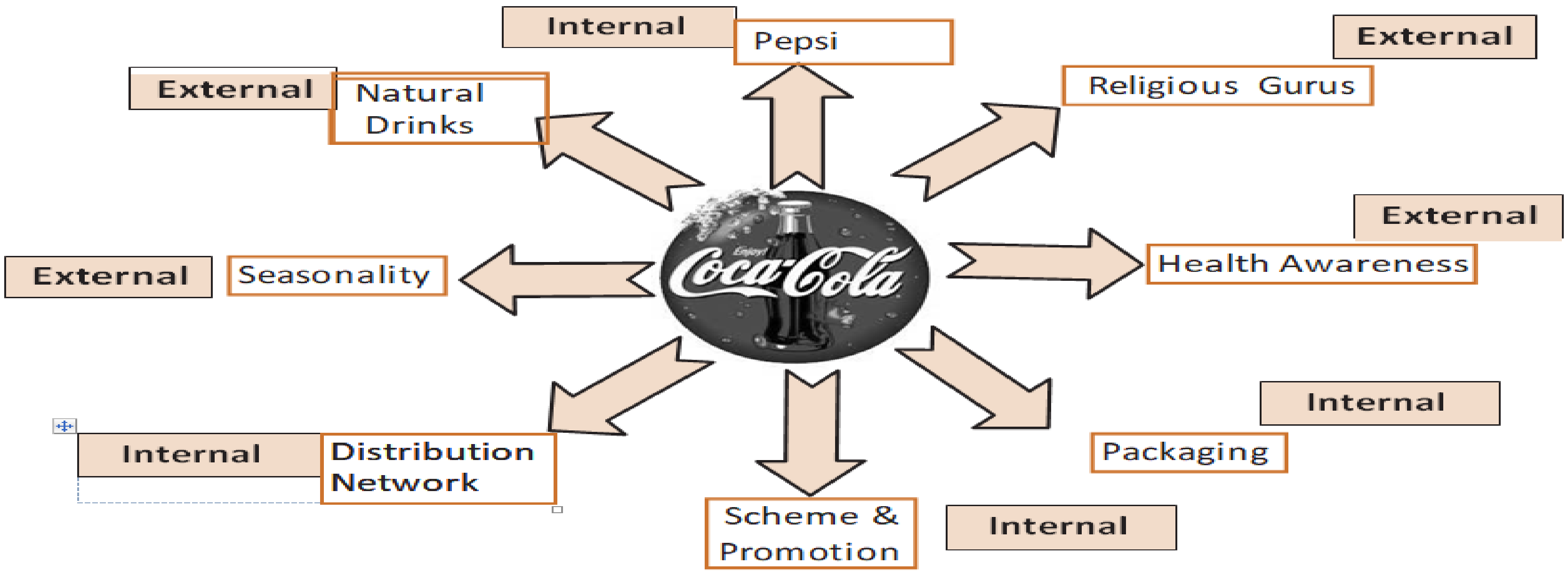
1. **Administrative Response: (most common):** These include the formation or clarification of the **organization's mission; the development of objectives, policies, and budgets; or the creation of scanning units**. These responses can be either proactive or reactive and are aimed at defining the organization's purpose and key tasks in relationship to particular environments.

2. **Competitive Response**: This is generally associated with for-profit firms but can also apply to non-profits and governmental organizations. Such actions seek to **enhance the organization's performance** by establishing a competitive advantage over its rivals.

3. **Collective Response:** Collective responses with **other organization** help control interdependencies among organizations and include such methods as bargaining, contracting, co-opting, and creating joint ventures, federations, strategic alliances, and consortia. Contemporary. It happens when 2 or more business come together to benefit each other.

Case study: You have recently joined Coca Cola as a manager and your first assignment is to prepare a mind map and list out all the factors affecting the brand Coca Cola. It may include all the factors such as (positive/negative/good/bad etc.)

Mind Map:-



STRATEGIC RESPONSE TO THE ENVIRONMENT

This will tell the firm how to respond to the Environment

1. **Least resistance**: Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units. They are very passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goal-seeking and resource transforming behaviour. Example: BSNL

2. **Proceed with caution**: At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. They regard that the pervasive complexity and turbulence of the external environmental elements as 'given' within the framework of which they have to function as adaptive-organic sub-systems. This is an admittedly sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action. Example: Airtel

3. Dynamic response: At a still higher level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They not merely recognise and ward off threats; they convert threats into opportunities. They are highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'. Example: Vodafone

Goals of Environmental Analysis

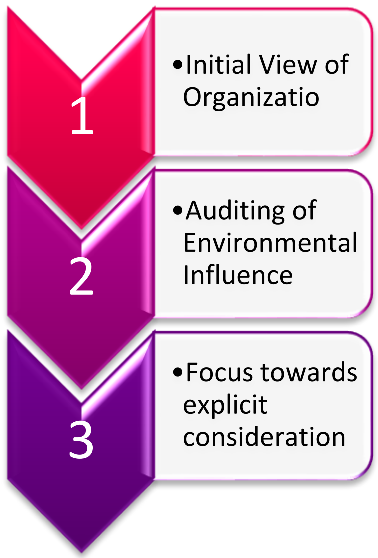
There are three basic goals to Environmental Analysis

1. First, the analysis should provide an **understanding of current and potential/long term changes** taking place in the environment.

2. Second, environmental analysis **should provide inputs for strategic decision making**. The information collected must be useful for and used in strategic decision making.

3. Third, environment analysis **should facilitate and foster strategic thinking in organizations**. It should **challenge the current wisdom by bringing fresh viewpoints** into the organization.

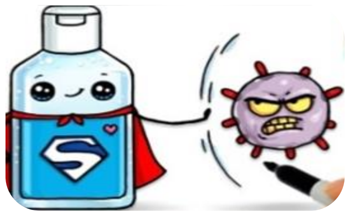
Framework to understand the environmental influences/ How to understand the influence of environment???



- ***First step*** it is useful to take an **initial view of the nature of the organizations** environment in terms of how uncertain it is. Is it relatively static or does it show signs of change, and in what ways? Is it simple or complex to comprehend? This helps in deciding what focus the rest of the analysis is to take.

- ***Second step-*** The next step might be the **auditing of environmental influences.** Here the aim is to **identify which of the many different environmental influences** are likely to affect the organization's development or performance. It is useful to identify the influencing factors and relate such influences .

- ***The final step*** is to **focus more towards an explicit consideration of the immediate environment of the organization** - for example, the competitive arena in which the organization operates.



Environmental Scanning

Meaning - Environmental scanning can be defined as the process by which **organizations monitor their relevant environment** to identify **opportunities and threats** affecting their business for the purpose of taking strategic decisions.

The factors which need to be considered for environmental scanning are:

1. **Events** are important and specific occurrences taking place in different environmental sectors. Events are certain happening in the internal or external organisational environment which can be observed and tracked.

2. **Trends** are the general tendencies or the courses of action along which events take place. Trends are grouping of similar or related events that tend to move in a given direction, increasing or decreasing in strength of frequency of observation; usually suggests a pattern of change in a particular area.

3. **Issues** are the current concerns that arise in response to events and trends. Identifying an emerging issue is more difficult.

4. **Expectations** are the demands made by interested groups in the light of their concern for issues.

Element of Micro Environment AKA Task Environment

Micro-environment is related to **small area or immediate periphery of an organization**. Micro-environment influences an organization regularly and directly. These are specific to the said business or firm and affects it's working on short term basis.

This is also known as the **task environment** and affects business and marketing in the daily operating level.
They are very close to an organisation.

Customer 	• According to **Peter Drucker** the aim of business is to create and retain customer. • Customers are the **people who pay money to acquire an organization's goods and services**. • Consumer is the one who **ultimately consumes** or uses the product or service. • Customers may or may not be a consumer. • A **consumer occupies the central position** in the marketing environment. • The marketer has to closely monitor and analyze changes in consumer tastes and preferences and their buying habits. • Who are the customers/consumers? • What benefits are they looking for? • What are their buying patterns?

Competitor	- Competitors are the other business entities that compete for resources as well as markets. - Competition may be direct (same business activity) or indirect (different business activity). - ***Competition shapes the business*** - A study of the competitive scenario is essential for the marketer, particularly threats from competition. Following are a few of major questions that may be addressed for analyzing competitions: - Who are the competitors? - What are their business objectives and strategies? - Who are the most aggressive and powerful competitors?

Organization 	- Individuals working in an organisation consist of individuals coming from outside. - They have different and varied interests. - In micro environment analysis, nothing is important as self-analysis of its own strengths and. - The objectives, goals and resource availabilities of a firm occupy a critical position in the micro environment. An organisation consists of- - **Owners:** They are individuals, shareholders, groups, or organizations who have a major stake in the organization. They have a vested interest in the well-being of the company. - **Board of Directors:** Board of directors are elected to ensure proper functioning of business of the company. - **Employees:** Employees are the people who actually do the work in an organization. They are the major force within an organization. When managers and employees work toward different goals everyone suffers.

Market	• The market is larger than customers. • The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. • The marketer should study: ▪ Cost structure of the market. ▪ The price sensitivity of the market. ▪ Technological structure of the market. ▪ The existing distribution system of the market. ▪ Is the market mature?
Suppliers 	• They provide raw materials, equipment, services etc. • Suppliers with their own bargaining power affect the cost structure of the industry. ***They shape the structure of Industry*** • Also organizations have to take a major decision on "outsourcing" or "in-house" production depending on this supplier environments.

Intermediaries	- In many cases the consumers are not aware of the manufacturer of the products they buy. - They buy product from the local retailers, big departmental stores or online stores that are increasingly becoming popular.

Element of Macro Environment

Macro environment is that part of external environment which is **largely external** to the enterprise and thus **beyond the direct influence** and **control of the organization**, but which **exerts powerful influence** over its functioning.

Economic Environment	- Economic environment refers to the **nature and direction of the economy** in which a company competes or may compete. It includes general economic situation in the region and the nation which influence businesses. - Economics environment Determines the strength of the Market. - The important point to consider is to find out the effect of economic Factors that Affect the Economic Environment - **Economic Systems** - Capitalism: - Socialism: - Mixed economy- 4 Vital Roles played by Govt. **Regularity role**, **promotional role**, **entrepreneurial role** and **Planning Role** - **Economic Conditions or Factors-** The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include:-

	- gross domestic product - per capita income - markets for goods and services - availability of capital - **Economic Policies:** Policies made in country by ruling authority - Industrial policy: - Fiscal policy: - Monetary policy: - Foreign investment policy: - Export-Import policy (Exim policy):
Political-Legal Environment	- **Government policies:** A business has to consider the changes in the regulatory framework and their impact on the business. Taxes and duties are other critical area that may be levied and affect the business. - For Example: The Indian government is promoting manufacturing sector through campaigns like Make in India. - **Legal:** Businesses prefer to operate in a country where there is a sound legal system, good working knowledge of the major laws protecting consumers, competitions and organizations. Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange,

	labour and so on. ➡ For Example: New GST law will influence most of the businesses. • **Political:** Political pressure groups influence and limit organizations. Politics has deeply seeped into unions. Also, special interest groups and political action committees put pressure on business organizations to pay more attention to consumers' rights, minority rights, and so on
Demographic Environment • Race • Age • Income • Educational attainment • Asset Ownership • Home Ownership • Employment status	• The term 'demographics' denotes **characteristics of population** in a area, district, country or in the world. • Data with respect to these factors are important to businessmen & economists • Factors such as general age profile, sex ratio, education, growth rate affect the business with different magnitude • It includes factors such as- ▪ Population's size ▪ Age structure ▪ Geographic distribution ▪ Ethnic make-up ▪ Distribution of income. ▪ Location

Socio-Cultural Environment	It is the **Behaviour of Population** It represents a complex of factors such as social traditions, values and beliefs, level and standards of literacy and education, the ethical standards and state of society, the extent of social stratification, conflict and cohesiveness and so forth. ➡ Social concerns such as the role of business in society, environmental pollution, corruption, use of mass media, and consumerism. ➡ Social attitudes and values, such as expectations of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism. ➡ Family structure and changes in it, attitude towards and within the family, and family values. ➡ Role of women in society, position of children and adolescents in family and society. ➡ Educational levels, awareness and consciousness of rights, and work ethics of members of society.

Technological Environment	- Technology has changed the ways of how business operates now. - This is leading to many new business opportunities as well as making obsolete many existing systems. - Business and Technology are inter- related and Inter dependent
Global Environment	- Potential positive and negative impact of significant international events such as a sport meet or a terrorist attack. - Identification of both important emerging global markets and global markets that are changing. This includes shifts in the newly industrialised countries in Asia that may imply the opening of new markets for products or increased competition from emerging globally competitive companies. - Differences between cultural and institutional attributes of individual global markets.

Analysis Techniques to understanding the environment

SWOT analysis [for both internal and External]

1. Under SWOT analysis; S stands for Strength, W stands for Weakness, O stands for Opportunities and T stands for Threat.

2. Business firms undertake SWOT analysis to understand the external and internal environment

3. Analysis:-

a. **Strength is an inherent capacity** which an organization can use to gain strategic advantage over its competitors. Example: An example of strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage.

b. **Weakness is an inherent limitation** or constraint which creates a strategic disadvantage. Example- An example of a weakness is over dependence on a single product line, which is potentially risky for a company in times of crisis.

c. **Opportunity is a favourable external condition** in the organization's environment which enables it to consolidate and strengthen its position.An example of an opportunity is growing demand for the products or services that a company provides

d. **Threat is an unfavourable external condition** in the organization's environment which creates a risk for, or causes damage to, the organization. An example of a threat is the emergence of strong new competitors who are likely to over stiff competition to the existing companies in an industry

Do SWOT analysis of most recognised and reputed school in your area.

1. Strength

2. Weakness

3. Opportunity

4. Threat

PESTLE Analysis [For Macro Economic environment] – earlier it was PEST

PESTLE stands for

P	E	S	T	L	E
Political	Economic	Socio- culture	Technological	Legal	Environmental

The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

1. **Political-** Political factors are how and to what extent the government intervenes in the economy and the activities of business firms. Furthermore, governments have great influence on the health, education and infrastructure of a nation.
2. **Economic factors** have major impacts on how businesses operate and take decisions. For example, interest rates , exchange rate money supply, inflation, credit flow, per capita income, growth rates have a bearing on the business decisions.
3. **Social factors** affect the demand for a company's products and how that company operates.
4. **Technological factors** can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.
5. **Legal factors** affect how a company operates, its costs, and the demand for its products.

6. **Environmental factors** affect industries such as tourism, farming, and insurance. Growing awareness to climate change is affecting how companies operate and the products they offer. It is both creating new markets and diminishing or destroying existing ones.

