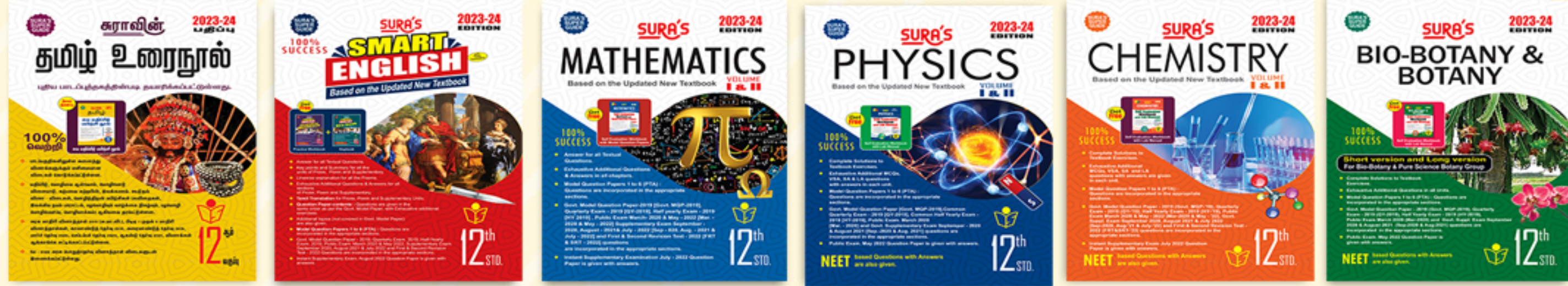


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The woods are lovely, dark and deep.

But I have promises to keep, and

**miles to go before I sleep**

- Robert Frost

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With due respect to Teachers, I would like to mention that this guide will serve as a teaching companion to qualified teachers. Also, this guide will be an excellent learning companion to students with exhaustive exercises and in-text questions in addition to precise answers for textual questions.

In complete cognizance of the dedicated role of Teachers, I completely believe that our students will learn the subject effectively with this guide and prove their excellence in Board Examinations.

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# UNIT I

# MANAGEMENT PROCESS

## CHAPTER

# 1

# PRINCIPLES OF MANAGEMENT

## CHAPTER SNAPSHOT

- 1.1 Concept of Management
- 1.2 Definitions of Management
- 1.3 Management is differ from Administration
- 1.4 Management Process
- 1.5 Principles of Scientific Management
- 1.6 Principles of Modern Management
- 1.7 Span of Management

## EXERCISE

### I. CHOOSE THE CORRECT ANSWERS.

1. Management is what a \_\_\_\_\_ does?  
[PTA-1; QY-'19; May-'22]  
(a) Manager (b) Subordinate  
(c) Supervisor (d) Superior  
[Ans. (a) Manager]
2. Management is an \_\_\_\_\_  
[Govt. MQP-'19; PTA-1; Aug-'21; July-'22]  
(a) Art (b) Science  
(c) Art and Science (d) Art or Science  
[Ans. (c) Art and Science]
3. Scientific management is developed by  
[PTA-2; QY-'19; Aug-'21; FRT-'22]  
(a) Fayol (b) Taylor  
(c) Mayo (d) Jacob  
[Ans. (b) Taylor]

4. Dividing the work into small tasks is known as:  
[Sep-2020; FRT-'22; May-'22]  
(a) Discipline (b) Unity  
(c) Division of work (d) Equity  
[Ans. (c) Division of work]
5. With a wider span, there will be \_\_\_\_\_  
hierarchical levels. [PTA-6; FRT-'22]  
(a) More (b) Less  
(c) Multiple (d) Additional  
[Ans. (b) Less]

### II. VERY SHORT ANSWER QUESTIONS.

1. What is Management? [PTA-1; QY-'19; May-'22]  
Ans. Management is the process of giving direction and controlling the various activities of the people to achieve the objectives of an organisation.





**2. List out the management tools.**

[HY-'19; Mar-2020; FRT-'22]

**Ans.** Tools of managements have been developed such as accounting, business law, psychology, statistics, econometrics, data processing, etc.

**3. State the meaning of Authority.**

[Sep-2020; July-'22]

**Ans.** Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.

**4. What do you mean by Span of management?**

[PTA-2]

**Ans. (i)** The span of management refers to the number of subordinates who can be managed efficiently by a superior.

**(ii)** Simply, the manager having the group of subordinates who report him directly is called as the span of management.

**III. SHORT ANSWER QUESTIONS.**

**1. Define the term management.**

[PTA-1; Aug-'21; FRT & July-'22]

**Ans.** According to Koontz and Wehrich, "Management is the process of designing and maintaining of an environment in which individuals working together in groups efficiently accomplish selected aims".

**2. Differentiate management from Administration. (any 3)**

[Govt. MQP-'19; PTA-2; HY-'19; May-'22]

**Ans.**

|    | Basis             | Management   | Administration   |
|----|-------------------|--|--|
| 1. | Meaning           | An organised way of managing people and things of a business organisation is called management | The process of administering an organisation by a group of people is known as the administration |
| 2. | Authority         | Middle and lower level   | Top level  |
| 3. | Concerned with    | Policy implementation  | Policy formulation   |
| 4. | Role              | Executive  | Decisive   |
| 5. | Area of operation | It works under administration  | It has full control over the activities of the organisation.                                     |

**3. What are the principles of Taylor?**

[QY-'19; Sep-2020]

**Ans.** Taylor propounded the principles of scientific management. They are :

- (i) Science, Not Rule of Thumb
- (ii) Harmony, Not Discord
- (iii) Mental Revolution
- (iv) Co-operation, Not individualism
- (v) Development of each and every person to his or her greatest efficiency and prosperity.

**4. What determines the span of management?**

[FRT-'22]

**Ans. (i)** The Span of Management has two implications:

- 1. Influences the complexities of the individual manager's job
- 2. Determine the shape or configuration of the Organization

**(ii)** The span of management is related to the horizontal levels of the organization structure. There is a wide and a narrow span of management.

**(iii)** With the wider span, there will be less hierarchical levels, and thus, the organizational structure would be flatter.

**(iv)** Whereas, with the narrow span, the hierarchical levels increases, hence the organizational structure would be tall.



**IV. LONG ANSWER QUESTIONS.**

**1. Explain the concept of management. (any 5)**

[FRT-'22]

**Ans.** The management concept can be understood from its profound characteristic features as follows:

- (i) **Body of Knowledge :** Management has now developed into a specialised body of management theory and philosophy. Management literature is growing in all countries.
- (ii) **Management Tools :** Tools of management have been developed such as, accounting, business law, psychology, statistics, econometrics, data processing, etc.
- (iii) **Separate Discipline :** Management studies in many universities and institutions of higher learning are recognised as a separate discipline.
- (iv) **Specialisation :** There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional areas of management.
- (v) **Code of Conduct :** Enlightened businessmen have recognised that business management is a social institution and it has social responsibilities to be fulfilled – towards customers, employees, and the public or community.

**2. Explain the principles of modern management. (any 5)**

[PTA-2; Govt. MQP & QY-'19; Aug-'21; FRT, May & July-'22]

**Ans.** Henry Fayol is the father of modern management. The following are the major principles of modern management are,

- (i) **Division of work :** According to this principle the whole work is divided into small tasks. The specialization of the workforce according to the skills of a person, creating specific personal and professional development within the labour force and therefore increasing productivity.
- (ii) **Authority and Responsibility :** Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.
- (iii) **Discipline :** It is obedience, proper conduct in relation to others, respect of authority, etc. It is essential for the smooth functioning of all organisations.
- (iv) **Unity of command :** This principle states that each subordinate should receive orders and be accountable to one and only one superior.
- (v) **Unity of direction :** All related activities should be put under one group, there should be one plan of action for them, and they should be under the control of one manager.

**PTA QUESTIONS AND ANSWERS**

**I. SHORT ANSWER QUESTIONS.**

**3 MARKS**

**1. Is management an Art or Science?**

[PTA-2; FRT-'22]

**Ans. Is Management a Science :**

Management is an in-exact science, because in pure science, the principles are put into test in a laboratory and they are either proved or disproved exactly and precisely.

**Is Management an Art:**

- (i) Everyone believes that management is an art.
- (ii) Because, the concept of art denotes the learning of skills and practicing them in

the day to day life like a mason or carpenter or mechanic or a musician being able to perform their respective art they learnt by way of skill display before anybody under any circumstances.

**Management is both - Science and an art:**

To conclude, Management is neither a science nor an art, but a combination of both requiring people holding managerial positions to apply the scientific management principles and displaying popular managerial skills to accomplish the organizational goals as efficiently and as quickly as possible so as to be competitive in the globalised environment of business.



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**UNIT I ♦ Chapter-1**

**II. LONG ANSWER QUESTIONS. 5 MARKS**

1. Describe the principles of scientific management. [PTA-1]

**Ans.** Principles of scientific management propounded by Taylor are explained in brief as follows :

**Science, Not Rule of Thumb :**

- (i) Rule of Thumb means decisions taken by manager as per their personal judgements.
- (ii) A small production activity like loading iron sheets into box cars can be scientifically planned.
- (iii) Decision should be based on scientific enquire with cause and effect relationships.

**2. Harmony, Not Discord :**

- (i) Taylor emphasised that there should be complete harmony between the workers and the management.
- (ii) Since if there is any conflict between the two, it will not be beneficial either for the workers or the management.
- (iii) Both the management and the workers should realise the importance of each other.

**3. Mental Revolution :**

- (i) The technique of mental revolution involves a change in the attitude of workers and management towards each other.
- (ii) Thus, mental revolution requires a complete change in the outlook of both management and workers.

**4. Co-operation, Not Individualism :**

- (i) This principle is an extension of principle of 'Harmony - not discord'.
- (ii) Co-operation, mutual confidence, sense of goodwill should prevail among both, managers, as well as workers.