PESTLE MATRIX

Political • Political stability • Political principles and ideologies • Current and future taxation policy • Regulatory bodies and processes • Government policies • Government term and change • Thrust areas of political leaders.	**Economic**  • Economy situation and trends • Market and trade cycles • Specific industry factors • Customer/end-user drivers • Interest and exchange rates • Inflation and unemployment • Strength of consumer spending
Social  • Lifestyle trends • Demographics • Consumer attitudes and opinions • Brand, company, technology image • Consumer buying patterns	**Technological**  • Replacement technology/solutions • Maturity of technology • Manufacturing maturity and capacity

- Ethnic/religious factors
- Media views and perception

- Innovation potential
- Technology access, licensing, patents
- Intellectual property rights and copyrights

Legal

- Business and Corporate Laws
- Employment Law
- Competition Law
- Health & Safety Law
- International Treaty and Law
- Regional Legislation

Environmental

- Ecological/environmental issues
- Environmental hazards
- Environmental legislation
- Energy consumption
- Waste disposal

Note : SWOT is Much Broader than PESTLE

Chapter 3: Business Organizations

Learning Objective

A company overview is the most effective way to acquire business intelligence and gain vital information about a company, its businesses, their products, services and processes, prospects, customers, suppliers, competitors; etc.

It requires the skills of:-

1. **Budget Analysts:** Budget analysts help companies and organizations keep their finances on track. They prepare budgets and develop forecasts based on past expenditures and economic trends.
2. **Financial Analysts:** Financial analysts are also called security **analyst, equity analyst, investment analyst or rating analyst**. They offer advice on investment decisions for external or internal financial clients as a core part of the job.
3. **Management Analysts:** Management analysts are also known as management consultants. They work with the heads of businesses to improve efficiency and, consequently, profitability.
4. **Market Research** Analysts: Market research analysts study strength and weaknesses in order to advise a company about the decisions to be taken to increase its market share and profitability.

Teacher's note:

The institute has taken great initiative to incorporate practical corporate information at CA Foundation level. However it is very difficult to remember all the details of all the companies. Thus the chapter is taught in Chart form with efforts to put maximum information. However in case student wishes to read more than in that case he/she may refer institute module or visit respective companies website.

It has been observed that questions are asked mostly on data like

- ✓ Founder
- ✓ CEO, CFO, MD
- ✓ Headquarter
- ✓ Incorporation year
- ✓ Slogan
- ✓ Mission
- ✓ Forbes or Fortune ranking
- ✓ And recent developments

The chart is made to incorporate the following details and will be sufficient to attempt maximum question from this chapter. However 1 or 2 question may be asked from any part of chapter which is not covered here in chart. Student is advised to act prudent in this regards.

Summary Chart for Chapter 3- Business Organizations

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
1	Asian Paints	Year of inc. Headqtr. Founder MD & CEO MD & CEO CFO	1942 Mumbai 1) Champaklal 2) Suryakant, 3) Arvind, 4) Chimanlal KBS Anand Amit syngle Jayesh Merchant RJ Jeyamurugan	1596	232	1. Operates in 16 countries ,26 paint manufacturing facilities , Serving consumers in over 65 countries 2. Aims to become one of the top five decorative coatings companies world-wide 3. It is India's leading and Asia's fourth largest paint company. 4. It is double the size of any other paint company in India. 5. Competing firms – Nerolac / Shalimar / Jenson & Nicholson /Berger Paints. 6. Portfolio of Businesses ➤ Paints for decorative and industrial use ➤ Interior Wall Finishes, ➤ Exterior Wall Finishes, ➤ Enamels and ➤ Wood Finishes
2	Bajaj Auto Limited (Auto sector)	Year of inc Started in Headqtr. Founder Chairman MD CEO CFO Used Slogan in Advertising campaign	1945 Rajasthan Pune, MH Jamnalal Bajaj Rahul Bajaj Rajiv Bajaj Rajiv Bajaj Soumen Ray The World's Favourite Indian'	1531	448	1. 2 wheeler, 3 wheeler and 4 wheeler mfg. 2. One of the world's top manufacturer of motorcycles in India 3. World's largest three-wheeler manufacturer 4. India's largest exporter of motorcycles and three-wheelers 5. Operations in 50 countries 6. It became a public limited company in 1960. 7. Winners in Auto Two Wheelers category IndIAA Awards (2019) 8. 'First-In-The-Industry' status of having all its manufacturing plants certified for 'Special Award for TPM Achievement' by Japan Institute for Plant Maintenance (JIPM) (2019) 9. Key products- ➤ Motorcycles- Avenger, CT 100, Dominar, Discover, V 12, V 15, Pulsar, etc. ➤ Three Wheelers- RE Compact, RE Compact 4S, RE Optima and RE ➤ Maxima. Low Cost Cars- Bajaj Qute, Bajaj RE60, etc. 10. Vision: To Obtain World class excellency by demonstrating value added Products to Customers. 11. Mission : Focus on Value Based manufacturing, Continual Improvement, Total Elimination of waste, Pollution Free and Safe Environment
	Bharti Airtel Limited. Former Name:	Year of inc Headqtr. Chairman MD/CEO CFO	1995 New Delhi Sunil Bharti Mittal Gopal Vittal Nakul Sehgal Badal Bagri	700		1. Operations in 20 countries across Asia and Africa. 2. Largest mobile network operator in India. 3. Third largest in the world with 400 million subscribers 4. Has Bundle of business in related business 5. Waybeo (Trivandrum based startup) uses the service of Airtel. 6. Awarded as the "Enterprise Data Service Provider of the Year", the "Enterprise Telecom Service Provider of the Year"

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
	Bharti Cellular Limited					7. Key Business- ➢ Telemedia ➢ Digital television ➢ Enterprise ➢ Mobile data service ➢ Enterprise business solutions Vision and Mission: To Enrich the lives of the customers. Hunger to win customers for life
4	APSEZ	Year of inc	1998	1754	276	1. ADANI ports and Special Economic Zone ltd 2. Logistics Business with present at 10 Location 3. Largest Network of port in India 4. Largest Port led SEZ at Mundra 5. (#1 India & #5 World) to record > 200MMT Cargo Movement
		Headqtr.	Ahmedabad, Gujarat			
		MD	Gautam Adani			
		CEO	Karan Adani			
		CFO	Rakesh Jha			
		CFO	Deepak Maheshwari			
1	State Bank of India SBI	Year of inc	1806	171	385	1. SBI has 14 regional hubs and 57 Zonal Offices 2. Presence in 36 countries with 191 foreign offices 3. It has more than 14,000 branches, 58,500 ATMs 4. Largest banking & financial services company in India by assets 5. Has 20% market share in deposits and loans among Indian commercial banks 6. The bank traces its ancestry to British India, through the Imperial Bank of India. 7. Bank of Madras merged into the other two "presidency banks" in British India 8. Bank of Madras became the State Bank of India in 1955. 9. In 2008, RBI had a 60% in Bank of Madras and GOI took it over and renamed it the State Bank of India. 10. 5 associate banks were merged with State Bank of India with effect from 1 April 2017. Namely, a. State Bank of Bikaner & Jaipur, b. State Bank of Hyderabad, c. State Bank of Mysore, d. State Bank of Patiala and e. State Bank of Travancore, and Bharatiya Mahila 11. SBI Chairman inaugurated ' Swachh Belur Math' Project 12. It is governed by SBI Act 1959, and its liability is unlimited. Hence does not adds the word Ltd in front of its name.
		Headqtr.	Mumbai			
		Chairman	Dinesh kumar khara			
		CMD	Rajnish Kumar C.S. Shetty			
		CFO	Charanjeet Surinder Singh Attra			
		VISION	Vision: ▪ My SBI. ▪ My Customer first. ▪ My SBI: First in customer satisfaction			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
2	Axis Bank Limited (Banking Sector)	Year of inc	1993	727	232	1. 3rd largest private sector bank in India with 10 wholly owned subsidiaries. 2. Bank are spread over ten international offices. 3. Promoted Jointly by LIC, GIC (General Insurance Co.) , NIC (National Insurance Co.), SUUTI (Specified undertaking of Unit Trust of India), New India Assurance Limited, Oriental Insurance co. Ltd and United India Assurance Co. limited. 4. Banks announced the opening of its Qualified Institutions Placement (“QIP”) to raise funds of Rs. 12500 crores. 5. Business Segments- - Retail Banking - Corporate Banking - International Banking 6. Vision: To be the preferred financial solutions provider excelling in customer delivery through insight, empowered employees and smart use of technology 7. Core Values: Customer centricity, ethics, transparency, teamwork and ownership.
		Headqtr.	Mumbai			
		Chairman	Mr. Rakesh Makheja			
		MD/ CEO	Mr. Amit Chaudhry			
		CFO	Puneet Sharma			
3	HDFC Bank	Year of inc	1994	146	119	1. 4,715 branches and 12,260 ATMs across 2,657 cities 2. HDFC is Market leader in e Commerce 3. HDFC Bank has been adjudged **‘India’s Best Bank’ by Euromoney Awards** for Excellence 2019 for 12th consecutive year. 4. Won top honours at the Nasscom DSCI Excellence Awards 2019 5. ‘Best MSE Bank’ at the 2nd SIDBI-ET India MSE Awards 2019 6. Key products -- **10 second personal loan, Chillr, PayZapp, SME Bank, Watch Banking, 30-Minute Auto Loan, 15-minute Two-Wheeler Loan, e-payment gateways, Digital Wallet, etc.** 7. 5 Core Value - Operational Excellence , Customer Focus, Product Leadership, people and Sustainability
		Headqtr.	Mumbai			
		Chairman	Deepak S parekh			
		MD	Aditya Puri Sashidhar Jagdishan			
		CFO	Srinivasan Vaidynathan			
		Mission	To be world class Indian Bank			
4	Industrial Credit and Investment Corporation of India ICICI bank	Year of inc	1994	255	-	1. **Largest private sector bank** and a multinational banking and financial services company 2. Network of 4,867 Branches and 14,367 ATM’s across India 3. ICICI Bank crossed milestone of issuing 2 million FASTag, highest in India by Oct 31,2019 4. The building made for Vocational courses (in Jodhpur) has been awarded a ‘Net Zero Energy- Platinum’ rating by the Indian Green Building Council
		Headqtr.	Mumbai			
		Chairman	Girish Chandra Chturvedi			
		MD/CEO	Sandeep Bakshi			
		CFO	Rakesh Jha			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
		Vision	To be leading provider of Financial Services in India and a major Global bank			5. Launched 'InstaBIZ', India's first most comprehensive digital banking platform for MSMEs in July 2019 6. Important Banking Features - iWealth, iMobile, Smart Vault, e-Locker, i-Track, Video Banking App and Preferred Time Delivery.
1	Coal India Limited	Year of inc	1975	612		1. **Largest coal producer company in the world** 2. Contributes about 84% of coal production in India 3. Operating through 82 mining areas 4. Commands nearly 74% of the Indian coal market 5. CIL has two joint ventures – a. International Coal Ventures Private Limited (ICVPL) b. CIL-NTPC Urja Pvt. Ltd 6. Awarded the 'CSR Winner Award for Rural Development and Infrastructure' 7. In April 2011, CIL was conferred the **Maharatna status** by the Union Government. 8. 8 of its wholly owned subsidiaries ➢ Eastern Coalfields Limited (ECL), ➢ Western Coalfields Limited (WCL), ➢ Northern Coalfield Limited (NCL), and ➢ South-Eastern Coalfields Limited (SECL), ➢ Central Coalfields Limited (CCL), ➢ ***Bharat Coking Coal Limited (BCCL),*** ➢ ***Mahanadi Coalfields Limited (MCL).*** ➢ ***Central Mine Planning and design Institute limited (CMPDIL) - Support***
		Headqtr.	Kolkata			
		Founder	GOI			
		CMD	Pramod Agarwal (IAS) (CMD)			
		CFO	Mr. S Sarkar Sanjiv Soni			
		Vision	To emerge as Global player in Primary Energy Sector			
		Mission	To Produce and Market planned Qty of Coal in eco-friendly manner with safety, conservation and Quality.			
2	Bharat petroleum Corporati on Limited BPCL Former Name:- Burmah Shell Refinerie s Ltd	Year of inc	1952	601		1. BPCL is an Indian state-controlled oil and gas company 2. Two large refineries of the country located at **Mumbai and Kochi, followed by Bina Refinery and Numaligarh Refinery** 3. 40% of the international volumes in India are fueled by BPCL plane services 4. Their presence in the **defence sector** is equally strong. 5. Only Oil company in India to have equity stake in the **1st Greenfield Airport at Cochin International Airport Limited**. 6. The 24X7 services provided by Bharat Petroleum Aviation Fuel Services 7. BPCL received the Prestigious 'Star PSU' Award 8. Awarded on 25th October 2018, with 'Golden Peacock Award 2018' 9. Key Products ➢ The company business is divided in **seven SBUs** (Strategic Business Units), like Retail, Lubricants, Aviation, Refinery, Gas, I&C and LPG. ➢ They have popular Loyalty Program like **Petrocard, Smartfleet.**
		Headqtr.	Mumbai			
		Founder	GOI			
		Chairman /MD/CEO	D Rajkumar K Padmaker			
		CFO	Neelakantapillai Vijayagopal			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
						10. Vision: To be Model Corporate Entity with social responsibility committed to energizing the lives through sustainable development.
3	Oil and Natural Gas Corporation Limited ONGC	Year of inc Headqtr. MD CFO Vision	1956 Ministry of Petroleum and Natural gas Uttrakhand Shashi Shankar Subhash Kumar	269 449 in Fortune 500 list		1. It is India's largest oil and gas exploration and production company 2. Its international subsidiary ONGC Videsh currently has projects in 17 countries 3. It produces around 77% of India's crude oil and around 62% of its natural gas 4. It is ranked 17th among the Top 250 Global Energy Companies by Platts. 5. ONGC has discovered 6 of the 7 commercially producing Indian Basins, in the last 50 years. 6. Conferred with 'Maharatna' status by the GOI in Nov, 2010. 7. Winner of 'Golden Peacock Award for Risk Management' for 2019. 8. Won S&P Platts Global Energy Award 2019 for CSR 9. ONGC has priced its maiden offering of USD bonds in the aggregate principal amount of USD 300 million. The bonds will bear a coupon of 3.375% and will mature in 2029. 10. Vision: To be Global Leader in Integrated Energy business through sustainable growth, Knowledge, excellence and exemplary governance practices
4	Indian Oil Corporation Limited IOCL	Year of inc Headqtr. Chairman CFO	1959 New Delhi Sanjiv Singh Shrikant Madhav Vaidya Sandeep Kumar Gupta	389		1. Indian Oil Corporation Ltd. (IOC) is India's **Largest Commercial Enterprise** 2. Accounts for about 50% of India's petroleum products market share 3. Owns and operates 11 of India's 23 refineries 4. Former Name- Indian Oil Company 5. Key products- IOC has leading energy brands like XTRAPREMIUM petrol, XTRAMILE diesel and PROPEL petrochemicals, IndianOil's SERVO lubricants and Indane LPG have earned the coveted Superbrand status.
5	NTPC National Thermal Power Corporation Limited	Year of inc Headqtr. Founder Chairman / CEO CFO Vision	1975 New Delhi Gurdeep Singh AK Singhal Anil kumar gupta To be world's leading power company, energizing India's Growth	497	288	1. Business of generation of electricity and allied activities 2. It is the top power company of India 3. Feeds 25% of India's electricity needs 4. It is one of the most efficient power companies in India 5. NTPC became a Maharatna company in May 2010 6. Started work on its first thermal power project in 1976 at Shaktinagar 7. Awarded with 'Golden Peacock Award for Sustainability' 2019, held in London (U.K) 8. Paid 25% of the Equity Share Capital as Dividend in FY 2018- 19 **9. Main Subsidiaries** ➢ **NTPC Electric Supply Company Ltd. (NESCL)** ➢ **NTPC Vidyut Vyapar Nigam Ltd. (NVVN)** ➢ **Kanti Bijlee Utpadan Nigam Limited** ➢ **Bharatiya Rail Bijlee Company Limited (BRBCL)**