**5. Development of each and every person to his or her greatest efficiency and prosperity:**

- (i) Efficiency of any organisation also depends on the skills and capabilities of its employees to a great extent.
- (ii) Employees should be scientifically selected.
- (iii) This ultimately helps to attain efficiency and prosperity for both organisation and the employees.

**GOVERNMENT EXAM QUESTIONS AND ANSWERS**

**I. CHOOSE THE CORRECT ANSWERS. 1 MARK**

1. Who is the 'Father of Modern Management'?

- (a) Mr. F.W. Taylor [HY-'19]
- (b) Mr. Henry Fayol
- (c) Mr. Peter F. Drucker
- (d) Mr. Louis A. Allen

[Ans. (b) Mr. Henry Fayol]

2. "Management is a multipurpose organ that manages a business and manages Manager, and manages worker and work." Who said these words? [Mar-2020]

- (a) George Odiorne
- (b) Henry Fayol
- (c) Peter F. Drucker
- (d) F.W. Taylor

[Ans. (C) Peter F. Drucker]

3. Assertion (A) : Management knowledge is the best passport to enter into the world of employment.

Reason (R) : Management literature is growing in all countries. [Sep-2020]

- (a) (A) and (R) are correct and (R) is the correct explanation of (A).
- (b) (A) and (R) are correct and (R) is the incorrect explanation of (A).
- (c) (A) is incorrect but (R) is correct.
- (d) (A) is correct but (R) is incorrect.

[Ans. (b) (A) and (R) are correct and (R) is the incorrect explanation of (A)]

4. Which of the following was/are the principles of Taylor? [FRT-'22]

- (a) Science, Not Rule of Thumb
- (b) Harmony, not Discord
- (c) Cooperation, not Individualism
- (d) All the above [Ans. (d) All the above]

**II. SHORT ANSWER QUESTIONS. 3 MARKS**

1. Define the term management according to Peter F. Drucker. [HY-'19]

**Ans.** According to Peter F. Drucker, "Management is a multipurpose organ that manages a business and manages manager, and manages worker and work".



**III. LONG ANSWER QUESTIONS. 5 MARKS**

1. Write about the contribution of Drucker to management. [QY-'19]

**Ans.** "Management is a multipurpose organ that manages a business and manages manager, and manages worker and work." - Peter F. Drucker. Drucker stresses three jobs of management :

- (i) **Managing a business**
- (ii) **Managing manager; and**
- (iii) **Managing workers and work.**

Even if one is omitted, it would not have management anymore and it also would not have a business enterprise or an industrial society. According to P. Drucker, the manager has to balance and integrate three major jobs of a business enterprise as mentioned above. Hence, a manager is a dynamic and life-giving element in every business. Without efficient management it cannot be possible to secure the best allocation and utilisation of human, material and financial resources.

**ADDITIONAL QUESTIONS AND ANSWERS**

**I. CHOOSE THE CORRECT ANSWERS. 1 MARK**

**I. CHOOSE THE CORRECT OPTION.**

1. The observation of people at work that would reveal the one best way to do a task is known as  
 (a) scientific management  
 (b) creative management  
 (c) human resource management  
 (d) classical management

**[Ans. (a) scientific management]**

2. The founder of scientific management was  
 (a) Peter F. Drucker (b) Frederick Taylor  
 (c) Henry Fayol (d) Elton

**[Ans. (b) Frederick Taylor]**

3. The first management principles were developed by  
 (a) Victor Meldrew (b) Charles  
 (c) Henry Fayol (d) Taylor

**[Ans. (c) Henry Fayol]**

4. Studying the future and arranging the means for dealing with it is part of the process of  
 (a) Organising (b) Controlling  
 (c) Coordinating (d) Planning

**[Ans. (d) Planning]**

5. "Division of work, authority and responsibility, unity of command" were proposed as part of the fourteen principles of management by  
 (a) Fayol (b) Meldrew  
 (c) Taylor (d) Charles

**[Ans. (a) Fayol]**

6. Principles of management are not  
 (a) Absolute (b) Flexible  
 (c) Behavioural (d) Universal

**[Ans. (a) Absolute]**

7. Henri Fayol was a  
 (a) Social scientist (b) Accountant  
 (c) Production engineer (d) Mining engineer

**[Ans. (d) Mining engineer]**

8. How are principles of management formed?  
 (a) In a laboratory  
 (b) By experience of managers  
 (c) By experience of customers  
 (d) By experience of producers

**[Ans. (b) By experience of managers]**

9. The principles of management are significant because of  
 (a) changing technology  
 (b) utilisation of resources  
 (c) increase in efficiency  
 (d) initiative

**[Ans. (c) increase in efficiency]**

10. Which of the following is not a principle of management given by Taylor?  
 (a) Functional foremanship  
 (b) Science, not rule of the thumb  
 (c) Maximum, not restricted output  
 (d) Harmony, not dischord

**[Ans. (a) Functional foremanship]**

11. A reporting relationship in which an employee receives order from, and reports to only one supervisor is known as  
 (a) Unity of direction  
 (b) Unity of command  
 (c) Centralization  
 (d) Planning

**[Ans. (b) Unity of command]**





**12. Find the odd one out.**

- (a) board of directors      (b) chief executive  
(c) foremen                      (d) shareholders

[Ans. (c) foremen]

**13. Management should find 'one best way' to perform a task. Which technique of scientific management is defined in this sentence.**

- (a) Time study                      (b) Motion study  
(c) Fatigue study                  (d) Method study

[Ans. (d) Method study]

**14. Observe the following management principles and pick the odd one out. Justify your answer.**

- (a) unity of command      (b) unity of direction  
(c) maximum output      (d) equity

[Ans. (c) maximum output]

**15. Which of the following is not the functional areas of management?**

- (a) Production management  
(b) Marketing management  
(c) Personnel management  
(d) Information management

[Ans. (d) Information management]

**16. Which of the following is not true?**

- (a) Management is universal  
(b) Management is an art  
(c) Management is a social process  
(d) Management is always bureaucratic

[Ans. (d) Management is always bureaucratic]

**17. Modern managers are :**

- (a) Action oriented  
(b) Able to build a sense of shared values  
(c) Able to manage changes efficiently  
(d) All of the above [Ans. (d) All of the above]

**II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.**

| 1.   | List I              |    | List II               |
|------|---------------------|----|-----------------------|
| i)   | Body of knowledge   | 1) | Training programmes   |
| ii)  | Management Tools    | 2) | Professionals         |
| iii) | Separate Discipline | 3) | Data processing       |
| iv)  | Specialisation      | 4) | Theory and philosophy |

**Codes :**

- |     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 1   | 2    | 3     | 4    |
| (b) | 4   | 3    | 1     | 2    |
| (c) | 3   | 4    | 2     | 1    |
| (d) | 2   | 3    | 1     | 4    |

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

| 2.   | List I                   |    | List II                   |
|------|--------------------------|----|---------------------------|
| i)   | Code of conduct          | 1) | Directing and controlling |
| ii)  | Professional Association | 2) | Human resources           |
| iii) | Functional School        | 3) | Managerial profession     |
| iv)  | Behavioural School       | 4) | Social responsibilities   |

**Codes :**

- |     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 1   | 2    | 3     | 4    |
| (b) | 3   | 4    | 2     | 1    |
| (c) | 4   | 3    | 1     | 2    |
| (d) | 2   | 3    | 1     | 4    |

[Ans. (c) (i)-4; (ii)-3; (iii)-1; (iv)-2]

| 3.   | List I           |    | List II              |
|------|------------------|----|----------------------|
| i)   | Management       | 1) | Managerial functions |
| ii)  | Administration   | 2) | Planned goals        |
| iii) | Co-ordination    | 3) | Top level            |
| iv)  | Cyclical process | 4) | Lower level          |

**Codes :**

- |     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 4   | 3    | 1     | 2    |
| (b) | 1   | 2    | 3     | 4    |
| (c) | 2   | 3    | 1     | 4    |
| (d) | 3   | 4    | 2     | 1    |

[Ans. (a) (i)-4; (ii)-3; (iii)-1; (iv)-2]

| 4.   | List I            |    | List II                |
|------|-------------------|----|------------------------|
| i)   | Rule of Thumb     | 1) | Mutual trust           |
| ii)  | Mental Revolution | 2) | Extension of principle |
| iii) | Group action      | 3) | Attitude of workers    |
| iv)  | Cooperation       | 4) | Personal judgments     |

## CHAPTER

## 2

FUNCTIONS OF  
MANAGEMENT

## CHAPTER SNAPSHOT

- 2.1 Main Functions  
2.2 Subsidiary Functions

## EXERCISE

## I. CHOOSE THE CORRECT ANSWERS.

## 1. Which is the primary function of management?

[PTA-3; Mar.2020]

- (a) Innovating (b) Controlling  
(c) Planning  
(d) Decision-making [Ans. (c) Planning]

## 2. Which of the following is not a main function?

[QY-'19; May-'22]

- (a) Decision-making (b) Planning  
(c) Organising (d) Staffing

[Ans. (a) Decision-making]

## 3. \_\_\_\_\_ is included in every managerial function.

[Aug-'21]

- (a) Co-ordinating (b) Controlling  
(c) Staffing (d) Organising

[Ans. (a) Co-ordinating]

## 4. Which of the following is verification function?

[Govt. MQP &amp; HY-'19; PTA-4; FRT &amp; July-'22]

- (a) Planning (b) Organising  
(c) Staffing (d) Controlling

[Ans. (d) Controlling]

## 5. The goals are achieved with the help of \_\_\_\_\_

- (a) Motivation (b) Controlling  
(c) Planning (d) Staffing

[Ans. (a) Motivation]

## II. VERY SHORT ANSWER QUESTIONS.

## 1. Write a short note about Planning.

[PTA-3; QY-'19; FRT-'22]

**Ans.** Planning refers to deciding in advance. Planning is a constructive reviewing of future needs so that present actions can be adjusted in view of the established goal.