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
						➤ **Patratu Vidyut Utpadan Nigam Limited (PVUNL)**
6	GAIL (India)	Year of inc	1984	1257	290	1. Largest state-owned **natural gas processing and distribution** company in India 2. More than 70% market share in gas **transmission & marketing** 3. GAIL owns the country's largest pipeline network, 2300 km 4. Presence in 22 states in the country 5. Owns World's longest exclusive LPG pipeline in the country 6. Longest Pipeling in world of 2000 Km from Jamnagar (GJ)to Loni (UP) 7. Awarded with CII-National Water Awards for Excellence in Water Management-2016 in "out of fence Category". 8. Unit at Pata came 1st in 16th National Award for Excellence in Cost Management 2018 from ICAI 9. GAIL India Ltd will invest over ` 45,000 cr. over the next 5 years 10. GAIL was conferred with the 'Maharatna' status on 1/2/ 2013 **11. Subsidiaries** ➤ **GAIL Gas Limited** ➤ ***Brahmaputra Cracker and Polymer Limited (BCPL)*** ➤ **GAIL Global (Singapore) Pte Limited**
		Headqtr.	New Delhi			
		Founder	Ministry of petroleum & natural gas			
		Chairman /MD/CEO	Manoj jain			
		CFO	A.K.Tiwari as Finance Director			
		Vision	To be the leading Co. in Natural gas			
		Mission	To accelerate and Optimize the effective and economic use of Natural Gas			
7	Power Grid corporation of India Limited Former Name- National Power Transmission Corporation Limited' Transmission related	Year of inc	1989	845	341	1. Transmits about 50% of the total power generated in India. 2. In January 1993, the Power Transmission Systems Act transferred ownership of 3 power companies to POWERGRID 3. Presence in 210 locations across India. 4. Power System Operation Corporation Limited (POSOCO) is subsidiary of PowerGrid 5. Winner of "**National Award for Excellence in CSR & Sustainability"** under organizational category of "**Best Community Development Awards"** in August, 2019. 6. POWERGRID is positioned as the 4th Fastest Growing Electric Utility. 7. POWERGRID has grabbed Central Board of Irrigation and Power (CBIP) Awards, 2019
		Headqtr.	Gurugram			
		Founder				
		Chairman / MD	R.N Nayak Sreekant kandikuppa			
		CFO	KSR Murty as Director Finance Mohammed taj mukarrum			
1	Cipla Limited	Year of inc	1935			1. **Leading medicine manufacturer in India** with about 1,500 pharmaceutical products in more than 60 therapeutic categories. 2. **Also Manufactures Bulk Drugs, Animal Products and Agro Chemicals** 3. Markets in more than **150 countries** 4. In the year 1985 US FDA approved the company's bulk drug manufacturing
		Headqtr.	Mumbai			
		Founder	Khwaja Abdul Hamied			
		Chairman	Y. K. Hamied			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
		MD/ CEO	Umang Vohra			facilities 5. Cipla has developed good positive image by providing support to cancer patients by introducing drugs at low cost. 6. Manufactures more than 200 generic and complex Active Pharmaceutical Ingredients (APIs). 7. Cipla was founded as The Chemical, Industrial, and Pharmaceutical Laboratories. 8. world's largest manufacturer of antiretroviral drugs 9. Meditab Specialities Private Limited, a wholly owned subsidiary of the Company acquired 75% stake in Mabpharm Private Limited ('Mabpharm'). 10. Cipla Limited has acquired in Oct, 2019 novel and patented anti-infective product, Elores, from Venus Remedies Limited ("VRL") 11. Founder **Yusuf Hamied** has been made an Honorary Fellow of the prestigious body 12. Vision : To be the First Global Biotech co……by 2025. 13. Mission : To be leading Global Health care company which uses tech and innovation to meet every day needs of all the Patients.
		CFO	Kedar Upadhey			
		Slogan	Caring for life			
2	Dr Reddy's Lab Limited	Year of inc	1984			1. The company has over 190 medications, 60 Active Pharmaceutical Ingredients (APIs) 2. 3rd largest pharmaceutical company in India, after Ranbaxy and Glaxo (I) Ltd. 3. Acquired American Remedies Ltd. in 1999. 4. Entered into definitive agreement with Wockhardt Limited worth 1850 crore 5. In April 2019, entered into an agreement to acquire a portfolio of 42 approved, non-marketed Abbreviated New Drug Applications (ANDAs) in the U.S. valuing approximately $645 million for the calendar year ending in December 2018.
		Headqtr.	Hyderabad			
		Chairman	Kallam Satish Reddy			
		CEO	Erez Israeli			
		CFO	Saumen Chakraborty Parag Agarwal			
1	Wipro Ltd. 'Western India Palm Refined Oil Limited',	Year of inc	1945	904	193	1. It was formed in small town 'Amalner' of Maharashtra 2. Wipro Ltd is a global IT, consulting and outsourcing company with clients in 175+ cities across 6 continents 3. Owns trade names of Kisan, Sunflower and Camel. 4. Recognized as a Leader in Artificial Intelligence Consultancies for 2019 5. In 2019, 32.31 crores Equity Shares of Rs. 2 each were bought back, at a price of Rs. 325/- per Equity Share. Amounting to 10500 crores.(appx.) 6. Vision – to be among the top 10 global IT and BPO service
		Headqtr.	Bengaluru.			
		Founder	Mohamed Premji			
		CMD	Rishad Premji			
		CEO	Thierry Delaporte			
		CFO	Jatin Dalal			
2	Infosys Formorly	Year of inc	1981	602	-	1. It is a global leader in technology and consulting services. 2. Enables 1045 clients in more than 50 countries 3. It has 85 sales and marketing offices and 114 development centres
		Headqtr.	Bengaluru			
		Founder	1. Narayana Murthy,			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
	Known as Infosys Consultants Private LTD		2. Nandan Nilekani, 3. N. S. Raghavan, 4. S. Gopalakrishnan, 5. S. D. Shibulal, 6. K. Dinesh 7. Ashok Arora After resigning from Patni Computers system			4. Became a public limited company in June 1992 5. Later renamed to "Infosys Limited" in June 2011. 6. 'Finacle' - which is a universal banking solution with various modules for retail and corporate banking. 7. Acquired Blue Acorn ici and Guide Vision. 8. In 2019, Infosys has been Awarded the 'Excellent Partner Award' by Mazda in 2019 9. United Nations Global Climate Action Award in the 'Climate Neutral Now' category at the UN Climate Change Conference (COP 25) in Madrid, Spain 10. Certified by the Top Employers Institute as a 2020 'Top Employer' 11. Key Business products- ➤ Mana - Knowledge based AI platform ➤ Infosys Information Platform (IIP)- Analytics platform ➤ EdgeVerve Systems ➤ Finacle- Global banking platform by EdgeVerve Systems ➤ Panaya Cloud Suite ➤ Skava 12. **Vision:** To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people. 13. **Mission:** To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large.
		Chairman	Nandan Nilekani			
		MD/ CEO	Salil Parekh			
		CFO	Nilanjan Roy Sandeep kumar gupta			
	ITC Limited Former Name – Imperial Tobacco Company Then Indian Tobacco Company	Year of inc	1910	907	117	1. Diversified its business: 2. ITC is rated among the i. World's Best Big Companies. ii. Asia's 'Fab 50'. iii. World's Most Reputable Companies by Forbes magazine. iv. 'India's Most Admired Company' in a survey conducted by Fortune India. v. 'fastest among the consumer goods companies operating in India' rated by a Nielsen Report vi. ITC earns the Highest Global Recognition for Water Stewardship vii. ITC is the only company in the world to be water positive for 17 years and its Water Stewardship Programme has cumulatively covered 10.87 lakh acres benefiting over 3.20 lakh people in 15 states. viii. ITC in Oct,2019 launched the world's most expensive chocolate priced at Rs 4.3 lakh per kilogram under its Fabelle brand. ix. Key Segments- ➤ Fast-Moving Consumer Goods (FMCG) ➤ Hotels ➤ Paperboards Packaging ➤ Agri Business
		Headqtr.	Kolkata			
		Founder				
		Chairman /MD/CEO	Sanjiv Puri			
		CFO	Supratim Dutta			
		Core value	Trusteeship, Customer focus, Respect for People, Excellence and innovation			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
						Information Technology
1	TATA Sons PVT Ltd	Year of inc	1868	1037 (Tata Motors) 375 (TCS) 828 (Tata Steel)	304 (Tata Motors) 391 (Tata Steel)	1. Tata Sons Private Limited is the conglomerate holding company of the Tata Group. 2. It is India's largest conglomerate 3. The group operates in more than 100 countries across six continents 4. The five core Tata values underpinning the way we do business are pioneering, integrity, excellence, unity and responsibility. 5. 'Tata' brand has entered the list of top 100 most valuable brands according to the Brand Finance Global 500, 2019 report 6. Market capitalization of all 28 listed Tata group companies rose to INR10.88 trillion as of Feb.2019 7. 5 Core Values of TATA- Pioneering, integrity, excellence, unity and responsiblity
		Headqtr.	Mumbai			
		CMD	Natrajan Chandra-sekaran			
		CFO	Eruch Noshir Kapadia			
3	Reliance Industries Limited	Year of inc	1966	58		1. It is one of the India's largest private sector company 2. Engaged in hydrocarbon exploration and production, energy, petrochemicals, textiles, natural resources, retail, and telecommunications. 3. In 1975, the company expanded its business into textiles, with 'Vimal' becoming its major textile brand in later years 4. The company has more than 30 Lacs shareholders 5. It established a synthetic fabrics mill in the 1966 at Naroda in Gujarat. 6. Expanded its business into textiles, with 'Vimal' becoming its major textile brand in later years 7. Changed name from Reliance Textiles Industries Ltd. to Reliance Industries Ltd (RIL) in 1985 8. RIL has 81 subsidiary companies and 10 associate companies 9. Announced investment in Den Networks Limited and Hathway Cable and Datacom Limited 10. Announced investment in Embibe to Form Indis's Larget Artificial Intelligence (AI) Based Education Program. 11. RIL and UK's BP plc have agreed to form a new JV to set up 5,500 petrol pumps 12. Saudi Aramco and RIL signed a non-binding letter of intent in Aug,2019 to acquire a 20% stake in the oil to chemicals (o2c) valued at us$ 75 billion 13. Reliance and Microsoft announced a partnership to accelerate the digital transformation in India, Where, Microsoft will bring in the Azure Cloud on Jio Network . 14. Alliance with Aeromobile, It will be India's first In flight mobile service. 15. Silver lake investment of 9375 Cr. towards Reliance Retail 16. Few More Brands – Recon, Relpet, Relena Eva, Relab , Relflex etc.
		Headqtr.	Mumbai			
		Founder	Dhirubhai Hirachand Ambani and brother Champaklal Damani			
		Chairman /CMD CEO	Mukesh Ambani			
		CFO	Srikanth Venkatchari and Alok Agarwal			
		Slogan	Growth is Energy................ Growth is Value... Growth is Happiness........... Growth is Life...			
4	Larsen & Toubro Ltd	Year of inc	1938	443	29	1. Larsen & Toubro is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. 2. Customers in over 30 countries around the world.
		Headqtr.	Mumbai			
		Founder	Two Danish			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
			Engineers			3. L&T has over 130 subsidiaries and 15 associate companies 4. In Oct. 2019, inaugurated Phase 1 of the Metro Express in the African island nation of Mauritius 5. Have secured a prestigious project from the Navi Mumbai International Airport Private Limited (NMIAPL) 6. Procurement and Construction of the greenfield Navi Mumbai International Airport at Navi Mumbai in Sep.2019 7. Key Business- Construction and Mining, Electrical and Automation, Heavy Engineering, Hydraulics Hydrocarbon, IT Consulting and Digital Solutions, Metallurgical and Power, Rubber Processing Machinery, Shipbuilding, Technology Services.
		Chairman	Anil Manibhai Naik			
		MD/CEO	S. N. Subrah-manyam			
		CFO	Shankar Raman			
5	Flip Kart	Year of inc	2007			1. Flipkart is an E-commerce retail company. The company initially focused on book sales. 2. As of 2017, Flipkart held a 39.5% market share of India's e-commerce industry. 3. Flipkart also owns PhonePe, a mobile payments service based on the (UPI). 4. In August 2018, U.S.-based retail chain Walmart acquired an 81% controlling stake in Flipkart for US$16 billion. 5. Flipkart and its Subsidiaries: - Myntra, for fashion - Jabong, for fashion - PhonePe, online payment channel - Ekart, logistics and retail - Jeeves - 2GUD 6. In September 2015, the two founders entered Forbes India Rich List debuting at the 86th position with a net worth of $1.3 billion each. 7. Vision: To become Amazon of India 8. Mission: Providing delightful customer experience
		Headqtr.	Singapore (Legal Domicile) Bengaluru (Operational Headquarter)			
		Founder	Sachin Bansal and Binny Bansal			
		MD/CEO	Kalian Krishnamurthy			
		CFO	Sriram Venkataraman			

1	Amazon	Year of inc	Gobal-1994 India- 2012-2013	22 2nd or		1. Jeff Bezos founded Amazon in July 1994 as an online book store to buy and rent books. 2. Focuses on e-commerce, cloud computing, digital streaming, and artificial

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
		Headqtr.	Global- Seattle, Washington In India- Hydrebad	Fortune 500		intelligence. 3. It is referred to as "one of the most influential economic and cultural forces in the world", 4. World's most valuable brand. 5. Amazon is the largest Internet company by revenue in the world. 6. It is the second largest private employer in the United States. **7. Portfolio of Company; Products and Services it offers** a. Amazon.com's product lines available at its website include several media (books, DVDs, music CDs, videotapes and software), apparel, baby products, consumer electronics, beauty products, gourmet food, groceries, health and personal-care items, industrial & scientific supplies, kitchen items, jewelry, watches, lawn and garden items, musical instruments, sporting goods, tools, automotive items and toys & games. It has the following services for its customers; b. AmazonFresh, Amazon Prime, Amazon Web Services, Alexa, Appstore, Amazon Drive, Echo, Kindle, Fire tablets, Fire TV, Video, Kindle Store, Music, Music Unlimited, Amazon Digital Game Store, Amazon Studios, AmazonWireless 8. Vision: We aim to be Earth's most customer centric company 9. Mission : To continually raise the bar of the customer experience by using the internet and technology to help consumers find, discover and buy anything, and empower businesses and content creators to maximise their success. 10. #1 American Customer Satisfaction Index Internet Retail Category, 2020, Ranked in the top 10, eleven years running. 11. Jeff Bezos is currently the richest person in the world with a personal wealth of over $175 Billion.
		Founder	Jeff Bezos			
		CEO	Global- Jeff Bezos India – Amit Agarwal			
		CFO	Global- Brian T. Olsavsky India – Raghav Rao			
2	THE GOLDMAN SACHS GROUP, INC.	Year of inc	1869	47 60th of Fortune 500		1. The Goldman Sachs Group, Inc. is a leading global financial services firm providing investment banking, securities and investment management services. 2. By early 21st century, it became the biggest investment banking enterprises in the world. 3. Goldman Sachs is managed by its principal owners. 4. It offers services in- investment management, securities, asset management, prime brokerage, and securities underwriting, It also provides investment banking to institutional investors. 5. Mission : We are committed to a distinctive culture and set of core values. These values are reflected in our Business Principles, which emphasize placing our clients' interests first, integrity, commitment to excellence and innovation, and teamwork.
		Headqtr.	200 West Street, New York, NY 10282, U.S.			
		Founder	Marcus Goldman and Samuel Sachs			
		CEO & Chairman	David M. Solomon			
		CFO	Stephen Scherr			
2	American	Year of inc	1850	88	43	1. The company is best known for its credit card, charge card, and traveller's

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
	Express		➧ 1921 in Kolkata, India	(67nd on Fortune 500)		cheque businesses. 2. It operates in 175 countries with 2,300 offices across the world 3. Parent organisation of three major companies: American Express Travel Related Services (TRS), The American Express Bank Ltd. (AEBL) and American Express Financial Advisors 4. The company has set up global back office a. American Express (India) Private Ltd (handles accounting and financial processes) b. American Express Global Service Centre (provides support) 5. American Express (Amex) has added 6 lakh new merchants since 2017 in India 6. To be leading provider of payment solution worldwide
		Headqtr.	New York City, United States			
		Chairman	Stephen Squeri			
		CEO	Jeffery C. Campbell			
3	HP Inc	Year of inc	1939	432 and 109th on Fortune 500	393	1. It develops wide variety of hardware as well as software and related services to consumers 2. In 2014, Hewlett-Packard announced plans to split the PC and printers business 3. The split closed on November 1, 2015, and resulted in two publicly traded companies: HP Inc. and Hewlett Packard Enterprise 4. HP committed $200 million over five or more years to develop water-based ink technologies for printing digitally on corrugated packaging and textiles 5. Launched the world's first notebook with ocean-bound plastics in Sep. 2019. 6. Vision- to Create Technology that make life better for everyone, every person, every Organization and every community around the Globe
		Headqtr.	California, United States			
		Founder	William Bill Redington Hewlett and David Dave Packard			
		Chairman	Chip Bergh			
		CEO	Enrique Lores			
		CFO	Steve Fieler			
4	Intel Corporation	Year of inc	1968	38 (45rd on Fortune 500)	64	1. It is the world's largest and highest valued semiconductor chip makers based on revenue. 2. Inventor of the x86 series of microprocessors: 3. The company's name was conceived from the words 'integrated' and 'electronics' 4. Intel Corporation acquired Artificial Intelligence chip maker Habana Labs for $2 billion in Dec.2019 5. Intel Corporation sold the majority of its smartphone modem business to Apple valued at $1 billion in 2019. 6. Core value – Customer Orientation, Risk taking, Result orientation, quality and great place to work.
		Headqtr.	California, United States			
		Founder	Robert Noyce and Gordon Moore			
		Chairman	Oman Ishrak			
		CEO	Bob Swan			
		CFO	George Davis			
5	Microsoft corporation	Year of inc	➧ 1975 ➧ 1990 in India	13 (21th on Forture 500)	2**	1. It develops, manufactures, licenses, supports and sells computer software, consumer electronics and personal computers and services 2. Best known for Microsoft Office, office suite, and Internet Explorer and Edge web browsers. 3. MS-DOS solidified the company's dominance in Mid- 1980s 4. Owns LinkedIn, Nokia, Skype
		Headqtr.	Washington, United States			
		Founder	Paul Allen and Bill Gates			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
		Chairman	John Thompson			5. Microsoft Taiwan and KKBOX Group announced the launch of KKBOX's music streaming services to the Microsoft Azure cloud platform. 6. KPMG expects to invest US$5 billion in digital strategy and expand Microsoft alliance to accelerate professional services transformation. 7. Vision – to help individuals and business realize their full potential. 8. Mission – To empower every person and every organization on the planet to achieve more.
		CEO	Satya Nadella			
		CFO	Amy Hood			
6	Apple Inc. Till 2007 known as Apple Computer, Inc	Year of inc	1977	9 (4rd on Fortune 500)	4	1. It designs, develops, and sells consumer electronics, computer software, and online services. 2. Apple is the world's largest information technology company by revenue, 3. World's largest technology company by total assets 4. World's second-largest mobile phone manufacturer, by volume, after Samsung 5. Operates the online Apple Store and iTunes Store (which is the world's largest music retailer) 6. Apple acquired Shazam App in 2018 for an undisclosed amount. 7. Shazam has been downloaded over 1 billion times around the world, and users identify songs using the Shazam app over 20 million times each day.
		Headqtr.	California United States			
		Founder	Steve Jobs, Steve Wozniak and Ronald Wayne			
		CEO	Tim Cook			
		CFO	Luca Maestri			
7	IBM Corporation International Business Machine corporation Formerly known as Computing - Tabulating and recording company till 1924	Year of inc	➧ 1911 ➧ 1992 in India	51 (38th on Fortune 500)	11	1. It manufactures and markets computer hardware, middleware and software, and offers hosting and consulting services 2. It operates in over 170 countries across the globe 3. It is a major research organization, holding the record for most patents generated by a business 4. Inventions by IBM include the automated teller machine (ATM),the PC, the floppy disk, the hard disk drive, the magnetic stripe card, the relational database, the SQL programming language, the UPC barcode, and dynamic random- access memory (DRAM). 5. IBM entered India in 1992 with a Tata joint-venture, named Tata Information Systems Ltd. 6. In 2017, it acquired 'Agile 3 Solutions' and Ravy Technologies 7. Received Climate Leadership Award from the U.S. Environmental Protection Agency (EPA) in 2016 8. In 2016, It acquired 'Sanovi Technologies' 9. In 2009, IBM acquired 'Lombardi' 10. IBM acquired Red Hat in 2019 for $190.00 per share total equity value of approximately $34 billion. 11. In 2014, received record 9,262 US patents in 2019, with India being the second-highest contributor marking the company's 27th consecutive year of US patent leadership," 12. In 2019, IBM was granted patents across artificial intelligence (AI), blockchain, cloud computing, quantum computing and security
		Headqtr.	New York, United States			
		Chairman / president and CEO	Arvind Krishna			
		MD	Sandip Patel is the MD of IBM India Pvt Ltd			
		CFO	James J. Kovanaugh			

SN	Name	Founder, Chairmam, MD, CEO, CFO		Forbes largest org (2019)	Best Employer (2019)	Details
						13. IBM inventors from India received over 900 patents 14. Vision – IBM should be first and foremost on any new enterprise datacenter migration shortlist.
8	Nestle Limited	Year of inc Headqtr. Founder Chairman CEO CFO	1866 1923 in India Vevey, Switzerland Henry Nestley Pual Bulcke Ulf Mark Schneider Francois Xavier Roger	41	79	1. Nestle is a Swiss transnational food and drink company. 2. It is the world's largest food, nutrition, health and wellness company. serving 2000 plus brands 3. Huge work force of 3,52,000 people across the world 4. Major competitors of Nestle in Indian sub-continent and worldwide are Unilever, Starbucks, Kraft Foods, Mars, PepsiCo, Britannia, Walmart, Patanjali, Amul, Glaxo Smith Con, KRBL and Hatsun Agro. 5. Board of Directors has decided to distribute an amount of up to CHF 20 billion to Nestlé shareholders over the period 2020 to 2022, primarily in the form of share buybacks 6. Nestlé inaugurated the Institute of Packaging Sciences to address the global challenge of plastic packaging waste. 7. Nestle had JV with Coca-cola, General Mills, Colgate pamolive
9	Walmart	Year of inc Headqtr. Founder Chairman MD CEO CFO	1969 2009 in India Arkansas, United States Sam Walton Greg Penner Dough McMillon (Sameer Aggarwal is President and CEO of Walmart, India) Bret Biggs	19 (1st on Fortune 500)		1. Walmart is an American multinational retailing corporation that operates as a chain of hypermarkets, discount department stores, grocery stores and online store. 2. It is world's leading retailer renowned for its efficiency and expertise in logistics, supply chain management and sourcing 3. Walmart is the world's largest company by revenue. 4. Has 11,695 stores & clubs in 28 countries, under of 63 banners 5. Largest private employer in the world 6. WalMart India owns and operates 21 Best Price Modern Wholesale stores offering nearly 5,000 items in a Cash and Carry wholesale format in 9 States across India. 7. The first store opened in Amritsar in May 2009. 8. On 1st July, 2014, Walmart India launched B2B e-commerce platform and extended it to its Best Price store members 9. The company was listed on the New York Stock Exchange in 1972. 10. Walmart acquires 77% shares of Flipkart on May 9, 2018 11. In 2017, Walmart acquired Moosejaw and Bonobos for approximately $351 million. 12. In 2016, Walmart acquired jet.com for approximately $565 million. 13. Walmart India & HDFC Bank announced co-branded credit card exclusively for over 1 million 'Best Price' members in Dec. 2019 14. Walmart India Opens 25th Cash & Carry Store in India; Reiterates commitment to enable Kiranas & Small Businesses to prosper, increase sourcing from farmers & develop MSME eco-system

SN	Name	Founder, Chairmam, MD, CEO, CFO	Forbes largest org (2019)	Best Employer (2019)	Details

Chapter 4: Government policies for Business Growth

Imagine the following scenario and discuss the government support or resistance in each case.

a. You want to Sell imported cars in your country since there is huge demand of such cars, but unfortunately government does not allows sale of imported cars in country
b. You Live in Bangladesh and Government allows the sale of second hand imported cars.
c. You want to start the project in India for manufacturing of Good Quality affordable Phones.
d. You wish to launch an app that collects people's personal data.
e. Do you know why is Huawei banned in USA?
f. Do you remember Mark Zukersberg was called for Trail in the issue of data security?
g. Rohit sells fire crackers in Delhi. He was fined by local police for selling fire crackers with an expired trade licence.
h. Bharat was imprisoned for three days in Singapore as he violated traffic rules
i. Chanakya Wrote the Book Atrhsashtra Under Rule of Chandragupt Mourya
j. Dadabhai Naoroji wrote the book' hisbook poverty and un- British rule in India
k. Preamble was adopted in year 1950 and first 5 years planning took place in 1956

1. Indian Scenario from Mid-fifties and 1990 onwards
2. The Government of India followed a **mixed economic path**.

Bases of comparison	Policy regime of mid fifties	Policy regime since 1990s
Evident Nature of Economic System	Mixed economy, with dominant public sector	Capitalistic economy
Dominant instrument of economic governance	Economic planning	Market mechanism
Roleof Government in Business	Acquiring commanding heights through public sector undertakings	State ownership of business as exception; privatisation of public sector undertakings
Role of Government vis-à-vis Private Business	Regulation and control	Liberalisation of regulations

3. The Challenge is to make policies that boost the business without compromising National Interest and individual interest. Thus our Focus will be on government policies in this regards.

4. Monetary VS Fiscal Policy -

a. Fiscal policies - that is the policies relating to government expenditure and tax and non tax revenue-

b. Monetary policies – that is policies relating to supply of money, credit and foreign exchange broadly impact the business

c. In fact all economic policies work on demand side or supply side or both.

5. Macro Policy Indicators and Business Conduciveness

a. ***GDP, inflation, tax rates, interest rates, and exchange rates are the five most significant macro policy indicators impact business.***

b. It is almost a standard recipe of business conduciveness that growing GDP, moderate inflation, low tax and interest rates and moderate exchange rates serve as tonic for business.

Variable	Direction	Meaning
GDP	Rising	Economic optimism; high demand expectations
Inflation	Moderate	Demand and profit expectations
Tax	Lower	Incentive for investors in the form of post-tax business income
Interest	Lower	Lower cost of funds
Exchange	Moderate	Protection to domestic production; incentive for exports

6. The underlying causal factor, presence of other enabling factors on demand and supply side, complimentary socio-cultural institutions and above all the overarching assumption "given other things constant" mediate in the impact of macro-economic variables on business conduciveness.
7. Not the least, there always is a time lag between calibration/ recalibration of a macro-economic variable and its impact.
8. It is important to note that the process is bi-directional.

Public Policies

- **Public policies** - Every nation defines its mode of governance through a number of policies. These policies are described as
- In any nation, policy making process is related to political actions. Public policy is guided by social, cultural religious and political factors in pursuance of clearly defined goals and objectives.
- Public Policy **Process is continuous in nature**. It involves certain distinct components as shown in the above figure. These components are interconnected by various types of communication and a multiplicity of feedback loops

Types of Public Policies

Public policies are of 4 types

- **Protective policies** aim to provide protection to the businesses so that these may sustain themselves and grow. **For example**, economic policies during Mid-fifties to Eighties restricted the entry of multinational corporations in India so that the Indian firms grew in a protective environment.

- **Restrictive policies** curtail all benefits in some particular issue. For example, custom duties may be imposed to protect Indian products.

- **Regulatory practices** regulate the activities of a particular sector of economy. The regulator checks deviations in set practices and policies. For Example- RBI regulates banks , the Money Market and Forex Market operations. SEBI regulate the equity, bond and derivative markets. Also Includes rules for traffic control, DGFT.

- **Facilitating policies** are the ones which facilitates an activity. For Example, the conducive policies towards the development of MSMEs , the formation of National Skills Development Corporation (NSDC)

- Some policies are called **distributive policies**, which are meant for specific segments of society. It can be in the area of public distribution to people below poverty line (BPL), public welfare, justice for women, health services, adult education programme, food relief, social insurance, immunization camps etc.

Liberalization, Privatization, Globalization

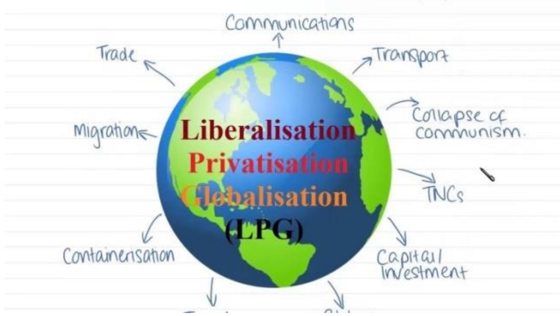
The New Economic Policy of 1991 which is better known as the **LPG or GPL policy** i.e. the policy of liberalisation, privatisation and globalisation is regarded as the **watershed development** in business facilitation in India. This was known as **neo-liberal** economics

Liberalization

- **Liberalization** of economic policy refers to the **gradual decrease in government command** and control over the economic policies.
- Liberalisation means to remove or loosen restrictions.
- liberalization may be defined as a systematic process of the enlargement and enhancement of the freedom of the private sector in the economy.
- Simplification of tax structure, removing quotas, bars and economic restrictions are some examples of liberalization.
- This happens via dismantling of licensing and permits, deregulation, easing of approvals and systematic loosening of legislative and administrative controls over business.
- Erstwhile 18 Sectors were under exclusive control of Government, now only 3 sectors namely, defense aircrafts and warships, atomic energy generation, and railway transport.
- In fact, in most cases liberalization meant greater freedom not only for domestic private sector but also for foreign direct investment and trade.