## 2. What is meant by Motivation?

**Ans.** The goals are achieved with the help of motivation. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of the workers.

## 3. List the subsidiary functions of management.

- Ans. (i)** Innovation  
**(ii)** Representation  
**(iii)** Decision - making  
**(iv)** Communication

## 4. What is the Traditional Proverb used in planning?

**Ans.** Think Before you Act' or 'Look Before you Leap' are some of the usual traditional proverbs; which provide a basis or logic for planning.



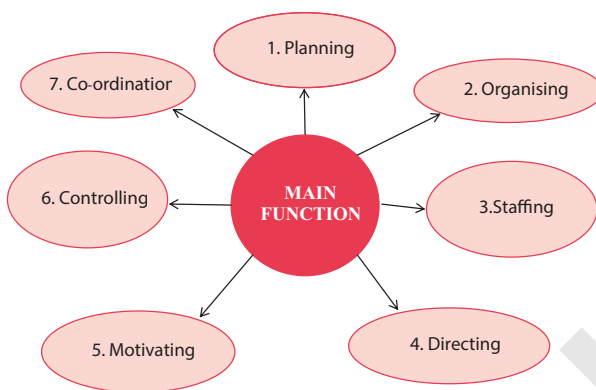
### III. SHORT ANSWER QUESTIONS.

1. List out the main functions of management.

[QY-'19; FRT-'22]

**Ans.** The main functions of management are :

- (i) Planning
- (ii) Organising
- (iii) Staffing
- (iv) Directing
- (v) Motivating
- (vi) Controlling
- (vii) Co-ordination



2. State the importance of staffing.

**Ans. (i)** Staffing function comprises the activities of selection and placement of competent personnel.

**(ii)** In other words, Staffing refers to placement of right persons in the right jobs.

**(iii)** Staffing includes selection of right persons, training to those needy persons, promotion of best persons, retirement of old persons, performance appraisal of all the personnel, and adequate remuneration of personnel.

**(iv)** The success of any enterprise depends upon the successful performance of staffing function.

3. How the employees are informed about important matters in a company?

**Ans.** Employees are kept informed of all necessary matters by circulars, instructions manuals, newsletters, notice-boards, meeting, participative mechanism etc., in order to enable the employees to accomplish the organizational goals.

### IV. LONG ANSWER QUESTIONS.

1. Explain the various functions of management. (any 5) [PTA-4; Sep.2020; Aug-'21; May-'22]

**Ans.** Functions of management can be classified into two categories.

A. Main functions; and B. Subsidiary functions.

**A. Main functions :**

**(i) Planning :**

**(a)** Planning is the primary function of management.

**(b)** Planning is a constructive reviewing of future needs so that present actions can be adjusted in view of the established goal.

**(c)** E.g. Writing a book starts with planning.

**(ii) Organising :**

**(a)** Organising is the process of establishing harmonious relationship among the members of an organisation.

**(b)** Organising function work is assigned to employees who are given authority to carry out the work assigned and made accountable for it.

**(iii) Staffing :**

**(a)** Staffing function comprises the activities of selection and placement of competent personnel.

**(b)** Staffing refers to placement of right persons in the right jobs.

**(iv) Directing :** [QY-'19]

**(a)** Directing denotes motivating, leading, guiding and communicating with sub-ordinates.

**(b)** Employees are kept informed of all necessary matters by circulars, instructions manuals, newsletters, notice-boards, meeting, participative mechanism, etc.

**B. Subsidiary functions :**

**(i) Innovation :**

**(a)** Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.

**(b)** Innovation includes developing new material, new products, new techniques in production, new package, new design of a product and cost reduction.



**(ii) Representation :**

- (a) A manager has to act as representative of a company.
- (b) Manager has dealings with customers, suppliers, government officials, banks, financial institutions, trade unions, etc.
- (c) It is the duty of every manager to have good relation with others.

**(iii) Decision - making :**

- (a) Every employee of an organisation has to take a number of decisions every day.

- (b) Decision - making helps in the smooth functioning of an organisation.

**(iv) Communication :**

- (a) Communication is the transmission of human thoughts, views or opinions from one person to another person.
- (b) Workers are informed about what should be done, where it is to be done, how it is to be done and when it is to be done.

**PTA QUESTIONS AND ANSWERS**

**I. VERY SHORT ANSWER QUESTIONS.**

**2 MARKS**

1. What is meant by Controlling? [PTA-4]

**Ans.** Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions. It is the control function which facilitates synchronization of actual performance with predetermined standards.

**II. SHORT ANSWER QUESTIONS.**

**3 MARKS**

1. What are the main duties of a manager? [PTA-4]

- Ans. (i)** A manager has to act as representative of a company.
- (ii)** Manager has dealings with customers suppliers, government officials, banks, financial institutions, trade unions, etc.
- (iii)** It is the duty of every manager to have good relations with others.