Privatization

- **Privatization,** in its purest form means **transfer of government ownership to private hands**. Privatization refers to a **managerial approach of changing the ownership structure** of one or more government owned institutions.



A. Advantages and Disadvantages- Privatization can be advantageous in terms of the higher flexibility and scope of innovation it offers along with cost savings, many a times. However, it has an adverse impact on the employee morale and generates fear of dislocation or termination. Privatization is an essentially effective tool for rapid restructuring and reforming the public sector enterprises.

B. Example- During the Prime Ministership of Mrs. Margaret Thatcher, British Coal Mines were privatized; many of the components of National Healthcare Services and School Education Services were privatized. In some cases, ownership of all shares is transferred from government to a single highest bidder (VSNL was taken by Tata Telecom. In some cases, a large chunk of shares is sold to public, but majority shares are in the hands of the government (ONGC, SAIL, State Bank of India etc.).

C. Privatization may be of conceptualized in following prominent types:

1. **Delegation:** Government keeps hold of responsibility and private enterprise handles fully or partly the delivery of product and services. There is active involvement by government. Delegation may happen through contract, franchise, grant, etc.

2. **Divestment**: Government **surrenders partial ownership and responsibility** and **sells** the **majority stake** to one or more private entities in course of time.
3. **Displacement:** The private enterprise **expands and gradually displaces the government entity**. Deregulation facilitates privatisation if it enables private sector to challenge a government monopoly. The government monopoly through BSNL and MTNL has been displaced by the private sector.
4. **Disinvestment:** **Selling a portion of ownership (stake)** in a public enterprise to private parties.

1. In this context, the two main objectives of privatization in India were:

a) to **raise revenues** to ease the fiscal crunch and;

b) to **improve the profitability** and **efficiency** of the divested enterprises.

Globalization

refers to **taking out restrictions in export and import** of goods and services. It also covers the measures of lifting the trade barriers.

FOREIGN DIRECT INVESTMENT IN INDIA (FDI)

Foreign Direct Investment (FDI) may be described as a flow of capital investment to an enterprise in a nation by another enterprise located in a different nation by capturing a majority stake in ownership in a company in the target country or by expanding operations of an existing business in that country.

a. Foreign capital is seen as an harbinger of growth. In a sense, it is like filling in the gaps between domestic savings and investment.
b. Foreign funding in good sense **creates employment as well as demand**. For a steady flow in foreign funds, liberalization of economy is required.
c. **Liberalization is always paired with regulations.**

- Permission for FDI is **not uniform for all sectors**. Some sectors are opened up for 100% & in some sectors; it is allowed only up to 26%, 49% or 51%.
- FDI has always remained a **bone of contention** example defence.
- In certain areas, the FDI limit has been capped, like the Insurance Business.
- Where there is **no approval through Automatic Route**, the company concerned has to **seek permission** from Foreign Investment Promotion Board.
- India generally receives FDI from US, Britain, Singapore, Japan and the USA.
- Here are a few sectors where FDI is prohibited under both the Government Route as well as the Automatic Route:

1. Atomic Energy
2. Lottery Business
3. Gambling and Betting
4. Business of Chit Fund

5. Nidhi Company
6. Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
7. Housing and Real Estate business (except development of townships, construction of residential/ commercial premises, roads or bridges to the extent specified)
8. Trading in Transferable Development Rights (TDRs)
9. Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

FOREIGN INSTITUTIONAL INVESTORS (FIIs)

1. FIIs are large foreign groups with substantial investible funds.
2. FIIs are registered abroad with a view to investing in other nations to invest in equity market, hedge funds, pension funds and mutual funds.
3. FIIs have strong research team which speculate to invest in a country with a possibility of strong return in equity market. FII invest to take advantage of bullish market.
4. Naturally for small period the nation experience inflow of strong foreign currency in its financial system.
5. Whenever the market reaches a peak and starts declining thereafter, these funds move to another nation.
6. No wonder, national governments look for sustainable FDI investment over FII investment.

Investment from India Abroad (OFDI)

a. Policy of globalisation has favoured India not only in terms of Inward FDI but also in terms of outward FDI or OFDI.

b. Data released by the Reserve Bank of India show that Investments by Indian firms in foreign countries in January 2020 rose by nearly 40 per cent to USD 2.10 billion on a yearly basis.

c. **For example** in February 2020, Bharti Airtel invested US$ 978.92 million in its wholly owned subsidiary in Mauritius; in November 2019, PVR Cinemas, a leading multiplex chain, launched its first property in Sri Lanka, marking its first international venture; and in August 2019, Sun Pharma entered into a licensing agreement with China System Medical Holdings (CMS) to develop and commercialise seven generic products in Mainland China.

Some Omitted but IMP Point –

- ✓ After Independence, **Planning Commission** (now replaced by **NITI Aayog**) was established to make economic plans for a period of five years. These policies were of two types, ones of **regulation** and the others of **promotion.**
- ✓ **Permission was granted to Non-Resident Indians** (NRIs) and **Overseas Corporate Bodies** (OCBs) to invest up to <u>100 per cent capital</u> in high priorities sectors.
- ✓ These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 [that replaced the Foreign Exchange Regulation Act (FERA), 1973] which was less stringent.

- ✓ In 1997, Indian Government **allowed 100% FDI in cash and carry wholesale** and FDI in single brand retailing was allowed 51% in June, 2006. After a long debate, further amendment was made in December, 2012 which led FDI to 100% in single brand retailing and 51% in multiple brand retailing.
- ✓ A decision is the act of making a choice. Decisions are made in accordance with Goals. Goals are translated into decision. Policies are formulated after that. A policy emanates from decision and decision is taken in line with goal.

Characteristics of Govt. Policy

- ✓ Public Policies are always **goal oriented –** Made with a view for ultimate benefit of the masses.
- ✓ Represents the outcome of the **government's collective actions**

  e.g.
- ✓ Public policy is what the government **actually decides or chooses to do**
- ✓ **Public policy is positive** in the sense that it depicts the concern of the government and involves its action to a particular problem on which the policy is made.

Chapter 5:ORGANIZATIONS FACILITATING BUSINESS

Introduction:

Business **facilitator is a system of arrangements that ease the doing of business**. The term business facilitator is formally defined in the financial sector as intermediaries performing a host of functions linking the banks / financial institutions and their potential clients.

I. In the **layer above one would like to place such policy making and executive agencies** as the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), Competition Commission of India (CCI) and such regulatory cum developmental agencies such as Insurance Regulatory and Development Authority (IRDA).

II. **Intermediate layer have auxiliaries or aids to trade** such as banking, insurance, transport, warehousing etc.

III. **Point of Contact (POC) Business facilitators** help the business in several ways, it includes

a) **Freight forwarder** i.e. a person or company who organizes shipments for the business firms to get goods from the manufacturer or producer to a market, customer or final point of distribution

b) **Business incubator** helps create and grow young businesses by providing them with necessary support and financial and technical services.

c) **Business accelerator** helps a budding business quickly launch a product and put it in the fast lane of commercial success;

d) **Financial consultant** who advises the business on the various sources of finance- domestic as well as foreign

e) **Merchandiser** who helps the business e.g. a fashion house obtains its supplies- fabrics, accessories, etc

- Together, these may be regarded as **Business Facilitation System**

(Case study on business facilitators)

Under banking Business facilitators and Business correspondents carry different role:

Business correspondents- are permitted to carry out regular transactions for customers on behalf of the bank.

Business facilitators are only responsible for spreading awareness related to banking and bank's products, assisting the bank in business generation activities and recovery of bad debts. However, they do not undertake any cash transactions.

NON-FUNDING INSTITUTIONS FOR BUSINESS FACILITATION IN INDIA (INDIAN REGULATORY BODIES)

The institutions which **do not invest in businesses and as such are called non funding institutions**. Government came with industrial policy Statement in 1948

1. IDRAI (Industries development & Regulation Act) was also constituted in year 1951
2. The institutions such as the **Reserve Bank of India, the Securities and Exchange Board of India** are regulatory body which is the rule setter for fair play in business provide the supra context of business facilitation.
3. Then there are industry specific business facilitators too such as the **Insurance Regulatory and Development Authority, Telecom Regulatory Authority of India** and the like.
4. The **National Institute of Entrepreneurship and Small Business Development** (NIESBUD) focuses on training the trainers in entrepreneurship development;
5. **Entrepreneurship Development Institute (EDI)** is the national level apex organization for entrepreneurship development.
6. Then there are 30 **Micro, Small and Medium Enterprises Development** Institutes and 28 Branch **MSME-DIs** (formerly SISIs) set up in State capitals and other industrial cities all over the country for providing a host of services to the entrepreneurs / small businesses.
7. Institutes like **India Trade Promotion Organisation and India Brand Equity Foundation** aim to enhance India's image as a sourcing partner and investment destination.
8. Government schemes such as **Make in India** and **Startup India** for furthering and facilitating Indian businesses.

Reserve bank of India RBI

A. History

1. The Reserve Bank of India (RBI) was **established on April 1, 1935** in accordance with the provisions of the **Reserve Bank of India Act, 1934.**
2. Though originally privately owned**, since nationalisation in 1949**, the Reserve Bank is **fully owned by the Government of India**.
3. The Central Office of the Reserve Bank was **initially established** in **Calcutta but was permanently moved to Mumbai in 1937**.
4. The Reserve Bank's **affairs are governed by a central board of directors**. The board is **appointed by the Government of India** in keeping with the RBI Act.

B. Role of RBI

1. The RBI is the **apex monetary institution of the highest authority in India**. It plays an important role in strengthening, developing and diversifying the country's economic and financial structure.
2. It is responsible for the maintenance of ***economic stability*** and ***assisting the growth of the economy.***
3. It is given the **responsibility for controlling the country's monetary policy**.
4. It acts as an **advisor to the government** in its economic and financial policies
5. Represents the country in the **international economic forums**.
6. It also **acts as a friend, philosopher and guide to commercial banks**.
7. India being an emerging economy, the RBI has to **keep inflationary trends under control** and to see that main priority sectors like agriculture, exports and small scale industry get credit at cheap rates.
8. It has also to **protect the market for government securities**.

9. It also **Channelize credit** in desired directions.

C. Functions of RBI

The Preamble of the Reserve Bank of India describes its basic functions as:

"...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

1. **Issue of currency in India** other (than one rupee coins and notes and subsidiary coins.)

2. Banker to the government

a. It transacts all the general **banking business of the Central and State Governments**

b. It **manages public debt** and is responsible for issue of new loans

c. It also **sells Treasury Bills** on behalf of the Central Government in order to wipe away excess liquidity in the economy.

d. The RBI also **makes advances to the Central and State Governments** which are repayable within 90 days from the date of advance, known as Ways and Means Advances (WMA).

e. RBI also **acts as an adviser** to the government not only **on policies concerning banking and financial matters** but also on a **wider range of economic issues** including those in the field of planning and resource mobilisation.

3. **Banker's Bank**: RBI has been vested with extensive power to control and supervise commercial banking system under the ***Reserve Bank of India Act, 1934*** and the ***Banking Regulation Act, 1949.***

a. The RBI **provides financial assistance to scheduled banks and state cooperative banks** in the form of discounting of eligible bills and loans and advances against approved securities.

b. The RBI **also conducts inspection** of the commercial banks and calls for returns and other necessary information from banks.

4. **Custodian of Foreign Exchange Reserves**: The RBI is required to **maintain the external value of the rupee.**

a. For this purpose it functions as the **custodian of nation's foreign exchange reserves**.

b. The RBI has the **authority to enter into exchange transactions on its own account and on account of government**.

c. It also administers exchange control of the country and enforces the provisions of **Foreign Exchange Management Act**.

d. To Manage the Deficit they borrow from IMF too.

5. **Controller of Credit** - Controlling credit operations of banks is generally considered to be the **principal function of a central bank**. possesses power to use almost all **qualitative and quantitative** methods of credit controls.

6. **Promotional Functions**: Apart from the traditional functions of a Central Bank, the RBI also performs a variety of developmental and promotional functions. It is responsible for **promoting banking habits among people** and mobilising savings from every corner of the country.

   Initially, RBI had also taken up the responsibility for the provision of finance for agriculture, trade and small industries. But now these functions have been handed over to NABARD, EXIM Bank and SIDBI respectively.

7. **Collection and publication of Data**: It has also been entrusted with the task of **collection and compilation of statistical information** relating to banking and other financial sectors of the economy

D. RBI's Role in Business Facilitation

1. **Currency Policy:** The RBI is responsible for the monetisation of the economy. Adequate money supply is critical for the functioning of the economy. Moreover, the RBI also plays an important, albeit an indirect role in the determination of exchange rates.

2. **Credit Policy:** The RBI does not fund the business or for that matter any activity. This is done through change in Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR) or Bank Rate. It is expressed in basis points. One per cent is equivalent to 100 basis points.

a. **SLR and CRR** are **quantitative measures** of credit policy; these affect funds availability to all the sectors.
b. RBI has **qualitative measures** of credit control too through which it influences the credit availability to a particular sector. Especially to priority sector Lending (PSL) like MSME and Agriculture
c. **Bank rate/ Discount rate** – Interest is an inevitable part of the credit policy. RBI influences the interest rates through such policy instruments as "bank rate". Bank rate is the rate of interest at which the RBI lends to banks. Bank Rate is a **longterm** measure and is governed by the long-term monetary policies of the RBI.
d. **Repo Rate.** The rate at which banks borrow money from the RBI against pledging or sale of government securities to RBI is known as "Repo Rate." Repo rate is a short form of Repurchase Rate. Generally, these loans are for **short durations up to 2 weeks**.
e. Repo Rate differs from Bank Rate with respect to the time horizon.
f. **Reverse Repo Rate**. It is the rate of interest offered by RBI, when banks deposit their surplus funds with the RBI for short periods

3. **Development of the Financial System**: Finance is said to be the life blood of business. **RBI is the heart** of Financial System and **Money/Finance is the blood**.

4. **Funds Transfer and Payments Mechanism**: Reserve bank of India presides over the system and sets the rules of paper based and digital payments and funds transfer mechanisms.

Securities and Exchange Board of India (SEBI)

A. Introduction:

- **Controller of Capital Issues (CCI)** was the regulatory authority **before SEBI** came into existence; it derived authority from the Capital Issues (Control) Act, 1947.
- The Securities and Exchange Board of India (SEBI) was established by the Government of India on **12th April 1988 and given statutory powers in 1992 with SEBI Act**, 1992 being passed in the Parliament.
- The SEBI Act, 1992 has **come into force with effect from 30th January, 1992**.
- SEBI is an authority to **regulate and develop the Indian capital market and protect the interest of investors in the capital market**.
- SEBI has its **headquarters** at the business district of **Bandra-Kurla Complex in Mumbai**, SEBI has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad, respectively.

B. Composition:

The SEBI is managed by a board, which consists of following:

a. **A Chairman**, who shall be **appointed by CG** and he shall be a person of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.

b. **Two members** from amongst the **officials of the Ministry of the CG** dealing with Finance and administration of the Companies Act, 2013, who shall be nominated by the CG.

c. **One member** from amongst the **official of RBI**, who shall be **nominated by RBI**.

d. **Five other** members out of which at least three members shall be whole-time members, who shall be appointed by CG and they shall be persons of ability, integrity and standing in the field of securities market, law, finance, accountancy, economics, administration, etc.

C. Functions of SEBI

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as "...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected there with or incidental there to".

i. SEBI has to be responsive to the needs of three groups, which constitute the market:

1. the issuers of securities
2. the investors
3. the market intermediaries.

ii. SEBI has three functions rolled into one body which are as follows:

1. **Quasi-legislative**: SEBI drafts regulations in its legislative capacity.
2. **Quasi-judicial**: SEBI passes rulings and orders in its judicial capacity.
3. **Quasi-executive**: SEBI conducts investigation & enforcement action in its executive function.

D. Appeal Process under SEBI- there is an appeal process to create accountability.

1. **Securities Appellate Tribunal**- which is a three-member tribunal and is headed by ***Mr. Justice J P Devadhar***, a former judge of the Bombay High Court.
2. A second appeal lies directly to the **Supreme Court**.

E. Powers of SEBI

For the discharge of its functions efficiently, SEBI has been vested with the following powers:

1. To approve **by–laws** of stock exchanges.
2. To require the stock exchange to **amend their by–laws**.
3. To **inspect the books of accounts** & **call for periodical returns** from recognized stock exchanges and **financial intermediary** (Brokers)
4. To compel **certain companies to list** their shares in one or more stock exchanges.

F. SEBI's Role in Business Facilitation

1. SEBI is responsible for the **development of India's capital market**
2. It also **oversees** the subsequent **trading of their shares** on the stock exchanges.
3. It facilitates overseas entities desirous of participating in **Indian capital markets**
4. It even **facilitates domestic capital** market entities desirous of participation in overseas markets.
5. It coordinates with the **market developers and regulators abroad**.
6. It is responsible for **investors' faith in the functioning of the capital markets** and thus assures the corporates of steady flow of funds.

Competition Commission of India (CCI)

A. What is competition?

- Competition is a contest between organisms, animals, individuals, groups, etc.
- In the context of business, competition is the best means of ensuring that the 'Common Man' has access to the broadest range of goods and services at the most competitive prices.

B. Types of Competitions:

Competition may be either Direct or Indirect as discussed below:

1. **Direct competition**: Products that perform the same function compete against each other.
2. **Indirect competition**: Products that are close substitutes for one another compete.
3. Example: A fine dining restaurant has direct competition with other local restaurants, but it also indirectly competes with nearby supermarkets that offer ready-to-eat meals such as frozen parathas and eat and serve dishes.

C. Benefits of free and fair competition

a) Encourages Innovation.
b) Increases Efficiency.
c) Punishes the Laggards.
d) Boosts choice improves quality, reduces costs.
e) Ensures availability of goods in abundance of acceptable quality in affordable price.

D. Competition Act, 2002

Competition law is a tool to implement and enforce competition policy and to **prevent and punish anti-competitive business practices** by firms and **unnecessary Government interference i**n the market.

The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, prohibits anti-competitive agreements, abuse of dominant position by enterprises and regulates combinations (acquisition, acquiring of control and M&A), which causes or likely to cause an appreciable adverse effect on competition within India.

E. Features of the Competition Act, 2002

1. Prevents practices having an appreciable adverse effect on **competition**.
2. Promote and **sustain competition** in the market and to protect the interests of consumers.
3. Ensure **freedom of trade**.
4. With the enforcement of the **Competition Act**, 2002 the MRTP Act, 1969 shall stand repealed and the MRTP Commission shall be dissolved.
5. The Competition Act, 2002 provides for the establishment of **Competition Commission of India (CCI)** and prescribes its duties, functions, and powers.

F. The Competition Commission of India (CCI)

i. History:

1. The Competition Commission of India (CCI), was established by the Central Government on **14th October 2003**.
2. The Commission is a **body corporate** having **perpetual succession and common seal**.
3. CCI consists of a Chairperson and **Six Members appointed by the Central Government**.

ii. Objectives:

1. To prevent practices having adverse effect on **competition.**
2. To promote and sustain **competition** in markets.
3. To protect the **interests of consumers** and,
4. To Ensure **freedom of trade** carried on by other participants in markets, in India

iii. Role of CCI

The preamble to the competition act states "An Act to provide, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto".

iv. Following are the role of CCI

1. Make the markets work for the benefit and **welfare of consumers**.
2. Ensure fair and **healthy competition** in economic activities in the country .
3. Implement **competition policies** with an aim to effectuate the most efficient utilisation of economic resources.
4. Develop and nurture effective relations and interactions with sectorial regulators to ensure smooth alignment of sectorial regulatory laws in tandem with the **competition law**.
5. Effectively carry out **competition advocacy** and spread the information on benefits of competition among all stakeholders to establish and nurture competition culture in Indian economy.
6. **Role of CCI as a Business Facilitator-** CCI protects businesses from other businesses' unfair practices and penalises the erring entities too. It promotes competition by preventing abuse of dominance by a market player to the deterrent of other competitors and the consumers. As such it ensures the co- existence of large and small enterprises.

Insurance Regulatory and Development Authority of India (IRDAI)

A. History:

1. Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous **apex statutory body which regulates and develops the insurance industry in India**.
2. IRDAI role is to **protect rights of policy holders** and they **provide registration certification to life insurance companies** and responsible for **renewal, modification, cancellation and suspension of this registered certificate**.
3. It was constituted under **Insurance Regulatory and Development Authority Act, 1999** and duly passed by the Parliament.
4. The IRDA Act, 1999 allows private players to enter the insurance sector in India besides a maximum **foreign equity of 26 per cent in a private insurance company** having operations in India. The Insurance Bill (Proposed by UPA government in July, 2013) but passed in **July, 2014, raised the FDI limit in insurance sector to 49%.**

B. Mission Statement of the Authority-

a. To protect the interests of and secure fair treatment to policyholders;
b. To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;
c. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;

d. To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery;
e. To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;
f. To take action where such standards are inadequate or ineffectively enforced;
g. To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation.

C. Duties, Powers and Functions of IRDAI

Section 14 of IRDAI Act, 1999 lays down the duties, powers and functions of IRDAI

The powers and functions of the Authority shall include:

1. Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration; for **insurance business**
2. protection of the interests of the **Insurance policy holders** in various matters
3. specifying requisite qualifications, code of conduct and practical training for intermediary or **insurance intermediaries** and agents
4. specifying the code of conduct for **surveyors and loss assessors**;
5. promoting efficiency in the conduct of **insurance business**;
6. promoting and regulating professional organisations connected with the **insurance and re-insurance business**;
7. calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the **insurance business**

8. control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of **general insurance business**.
9. specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by **insurers and other insurance intermediaries**;
10. regulating investment of funds by **insurance companies**;
11. **regulating maintenance of margin of solvency**;
12. adjudication of disputes between **insurers** and **intermediaries** or **insurance intermediaries**;
13. **supervising the functioning of the Tariff Advisory Committee**;
14. specifying the percentage of premium income of the **insurer** to finance schemes for promoting and regulating professional organisations referred to in clause (f);
15. specifying the percentage of life insurance business and general insurance business to be undertaken by the **insurer** in the rural or social sector; and

D. Role of IRDAI as Business Facilitator

a. Firstly, it takes steps to regulate and **develop the insurance industry** in the country.
b. Secondly, it serves as an authority to **protect the interest of the insurance policy** holders in creates confidence among them.
c. Thirdly, **educates the general public** about the advantages of getting insurance policies and keeping then alive.

Non-funding Institutions (Rule of the Game Setting Apex Organisations) in Business Facilitation

Salient Facts	RBI Reserve Bank of India	SEBI Securities and Exchange Board of India	CCI Competition Commission Of India	IRDAI Insurance Regulatory and Development Authority of India
Year of Setting-up	April 1, 1935	April 12, 1988. Given statutory powers in 1992.	October 14, 2003	2000
ACT	RBI Act, 1934	SEBI Act, 1992	Competition Act, 2002	IRDA Act, 1999
Important Precedents	Originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.	Replaces Controller of Capital Issues, an authority under the Capital Issue (Control) Act, 1947.	Replace the Monopolies Commission under and repeals the Monopolies and Restrictive Trade Practices (MRTP) Act 1969.	Amends the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972.
Essential Mandate	Apex authority setting rules of the game for **Money Market** and performance of the functions of a **Central Bank.**	Apex authority for setting rules of the game for **Capital Market** and Protection of Investor's Interests.	Apex authority for setting rules of the game primarily for **Non-financial Markets** (Markets for goods & services) for the protection of Consumers' Interests and the Producers' Freedom to Trade.	Apex authority for setting rules of the game for **Market for Insurance Products** in India and to protect the interests of the policyholders.

FUNDING INSTITUITONS (INDIAN DEVELOPMENT BANKS)

- **Development Banks** are those **financial institutions that provide funds** and **financial assistance** to new and upcoming business enterprises.
- Development banks are distinguishable from commercial banks. Unlike commercial banks **they do not accept deposits**.
- They draw their resources from the government and other promoting agencies. As such they are referred to as "purveyors" of credit.
- While discussing the role of RBI as a business facilitator we mentioned that the instruments of SLR and CRR are the means through which the funds are usurped from the banking sector and these funds are placed with the development banks

Development Banks in India:

1. Industrial Finance Corporation of India (IFCI) was established in 1948.
2. Industrial Credit and Investment Corporation of India (ICICI) took place in 1955
3. Industries Development Bank of India (IDBI) was established in 1964.
4. ICICI and IDBI got converted into commercial banks.
5. And the IFCI is now a Non-Banking Finance Company in Non Deposit Seeking Institution category (NBFC-NDSI). - AMENDMENT
6. The Small Industries Development Bank of India (SIDBI) spun off from the IDBI in 1990.
7. The National Bank for Agricultural and Rural Development (NABARD) was set up in 1982.
8. NABARD is the lone survivor from the era of development banking in India.

NABARD

National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India, headquartered at Mumbai with branches all over India. It has in the process **partnered with about 4000 organisations** in grounding many of the interventions. The organisation had developed a huge amount of trust capital in its 3 decades of work with rural communities.

The Bank has been entrusted with "*matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India*". NABARD is active in developing financial inclusion policy and is a member of the Alliance for Financial inclusion.

NABARD

1. NABARD is the most important institution in the country which looks after the **development of the cottage industry, small industry and village industry, and other rural industries**.
2. NABARD also reaches out to **allied economies and supports and promotes integrated development**.
3. NABARD discharge its duty by undertaking the following roles:

a) Serves as an apex **financing agency for** the **institutions** providing investment and production credit for promoting the various **developmental activities in rural areas**

b) Takes **measures towards institution** building for improving absorptive capacity of the **credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel,** etc.

c) Co-**ordinates the rural financing activities** of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, state governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation

d) Undertakes monitoring and evaluation of projects refinanced by it.

i. NABARD refinances the financial institutions which **finances the rural sector**.

ii. NABARD partakes in development of institutions which help the **rural economy**.

iii. NABARD also keeps a **check on its client institutes**.

iv. It regulates the institutions which provide financial help to the **rural economy**.

v. It provides training facilities to the institutions working in the field of **rural up-liftment**.

vi. It **regulates the cooperative banks and the RRB's**, and manages talent acquisition through IBPS CWE. (Institution of Banking Personnel selection common written exam)

- NABARD's refinance is available to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (SCBs), regional rural banks (RRBs), commercial banks (CBs) and other financial institutions approved by RBI.
- *While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is **generally given to individuals.***
- NABARD is also known for its '**SHG Bank Linkage Programme'** which encourages India's banks to lend to self-help groups (SHGs).
- NABARD also has a **portfolio of Natural Resource Management Programmes** involving diverse fields like Watershed Development, Tribal Development and Farm Innovation through dedicated funds set up for the purpose.

Chapter 6: COMMON BUSINESS TERMINOLOGIES

What is Business?

- **Technical Facet -**
  Technically a business may be viewed as a transformation process- a huge machine- where in inputs are subjected to the entire process for generating output.

- **Commercial Facet -**
  Commercially, business is all about marketing management, that is, planning, organising, directing and controlling a firm's relationships with its customers/ markets

- **Financial Facet-**
  From an economic, accounting and financial perspective, business implies investment and the associated returns and risks

- **HR Facet-**
  From an HR perspective, a business organisation is all about people occupying different job positions and performing their respective roles, responsibilities and functions.

- **Administrative Facet-**
  Administratively, BCK pertains to the forms of business organisation, regulations, approvals and clearances needed to start and carry on business. It also refers to the internal management and governance processes.

Non Market Terms

1. **Appreciation:** Appreciation is an increase in value.
2. **Annuity:** A series of payments of an equal amount at fixed intervals for a specified number of periods
3. **Annuity Due**: An annuity whose payments occur at the beginning of each period.
4. **Amortize:** To amortize is to charge a regular portion of an expenditure over a fixed period of time. For example: If something cost Rs. 1,00,000 and is to be amortized over ten years, the financial reports will show an expense of Rs. 10,000 per year for ten years.
5. **Asset:** Asset means an economic resource that is expected to be of benefit in the future

   These can be:

a. **Current Assets:** Current Assets are those assets that can be expected to turn into cash within a year or less.

b. **Fixed Assets:** Fixed Assets cannot be quickly turned into cash without interfering with business operations.

c. **Intangible Assets:** Intangible Assets are items such as patents, copyrights, trademarks, and other kinds of rights or things of value to a company, which are not physical objects.

6. **Audit**: Audit is a careful review of financial records of an organization to verify their accuracy
7. **Securities**: A transferable certificate of ownership of investment in products such as stocks, bonds, future contracts and options which an individual holds.
8. **Stock**: A certificate (or electronic or other record) that indicates ownership of a portion of a corporation; a share of stock.
9. **Listed Stocks**: The shares of a company that are traded on the stock exchange.

10. **Preferred shareholders** get paid first out of any profits. They have preference. Common stock has no preference and no fixed rate of return.

11. **Bond**: Bond is a type of long-term Promissory Note. Bonds can either be registered in the owner's name or are issued as bearer instruments. It is a written record of a debt payable in the future. The bond shows amount of the debt, due date, and interest rate.

12. **Government Bonds**: A government bond, which is also known as a government security, is basically any security that is held with the government and has the highest possible rate of interest.

13. **Zero Coupon Bond**: A bond that pays no annual interest but is sold at a discount below par, thus providing compensation to investors in the form of capital appreciation.

14. **Initial Public Offering (IPO):** A company's first issue of shares to general public.

15. **Mutual Fund**: A pool of money managed by experts by investing in stocks, bonds and other securities with the objective of improving their savings. These experts will create a diversified portfolio from these funds.

16. **Portfolio**: Holding of any individual or institution. A portfolio may include various type of securities of different companies operating in different sectors.

17. **Book Value**: Book value means total assets minus total liabilities. Book value also means the value of an asset as recorded on the company's books or financial reports. Book value is often different than true value.