**GOVERNMENT EXAM QUESTIONS AND ANSWERS**

**I. CHOOSE THE CORRECT ANSWERS.**

**1 MARK**

1. Which one is non correct? [QY-'19]

- (a) The process of placing the right man on the right job is called placement.
- (b) A manager has to act as representative of a company.
- (c) The goals are achieved with the help of motivation.
- (d) Can do anything without planning

**[Ans. (d) Can do anything without planning]**

2. Subsidiary function of management are:

[FRT-'22]

- (a) Innovation
- (b) Representation
- (c) Decision making
- (d) All the above

**[Ans. (d) All the above]**

**II. LONG ANSWER QUESTIONS.**

**5 MARKS**

1. Explain (i) Planning (ii) Co-ordination

[FRT-'22]

**(i) Planning :**

- (a) Planning is the primary function of management. Nothing can be performed without planning. (For eg., Writing a book starts with planning).
- (b) Planning is a constructive reviewing of future needs so that present actions can be adjusted in view of the established goal.
- (c) Planning should take place before doing; most individual or group efforts are made by determining before any operative action takes place, what shall be done, where, how and who shall do it.





**(ii) Co-ordination:**

- (a) Co-ordination is the synchronization (or unification or integration) of the actions of all individuals, working in the enterprise in different capacities; so as to lead to the most successful attainment of the common objectives.
- (b) Co-ordination is included in every managerial function;

**Eg:** (i) Planning and co-ordination,

(ii) Organising and co-ordination,

(iii) Staffing and co-ordination,

(iv) Directing and co-ordination,

(v) Motivation and co-ordination and

(iv) Controlling and co-ordination.

(c) The difficulty of co-ordination depends upon the size of organisation.

(d) The difficulty of co-ordination is increased with the increasing size of the organisation.

**ADDITIONAL QUESTIONS AND ANSWERS**

**I. CHOOSE THE CORRECT ANSWERS.**

**1 MARK**

**I. CHOOSE THE CORRECT OPTION.**

**1. Management functions are called as**

- (a) Managerial Process  
(b) Cyclical Process  
(c) Psychological Process  
(d) Accounting Process

**[Ans. (a) Managerial Process]**

**2. Nothing can be performed without**

- (a) Organising                      (b) Staffing  
(c) Planning                        (d) Controlling

**[Ans. (c) Planning]**

**3. Consumers are satisfied through**

- (a) coordination                    (b) motivation  
(c) innovation                      (d) representation

**[Ans. (c) innovation]**

**4. Which of the following is not a function of management?**

- (a) Budgeting                      (b) Profit earning  
(c) Staffing                         (d) Planning

**[Ans. (b) Profit earning]**

**5. Which among the following is not a subsidiary function of management?**

- (a) Communication                (b) Innovation  
(c) Motivation                      (d) Decision-making

**[Ans. (c) Motivation]**

**6. Co-ordination means**

- (a) Organising activities  
(b) Directing activities  
(c) Synchronizing activities  
(d) All of these

**[Ans. (c) Synchronizing activities]**

**7. Planning, organizing, directing and controlling are the**

- (a) Functions of management  
(b) Goals of management  
(c) Results of management  
(d) All of the above

**[Ans. (a) Functions of management]**

**8. Empowerment is related to**

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

**[Ans. (c) Directing]**

**9. Coordinating people and human resources to accomplish organizational goals is the process of**

- (a) Planning                        (b) Directing  
(c) Management                    (d) Leadership

**[Ans. (d) Leadership]**

**10. Which of the following would be included in the "Controlling function"?**

- (a) Measuring results against corporate objectives  
(b) Explaining routines  
(c) Setting standards  
(d) Giving assignments

**[Ans. (a) Measuring results against corporate objectives]**

**11. Specific, shortterm statements detailing how to achieve an organization's goals is known as its**

- (a) Vision  
(b) Mission Statement  
(c) Objectives  
(d) Operational planning

**[Ans. (c) Objectives]**

**12. An outline of the fundamental purpose of an organisation is called its**

- (a) Mission statement            (b) Objectives  
(c) Policy                            (d) All of the above

**[Ans. (a) Mission statement]**

**13. Strategic planning is done by**

- (a) Top managers of the firm  
(b) Middle managers  
(c) Supervisory managers  
(d) Non supervisory employees

**[Ans. (a) Top managers of the firm]**

## CHAPTER

## 3

# MANAGEMENT BY OBJECTIVES (MBO) MANAGEMENT BY EXCEPTION (MBE)

## CHAPTER SNAPSHOT

- 3.1 Meaning and Definition of MBO
- 3.2 Objectives of MBO
- 3.3 Features of MBO
- 3.4 Process of MBO
- 3.5 Advantages of MBO
- 3.6 Disadvantages of MBO
- 3.7 Meaning of MBE
- 3.8 Process of MBE
- 3.9 Advantages of MBE
- 3.10 Disadvantages of MBE

## EXERCISE

## I. CHOOSE THE CORRECT ANSWERS.

1. \_\_\_\_\_ System gives full Scope to the Individual Strength and Responsibility.  
(a) MBO (b) MBE [PTA-5]  
(c) MBM (d) MBA [Ans. (a) MBO]
2. Which is the First step in Process of MBO?  
(a) Fixing Key Result Area  
(b) Appraisal of Activities  
(c) Matching Resources with Activities  
(d) Defining Organisational Objectives  
[Ans. (d) Defining Organisational Objectives]
3. \_\_\_\_\_ keeps Management Alert to Opportunities and Threats by Identifying Critical Problems.  
(a) MBA (b) MBE  
(c) MBM (d) MBO [Ans. (b) MBE]

4. Delegation of Authority is Easily Done with the Help of \_\_\_\_\_. [QY-'19]

- (a) MBM (b) MBE  
(c) MBO (d) MBA [Ans. (c) MBO]

5. MBO is popularised in the USA by .....

- (a) Prof. Reddin (b) George Odiorne  
(c) Henry Fayol (d) F.W Taylor

[Ans. (b) George Odiorne]

## II. VERY SHORT ANSWER QUESTIONS.

1. What are the objectives of MBO?

Ans. The objectives of MBO are ;

- (i) to measure and judge performance.
- (ii) to relate individual performance to organisational goals.



**2. Bring out the meaning of MBE.**

*[Govt. MQP-'19; PTA-5]*

**Ans. (i)** Management by Exception is an important principle of managerial control suggested by the classical writers on management.

**(ii)** It is a style of business management that focuses on identifying and handling cases that deviate from the norm.

**3. Mention any two advantages of MBO.**

**Ans.** The advantages of MBO are

**(i)** MBO gives the criteria of performance. It helps to take corrective action.

**(ii)** MBO process helps the managers to understand their role in the total organisation.

**4. What is known as KRA?**

**Ans. (i)** KRA means Key result areas. Key Result area are fixed on the basis of organisational objectives premises.

**(ii)** Key Result Areas are arranged on a priority basis. KRA indicates the strength of an organisation.

**(iii)** The examples of KRA are profitability, market standing, innovation etc.

**III. SHORT ANSWER QUESTIONS.**

**1. Write the features of MBO. [QY-'19; Mar-2020]**

**Ans.** The features of MBO are :

**(i)** An attempt is made by the management to integrate the goals of an organisation and individuals. This will lead to effective management.

**(ii)** MBO tries to combine the long run goals of an organisation with short run goals.

**(iii)** Management tries to relate the organisation goals with society goals.

**(iv)** MBO's emphasis is not only on goals but also on effective performance.

**(v)** It increases the organisational capability of achieving goals at all levels.

**(vi)** Aims at replacing the exercise of authority with consultations.

**2. What are the Process of MBE?**

**Ans. (i)** Primarily, it is necessary to set objectives or norms with predictable or estimated results.

**(ii)** These performances are assessed and get equated to the actual performance.

**(iii)** Next, the deviation gets analysed. With an insignificant or no deviation, no action is required and senior managers can concentrate on other matters.

**(iv)** If actual performances deviate significantly, the issue needs to be passed to the senior managers, as an exception has occurred.

**(v)** Finally, the aim is to solve this "exception" immediately.

**3. List out any three process of MBO.**

**Ans.** Four process of MBO are

**(i)** Defining Organisational Objectives.

**(ii)** Goals of Each Section.

**(iii)** Fixing Key Result Areas.

**IV. LONG ANSWER QUESTIONS.**

**1. What are the major advantages of MBO? (any 5) [PTA-5]**

**Ans.** The advantages of MBO are

**(i)** Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.

**(ii)** MBO process helps the managers to understand their role in the total organisation.

**(iii)** Manager recognises the need for planning and appreciates the planning.

**(iv)** MBO provides a foundation for participative management. Subordinates are also involved in goal setting.

**(v)** A department does not work at cross purpose with another department.

**2. What are the advantages of MBE? (any 5) [PTA-3; Mar-2020]**

**Ans.** Management by exception provides the following advantages.

**(i)** It saves the time of managers because they deal only with exceptional matters. Routine problems are left to subordinates.

**(ii)** It focuses managerial attention on major problems. As a result, there is better utilisation of managerial talents and energy.

**(iii)** It facilitates delegation of authority. Top management concentrates on strategic decisions and operational decisions are left to the lower levels.

**(iv)** It is a technique of separating important information from unimportant one. It forces managers to review past history and study related business data for identifying deviations.

**(v)** MBE keeps management alert to opportunities and threats by identifying critical problems. It can avoid uninformed and impulsive action.



 **Sura's XII Std - Commerce**

(vi) Management by exception provides better yardsticks for judging results. It is helpful in objective performance appraisal.

**3. Discuss the disadvantages of MBE.**

**Ans. (i)** The main disadvantage of MBE is, only managers have the power over really important decisions, which can be demotivating for employees at a lower level.

(ii) Furthermore, it takes time to pass the issues to managers.

(iii) Managing employees who deviate from the normal procedures.

(iv) Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.