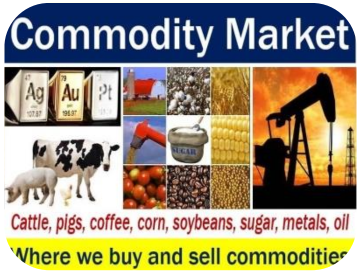
18. **Breakeven point**: It is the amount of revenue from sales which exactly equal expense

19. **Budget:** Budget is a detailed plan for the future, usually expressed in formal quantitative terms. It is also a detailed plan for the acquisition and use of financial and other resources over a specified time period.

20. **Bonus**: A free allotment of shares made in proportion to existing shares out of accumulated reserves. A bonus share does not constitute additional wealth to shareholders. It merely signifies recapitalization of reserves into equity capital.

21. **Business Risk**: The riskiness inherent in the firm's operations if it uses no debt.

22. **Capital Budgeting**: The process of planning expenditure on assets whose cash flows are expected to extend beyond one year.



23. **Commodities**: Product used for commerce that are traded on a separate, authorized commodities platform. Commodities include agricultural products and natural resources.

24. **Convertible Securities**: A security that can be converted into other securities of that issuer are known as convertible securities.

25. **Consolidation**: Business combination of two or more entities that occurs when the entities transfer all of their net assets to a new entity created for that purpose.

26. **Liquidation**: A liquidation occurs when the assets of a division are sold off piecemeal, rather than as an operating entity.

27. **Debentures**: A type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. A debenture is an unsecured form of investment.

28. **Diversification**: Reducing the investment risk by purchasing shares of different companies operating in different sectors.

29. **Dividend**: A portion of the company's earnings decided to pay to its shareholders in return to their investments. It is decided by the board of directors of the company.

30. **Risk**: A probable chances of investments actual returns will be reduced then as calculated. Risk is usually measured by calculating the standard deviation of the historical price returns. Standard deviation is directly proportional to the degree of risk associated.
31. **Call**: The demand by a company or any other issuer of shares for payment. It may be the demand for full payment on the due date.
32. **Cash Budget**: A table showing cash flows (receipts, disbursements, and cash balances) for a firm over a specified period.
33. **Credit Period**: The length of time for which credit is granted.

Simple Market Terms- Level 1

34. **Agent**: A brokerage firm is said to be an agent when it acts on behalf of the client in buying or purchasing of shares. At no point of time in the entire transaction the agent will own the shares.
35. **Blue Chips**: Blue Chips are shares of large, well established and financially sound companies with an impressive record of earnings and dividends.
36. **Beta**: It is a measurement of relationship between stock price of any particular stock and the movement of whole market.
37. **Business Day**: Days on which stock markets are open.
38. **Brokerage**: Brokerage is the commission charged by the broker. The maximum brokerage chargeable is determined by SEBI.
39. **Capital Markets**: The financial markets for stocks and for intermediate or long-term debt.

40. **Exchange Rate**: The number of units of given currency that can be purchased for one unit of another currency.

41. **Face Value**: It is the cash denomination or the amount of money the holder of the individual security going to earn from the issuer of the security at the time of maturity. It is also known as par value. Here it means face value of debenture or Bond.

42. **Financial Intermediary**: A financial intermediary is basically a party or person who acts as a link between a provider who provides securities and the user, who purchases the securities.

43. **Holding Period**: The holding period is the time duration during which a capital asset is held/owned by an individual or corporation. The holding period is taken into consideration, while pledging the asset as collateral.

44. **Index**: A statistical measurement of change in the economy or security market. Such indices have their own calculation methodology and are usually measured as a percentage change in the base value over the time.

45. **Internet Trading**: Internet Trading is a platform with Internet as a medium. The SEBI approved Internet Trading in January 2000.

46. **Pre-opening Session**: The pre-open session is for duration of 15 minutes i.e. from 9:00 AM to 9:15 AM. In pre-open session order entry, modification and cancellation takes place.

47. **Trading Session**: The period of time stock market is open for trading for both sellers and buyers, within this time frame all the orders of the day must be placed. [9:15 AM to 3:30 PM] Here all the orders placed in pre- opening sessions are matched and executed.

48. **Return on Investment (ROI):** ROI is a measure of the effectiveness and efficiency with which managers use the resources available to them, expressed as a percentage. Return on equity is usually net profit after taxes divided by the shareholders' equity. Return on invested capital is usually net profit after

taxes plus interest paid on long-term debt divided by the equity plus the long-term debt. Return on assets used is usually the operating profit divided by the assets used to produce the profit. Typically used to evaluate divisions or subsidiaries. Different companies and different industries have different ROIs.

49. **Stock Split:** An attempt to increase the number of outstanding shares of a company by splitting the existing shares. It is usually done to increase the availability of shares in the market. The usual split ratio is 2:1 or 3:1, i.e. one share is split into two or three.

Level 2

50. **Thin Market**: A market in which there are comparatively low number of bids to buy and offers to sell. Since the number of transactions is low, the prices are very volatile.

51. **Bears**: These stock-market players are pessimists, they expect share prices to fall.
52. **Bear Market**: A market in which stock prices are falling consistently.
53. **Bull**: A bull is one who expects a rise in price so that he can later sell at a higher price
54. **Bull Market**: A market in which the stock price is increasing consistently.
55. **Ask/offer/sell**: The lowest price at which an owner is willing to sell his securities.
56. **Bid**: It is the highest price a buyer is willing to pay for a stock. It is opposite of ask/offer
57. **Base Price**: This is the price of a security at the beginning of the trading day which is used to determine the Day Minimum/Maximum and the Operational ranges for that day.
58. **Close Price**: The final price at which the stock is traded on a given particular trading day.
59. **Limit Order**: An order to buy or sell a share at a specified price. The order will be executed only at the specified limit price or even better. A limit order sets a minimum price the seller is willing to accept and maximum price the buyer is willing to pay for it.

60. **Book Closure**: Dates between which a company keeps its register of members closed for updating prior to payment of dividends or issue of new shares or debentures.

61. **Call Option**: An option that is given to investor the right but not obligation to buy a particular stock at a specified price within a specified time period

62. **Commercial Paper**: Unsecured, short-term promissory notes of large firms, usually issued in denominations of Rs. 100,000 or more and having an interest rate somewhat below the prime of lending rate of commercial bank.

63. **Defensive Stock**: A stock that provides a constant dividends and stable earnings even in the periods of economic downturn.

64. **Financial Instrument**: A financial instrument is anything that ranges from cash, deed, negotiable instrument, or for that matter any written and authenticated evidence that shows the existence of a transaction or agreement.

65. **Income Stock**: A security which has a solid record of dividend payments and offers the dividend higher than the common stocks.

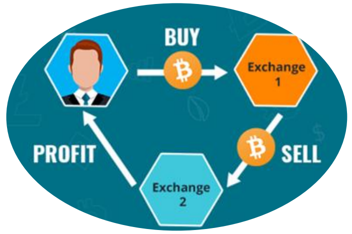
66. **Price Earnings (P/E) Ratio**: The market price of a share of stock divided by the earnings (profit) per share. P/E ratios can vary from sky high to dismally low, but may not reflect the true value of a company.

67. **Strike Price**: The price at which the holder of an option can buy (in case of call option) or sell (in case of put option) the securities they hold when the option is executed.

68. **Yield:** It is the measure of return on investments in terms of percentage. Stock yield is calculated by dividing the **current price** of the share by the annual dividend paid by the company for that share. For example, if the current price of the share is Rs. 100 and the dividend paid is INR 5 per share annually, then the stock yield is 5%.

Level 3

69. **Arbitrage**: Arbitrage is the simultaneous purchase and sale of two identical commodities or instruments. This simultaneous sale and purchase is done in order to take advantage of the price variations in two different markets. For example: Purchase of gold in one nation and the simultaneous sale in another.



70. **Basket Trading**: Basket trading is a facility by which investors are in a position to buy/sell all 30 scrips of Sensex in the proportion of current weights in the Sensex, in one go.

71. **Badla**: Carrying forward of transaction form one settlement period to the next without effecting delivery or payment. The carry-forward is done at the making up price, which is usually the closing price of the last day of settlement. A badla transaction attracts the following payments / charges:

a. **'margin money'** specified by the stock exchange board; and

b. **contango or badla charges** (interest charges) determined on the basis of demand and supply forces.

72. **Capital Gains Yield**: The capital gain during a given year divided by the beginning price.

73. **Hedge**: Hedge is a strategy that is used to minimize the risk of a particular investment and maximize the returns of an investment.

74. **Derivatives**: A security whose price is derived from one or more underlying assets. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

75. **Market Capitalization**: The total value in rupee of all of a company's outstanding shares. It is calculated by multiplying all the outstanding shares with the current market price of one share.

76. **One-sided Market**: A market that has only potential sellers or only potential buyers but not both.

77. **Out-of-The-Money (OTM)**: For call options, this means the stock price is below the strike price. For put options, this means the stock price is above the strike price. The price of out-of-the-money options consists entirely of "time value."

78. **Put Option**: An option that gives an investor the right to sell a particular stock at a stated price within a specified time period. Put option is purchased by those who believe that particular stock price is going to fall down than the stated price.

79. **Yield to Call (YTC)**: The rate of return earned on a bond if it is called before its maturity date.

80. **Venture Capitalist**: It is a type of private equity and type of financing that investor provides to startup company and small companies that are believed to have long term growth potential.

Marketing Terminologies

1. **Agent:** Agent is a part of the distribution channel. An agent performs only a few functions and does not take title to goods.
2. **Advertising**: Advertising is any paid form of non-personal presentation and promotion of ideas, goods and services through mass media such as newspapers, magazines, television or radio by an identified sponsor.
3. **Advertising Campaign**: An organization's programme of advertising activities over a particular period with specific aims, for example an increase in sales or awareness of a product.
4. **After-Sales Service**: The services received after the original goods or services have been paid for. Often this service is provided as part of a warranty or guarantee scheme associated with the product/service purchased.

5. **Barrier to Trade**: Something that makes trade between two countries more difficult or expensive. For example: A tax on imports.
6. **Barriers to Entry/Exit**: Economic or other characteristics of a marketplace that make it difficult for new firms to enter or exit.
7. **Benchmarking**: Benchmarking is the process of comparing the products and services of a business against those of competitors in a market, or leading businesses in other markets, in order to find ways of improving quality and performance.
8. **Brand**: A brand is the specific type of the product form. A brand – represented by a brand name, symbol, design, logo, packaging – is the identity of a particular product form that customers recognize as being different from others.
9. **Brand Recognition**: It is a customer's awareness that a brand exists and is an alternative to purchase.
10. **Brand Loyalty**: It is a strongly motivated and long standing decision of the customer to purchase a particular product or service.
11. **Brand Equity**: Brand equity refers to the value of a brand. Brand equity is based on the extent to which the brand has high brand loyalty, name awareness, perceived quality and strong product associations. Brand equity also includes other "intangible" assets such as patents, trademarks and channel relationships.
12. **Business Model**: A company's business model is management's storyline for how the strategy will be a money maker.
13. **Business Portfolio**: The business portfolio is the collection of businesses and products that make up the business.
14. **Business to Business**: Marketing activity directed from one business to another. This term is often shortened to **"B2B".**

15. **Buying Behaviour**: Buying behaviour concerns the process that buyers go through when deciding whether or not to purchase goods or services.
16. **Cash Discount**: A reduction in the price of goods given to encourage sale on case basis.
17. **Competitive Advantage**: Advantages that a firm has over its competitors.
18. **Competitive Position**: The position that a firm has or wishes to achieve within its industry as measured against its competition.
19. **Conglomerate Diversification**: A strategy of growing a firm by acquiring other firms for investment purposes; usually little or no anticipated synergy with the acquired firm.
20. **Consortium**: Consortium is a combination of several companies working together for a particular purpose, for example in order to buy something or build something.
21. **Consumer Markets**: Consumer markets are the markets for products and services bought by individuals for their own or family use.
22. **Corporate Culture**: Corporate Culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.
23. **Customer Loyalty**: Feeling or attitude that inclined a customer either to return to a company, shop or outlet to purchase there again, or else to re-purchase a particular product, service or brand.

24. **Differentiation**: A marketing strategy aimed at ensuring that products and services have a unique element to allow them to stand out from the rest.
25. **Distribution Channel**: The network of organisations necessary to distribute goods or services from the manufacturers to the consumers; the distribution channel therefore potentially consists of manufacturers, distributors, wholesalers, retailers and E-tailers.
26. **Diversify**: A company, increases the range of goods or services it produces and sells.

27. **Economy of Scale**: A reduction in costs through larger operating units, spreading fixed costs over large numbers of items/units.

28. **External Environment**: The conditions and forces that define a firm's competitive position and influences its strategic options. Also, called **Competitive Environment**.

29. **Fast-Moving Consumer Goods (FMCG):** Fast-moving consumer goods are those that sell in high volumes, with low unit value, and have fast consumer repurchase. Examples include, soaps, toothpastes, hair oils, jams, ketchups, packed juices, ready meals, baked beans, etc

30. **Forecasting**: The process of estimating future demands by anticipating what buyers are likely to do under a given set of marketing conditions. For example: Economic confidence, disposal income, pricing levels, etc.

31. **Innovators**: Innovators are those who adopt new products first. They are usually relatively young, lively, intelligent, socially and geographically mobile. They are often of a high socioeconomic group.

32. **Market Entry**: The launch of a new product into a new or existing market. A different strategy is required depending on whether the product is an early or late entrant to the market; the first entrant usually has an automatic advantage, while later entrants need to demonstrate that their products are better, cheaper and so on.

33. **Market Development**: The process of growing sales by offering existing products (or new versions of them) to new customer groups.

34. **Market Positioning**: A marketing strategy that will position a business' products and services against those of its competitors in the minds of consumers.

35. **Market Share**: Market share can be defined as the percentage of all sales within a market that is held by one brand / product or company.

36. **Market Leader**: The company that has control over a certain market.

37. **Internal Marketing**: The process of eliciting support for a company and its activities among its own employees, in order to encourage them to promote its goals. This process can happen at a number of levels, from increasing awareness of individual products or marketing campaigns, to explaining overall business strategy.

38. **Joint Venture**: A third party commercial operation established by two or more firms to pursue a particular market, resource supply, or other business opportunity. It is created and operated for the benefit of the co- owners.

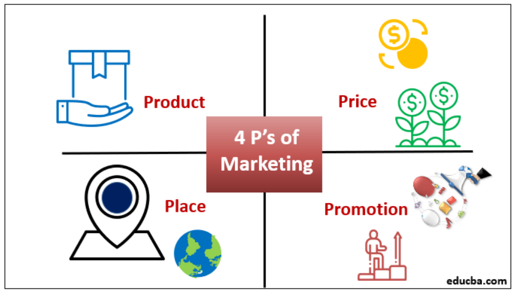
39. **Short-Term Objectives**: Usually one year objectives sometimes known as Annual Objectives. They often coincide with Long-Term Objectives; they usually indicate the speed at which management wants the organization to progress.

40. **Long-Term Objectives**: A firm's intended performance over a multi-year period of time; usually includes measures such as competitive position profitability, return on investment, technology leadership, productivity, employee relations and development, public responsibility.

41. **Market Research**: The systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services.

42. **Market Segmentation**: Dividing consumers into groups based on different consumer characteristics, to deliver specially designed advertisements that meet these characteristics as closely as possible.

43. **Marketing**: Marketing is the science and art of exploring, creating and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the



appropriate products and services.

44. **Marketing Mix**: It refers to the firm's marketing elements. It is common to describe these elements in terms of 4Ps of marketing, viz., *Product, Price, Place and Promotion*. For services marketing usually three additional Ps are referred to, viz, *People, Processes and Physical Evidence.*

45. **Marketing Plan**: A detailed statement of how a company's marketing mix will be used to achieve its market objectives. A plan is usually prepared following a marketing audit.

46. **Mass Marketing**: When many consumers receive the same message from businesses and non-profit organizations through mass media, such as broadcast television, radio and newspapers, regardless of consumer interests.

47. **Mission**: The unique purpose of a firm that sets it apart from firms of its type; identifies scope of operations including markets, customers, products, distribution, technology, etc. in manner that reflects values and priorities of the firm's strategies.

48. **Market Targeting**: Market targeting is the process of evaluating each market segment and selecting the most attractive segments to enter with a particular product or product line.

49. **Target Marketing**: Reaching out to a group of consumers sharing common consumer characteristics with the most appropriate advertisements.

50. **Telemarketing**: Using the telephone to contact individuals about an advertiser's products or services, or to get support for a cause.

51. **Test Marketing**: Test marketing occurs when a new product is tested with a sample of customers, or launched in a restricted geographical area, to judge customers' reactions.

52. **E-Commerce**: The use of technologies such as the Internet, electronic data exchange and industry extranets to streamline business transactions.

53. **Cross-Selling**: Using a customer's buying history to select them for related offers. For example: Selling a car alarm and music systems to new car buyers.

54. **Direct Marketing**: When businesses and non-profit organizations market their products, services or causes directly to consumers based on consumer interests. Examples include catalogues and other postal mailings, telemarketing, text messages, emails, ads on a mobile device and internet advertising.

55. **Niche Marketing**: Niche marketing refers to the exploitation of comparatively small market segments by businesses that decide to concentrate their efforts. Niche segments exist in nearly all markets. For example: Atta noodles for health conscious.

56. **Personal Selling**: Oral communication with potential buyers of a product with the intention of making a sale. The personal selling may focus initially on developing a relationship with the potential buyer, but will always ultimately end with an attempt to **"close the sale".**

57. **Pre-Emptive Pricing**: Pre-emptive pricing is a strategy involves setting low prices in order to discourage or deter potential new entrants to the suppliers market.

58. **Price Discrimination**: Price discrimination occurs when a firm charges a different price to different groups of consumers for an identical good or service, for reasons not associated with costs. For example, bottled water is priced differently in shopping malls & cinema halls.

59. **Price Sensitivity**: Price sensitivity is the effect a change in price will have on customers.

60. **Price Skimming**: Price skimming involves charging a relatively high price for a short time where a new, innovative, or much-improved product is launched onto a market.

61. **Price**: The price of a product may be seen as a financial expression of the value of that product.

62. **Publicity**: Promotional activities designed to promote a business and its products by obtaining media coverage not paid for by the business.

63. **Sales Promotion**: Sales promotion refers to any activity designed to boost the sales of a product or service.
64. **Strength**: A skill, resource, or other advantage that a firm has relative to its competitors that is important to serving the needs of customers in its marketplace.
65. **Weakness**: A limitation or lack of skills, resources, or capabilities that impedes a firm's effective performance.
66. **Opportunities**: Opportunities are any feature of the external environment which creates conditions that a business can exploit to its advantage.
67. **Threats**: Threats are any aspect of the external environment which cause problems and which may prevent achievement of objectives.
68. **Unique Selling Proposition (USP):** A unique selling proposition is a customer benefit that no other product can claim.

BANKING TERMINOLOGY

Part A – Important form Individual Customer Point of View

1. **Automated Teller Machines**: Automated teller machines are basically used to conduct transactions with the bank, electronically.
2. **Balance Transfer**: A balance transfer is the repayment of a credit debt with the help of another source of credit. In some cases, balance transfer also refers to transfer of funds from one account to another.
3. **Cheque**: A cheque is a negotiable instrument that instructs the bank to pay a particular amount of money from the writer's bank, to the receiver of the cheque.

4. **Debit Card**: A debit card is an instrument that was developed with digital cash technology, and is used when a consumer makes that payment first to the credit card company and then swipes the card. The debit card operates in the exact opposite manner of the credit card.
5. **Deposit Slip**: A deposit slip is a bill of itemized nature and depicts the amount of paper money, coins and the check numbers that are being deposited into a bank account.
6. **Debt Settlement**: Debt settlement is a procedure wherein a person in debt negotiates the price with the lender of a loan, in order to reduce the installments and the rate of repayment, and ensure a fast and guaranteed repayment.
7. **Debt Repayment**: Debt repayment is the total process repayment of a debt along with the interest.
8. **Debt Recovery**: Debt recovery is the process that is initiated by the banks and lending institutions, by various procedures like debt settlement or selling of collaterals.
9. **E-Cash**: Also known as electronic cash and digital cash, e-cash is a technology where the banking organizations resort to the use of electronic, computer, internet and other networks to execute transactions and transfer funds.
10. **Early Withdrawal Penalty**: An early withdrawal penalty is basically a penalty that is levied by a bank because of an early withdrawal of a fixed investment by any investor.
11. **Earnest Money Deposit**: An earnest money deposit is made by the buyer to the potential seller of a real estate, in the initial stages of negotiation of purchase.
12. **Lock-in Period**: A guarantee given by the lender that there will be no change in the quoted mortgage rates for a specified period of time, which is called the lock-in period.
13. **Mortgage**: A mortgage is a legal agreement between the lender and the borrower where real estate property is used as collateral for the loan, in order to secure the payment of the debt. According to the

mortgage agreement, the lender of the loan is authorized to confiscate the property, the moment the borrower stops paying the installments.

14. **Zero-Down-Payment Mortgage**: Zero-down-payment mortgage is a type of mortgage given to a buyer who does not make any down payments while borrowing. The mortgage buyer borrows the amount at the entire purchase price. For example, Jaan Dhan Account.

15. **Market Value**: The market value is the equilibrium point on the supply and demand graph, where the demand and supply curves meet.

16. **Online Banking**: The accessing of bank information, accounts and transactions with the help of a computer through the financial institution's website on the Internet is called online banking. It is also called Internet banking or e-banking.

17. **Smart Cards**: Unlike debit and credit cards (with magnetic stripes), smart cards possess a computer chip, which is used for data storage, processing and identification.

18. **Syndicated Loan**: A very large loan extended by a group of small banks to a single borrower, especially corporate borrowers. In most cases of syndicated loans, there will be a lead bank, which provides a part of the loan and syndicates the balance amount to other banks.

19. **Time Deposit**: A kind of bank deposit which the investor is not able to withdraw, before a time fixed when making the deposit.

20. **Personal Identification Number (PIN)**: Personal identification number or PIN is a secret code of numbers and alphabets given to customers to perform transactions through an automatic teller machine or an ATM

21. **Guarantor**: A guarantor is a creator of trust who takes the responsibility of the repayment of a loan, and is also, in some cases, liable and equally responsible for the repayment of the loan.

22. **Interest / Interest Rate/ cost of credit**: Interest is a charge that is paid by any borrower or debtor for the use of money, which is calculated on the basis of the rate of interest, time period of the debt and the principal amount that was borrowed.

23. **Zero Balance Account**: A bank account which does not require any minimum balance is termed as a zero balance account.

24. **Educational Loan**- Also Known as **Student's loan.** Generally have low Interest rate.

Part B – Important form Bank Point of View

25. **Acceptance**: Acceptance which is also known as the banker's acceptance is a signed instrument of acknowledgment that indicates the approval and acceptance of all terms and conditions of any agreement on behalf of the banker.

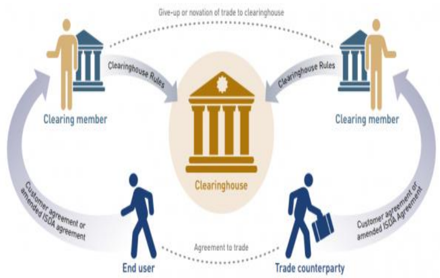
26. **Accepting House**: An accepting house is a banking or finance organization that specializes in the service of acceptance and guarantee of bills of exchange. This organization specializes in two prominent functions, that is, facilitating the different negotiable instruments and merchant banking.

27. **Accrued Interest**: Accrued Interest is the interest, accumulated on an investment but is not yet paid.

28. **Administered Rates**: Administered rates are the rates of interest which can be changed contractually by lender.

29. **American Depository Receipt** (ADR): American depository receipts, also known as ADRs, are depository receipts which are equal to a specific number of shares of company that have been issued in a foreign country. American depository receipts are traded only in the United States of America. Similar mechanism exists for other countries also.

30. **Annuities**: Annuities are contracts that guarantee income or return, in exchange of a huge sum of money that is deposited, either at the same time or is paid with the help of periodic payments. Some of the common types of annuities include the deferred, fixed, immediate or variable variants.



31. **Clearing**: Clearing of a cheque is basically a function that is executed at the clearing house, when all amount of the cheque is subtracted from the payer's account and then added to the payee's account.

32. **Clearing House**: The clearing house is a place where the representatives of the different banks meet for confirming and clearing all the checks and balances with each other. The clearing house, in most countries across the world, is managed by the central bank

33. **Automated Clearing House**: An automated clearing house is nation-wide electronic clearing houses that monitors and administers the process of check and fund clearance between banks.

34. **Bank Rate**: It is the interest rate at which the Central Bank in the discharge of its function as Banker's Bank lends to the commercial banks. Since this lending may be in the form of discounting of the securities pledged, it is also called the discount rate.

35. **Basis Point**: It is a measure of change in financial parameters such as interest, stock indices and market rates. It is 1/100 of one percent.

36. **Cap**: A cap is a limit that regulates the increase or decrease in the rate of interest and installments of an adjustable rate mortgage.

37. **Cashier's Cheque**: The cashier's cheque is drawn by a bank on it's own name to may payments other organizations, banks, corporations or even individuals.

38. **Cash Reserve**: The cash reserve is the total amount of cash that is present in the bank account and can also be withdrawn immediately.

39. **Payee**: Payee is the person to whom the money is to be paid by the payer
40. **Payer**: Payer is the person who pays the money to the payee.
41. **Repo Rate**. The rate at which banks borrow money from the RBI against pledging or sale of government securities to RBI is known as "Repo Rate."
42. **Reverse Repo Rate**. It is the rate of interest offered by RBI, when banks deposit their surplus funds with the RBI for short periods.

43. **Value At Risk (VAR):** The sum or portion of the value that is at stake of subject to loss from a variation in prevalent interest rates.
44. **Bridge Financing/ gap Financing**: Also, known as gap financing, bridge financing is a loan where the time and cash flow between a short term loan and a long term loan is filled up. Bridge financing begins at the end of the time period of the first loan and ends with the start of the time period of the second loan, thereby bridging the gap between two loans.
45. **Certificate of Deposit**: The certificate of deposit is a certificate of savings deposit that promises the depositor the sum back along with appropriate interest.
46. **Letter of Credit**: A document issued by a bank (on behalf of the buyer or the importer), stating its commitment to pay a third party (seller or the exporter), a specific amount, for the purchase of goods by its customer, who is the buyer. The seller has to meet the conditions given in the document and submit the relevant documents, in order to receive the payment. Letters of credit are mainly used in international trade transactions of huge amounts, wherein the customer and the supplier live in different countries.
47. **Wholesale Banking**: Wholesale banking is a term used for banks which offer services to other corporate entities, large institutions and other financial institutions.

OTHER BUSINESS TERMINOLOGY

1. **Acquisition**: When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. There is concept is Reverse Merger too
2. **Bankruptcy**: A bankruptcy refers to economic insolvency, wherein the person's assets are liquidated, to pay off all liabilities with the help of a bankruptcy trustee or a court of law.
3. **Bottom-Line**: In plain english bottom line means the most important fact or aspect of anything. In BCK, it may be defined as the firm's income after all expenses have been deducted from revenues. **Net Profits** for these mattered the most for the owners of the firm.
4. **Corporate Forms of Business Organization**: These are the forms of business organization where in the eyes of law the business entity is distinct from its owners. It can own the assets and owe to others as an artificial legal person.
5. **Corporate Governance**: It is a system of overseeing the affairs of a corporation to ensure that they are conducted in an ethical manner and as per provisions of law. The mechanism of corporate governance includes (a) the board of directors who appoint, oversee and reward the management team; (b) independent audit of the accounts of the company; (c) reporting of the performance to the markets (stock exchanges) and business media. All these are examples of the system of corporate governance.
6. **Electronic Filing**: Electronic filing is system of filing information required by regulators, government and others electronically. In taxation, it is a method of filing of tax returns and tax forms on the Internet.

7. **Goodwill**: Goodwill in accounting is the difference between what a company pays when it buys the assets of another company and the book value of those assets. Sometimes, real goodwill is a company's good reputation, the loyalty of its customers, and so on.
8. **Joint Products and**: Joint products represent "two or more products separated in the course of the same processing operation.
9. **By-Products** : By-products are defined as "products recovered from material discarded in a main process, or from the production of some major products, where the material value is to be considered at the time of severance from the main product".
10. **Proprietary Forms of Business Organisations**: These are the forms of business organisation where the law does not distinguish between the business as a separate entity distinct from its owners.
11. **Returns and Risks**: These are the two sides of the business's outcomes particularly for its owners and generally for all investments. . The non/ partial realisation of expectations is called risk. Thus, the cliché higher the risk-higher the returns.
12. **Sustainable Development**: Sustainable development (SD) includes economic parameters such as income and non-economic parameters such as social equity and ecological balance. It emphasises simultaneous attention to economic growth, social equity and environmental conservation.
13. **Term Insurance**: It is the insurance for a certain time period which provides for no defrayal to the insured individual, excluding losses during the period, and that becomes null upon its expiration.
14. **Triple Bottom Line (TBL):** It is the BCK philosophy that promotes the belief and evaluates the business's performance on the basis that attainment of profit, care for people and care for the planet are equally important. The equal emphasis on these triple Ps, viz., Profits, People and Planet is known as the TBL. This idea at the macro level corresponds to the more evolved notion of the development of a country's economy,

society and ecology.

15. **Turnaround**: A turnaround is the financial recovery of a company that has been performing poorly for an extended time. To effect a turnaround, a company must acknowledge and identify its problems, consider changes in management, and develop and implement a problem-solving strategy.

16. **Vision**: A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

17. **Whole Life Insurance**: A whole life insurance is a contract between the insurer and the policy owner, that the insurer will pay the sum of money on the occurrence of the event mentioned in the policy to the insured. It's a concept wherein the insurer mitigates the loss caused to the insured on the basis of certain principles

18. **Logistics**: It is a commercial activity implying moving of supplies to the production facilities and goods and services to their respective markets. Inbound logistics imply the movement of inputs and the outbound logistics means the movement of outputs