**PTA QUESTIONS AND ANSWERS**

**I. VERY SHORT ANSWER QUESTIONS.**

**2 MARKS**

1. Define - MBO.

[PTA-5]

**Ans.** Professor Reddin defines MBO as "the establishment of effective standards for managerial positions and the periodic conversion of those into measurable time bound objectives linked vertically and horizontally and with future planning".

**GOVERNMENT EXAM QUESTIONS AND ANSWERS**

**I. VERY SHORT ANSWER QUESTIONS. 2 MARKS**

1. What do you mean by MBO? [QY-'19]

**Ans. (i)** MBO is a management system in which each member of the organisation effectively participates and involves himself.

(ii) This system gives full scope to the individual strength and responsibility.

(iii) MBO harmonises the goal of an individual with the organisation's goal.

(iii) **Fixing Key Result Areas :** Key result areas are fixed on the basis of organisational objectives premises. Key Result Areas (KRA) are arranged on a priority basis. KRA indicates the strength of an organisation.

(iv) **Setting Subordinate Objectives or Targets:** The objectives of each subordinate or individual are fixed. It is preferable to fix the objectives at lower level in quantitative units. There should be a free and frank discussion between the superior and his subordinates.

**II. LONG ANSWER QUESTIONS. 5 MARKS**

1. Explain the process of MBO. (any 7)[QY-'19]

**Ans.** The process of MBO is explained below :

(i) **Defining Organisational Objectives:** Initially, organisational objectives are framed by the top level employees of an organisation. The definition of organisational objectives states why the business is started and exists.

(ii) **Goals of Each Section :** Objectives for each section, department or division are framed on the basis of overall objectives of the organisation. Goals or objectives are expressed in a meaningful manner.

(v) **Matching Resources with Objective :** The objectives are framed on the basis of availability of resources. If certain resources (technical personnel or scarce raw material) are not adequately available, the objectives of an organisation are changes accordingly.

(vi) **Periodical Review Meetings :** The superior and subordinates should hold meetings periodically in which they discuss the progress in the accomplishment of objectives.

(vii) **Appraisal of Activities :** At the end of the fixed period for achieving the objectives, there should be a discussion between the superior and subordinates.

**ADDITIONAL QUESTIONS AND ANSWERS**

**I. CHOOSE THE CORRECT ANSWERS. 1 MARK**

**I. CHOOSE THE CORRECT ANSWERS.**

1. What is MBO?

- (a) Managerial Business objects      (b) Management by objectives  
(c) Management by organisation      (d) Management of Business organisation

[Ans. (b) Management by objectives]

# UNIT II

## FINANCIAL MARKETS – I

### CHAPTER

# 4

## INTRODUCTION TO FINANCIAL MARKETS

### CHAPTER SNAPSHOT

- 4.1 Meaning and Definition of Financial Market
- 4.2 Scope of Indian Financial Market
- 4.3 Types of Financial Markets
- 4.4 Role of Financial Market
- 4.5 Functions of Financial Markets
- 4.6 New Issue Market (NIM) Vs. Secondary Market

### EXERCISE

#### I. CHOOSE THE CORRECT ANSWERS.

1. **Financial market facilitates business firms**

- (a) To rise funds [PTA-3; FRT-'22]
- (b) To recruit workers
- (c) To make more sales
- (d) To minimize fund requirement

[Ans. (a) To rise funds]

2. **Capital market is a market for** [Sep-2020]

[Govt. MQP & QY-'19; ; PTA-4; May-'22]

- (a) Short Term Finance
- (b) Medium Term Finance
- (c) Long Term Finance
- (d) Both Short Term and Medium Term Finance

[Ans. (c) Long Term Finance]

3. **Primary market is also called as** [PTA-5; FRT-'22]

- (a) Secondary market
- (b) Money market
- (c) New Issue Market
- (d) Indirect Market

[Ans. (c) New Issue Market]

4. **Spot Market is a market where the delivery of the financial instrument and payment of cash occurs** [PTA-1; FRT-'22]

- (a) Immediately
- (b) In the future
- (c) Uncertain
- (d) After one month

[Ans. (a) Immediately]

5. **How many times a security can be sold in a secondary market?**

[PTA-6; Aug-'21; FRT & July-'22]

- (a) Only one time
- (b) Two time
- (c) Three times
- (d) Multiple times

[Ans. (d) Multiple times]

## Sura's XII Std - Commerce

### II. VERY SHORT ANSWER QUESTIONS.

**1. What are the components of organized sectors?** [FRT-'22]

**Ans.** Organised sector consist of Regulators, Financial Institutions, Financial markets and Financial services.

**2. What is Spot Market?** [FRT-'22]

**Ans.** Spot Market is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

**3. What is Debt Market?**

**Ans.** Debt Market is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, Corporate Debentures or Bonds).

**4. How is price decided in a Secondary Market?** [Aug-'21]

**Ans.** Secondary markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers. They provide a signal for the allocation of funds in the economy, based on the demand and supply, though the mechanism called price discovery processes

### III. SHORT ANSWER QUESTIONS.

**1. Give the meaning of Financial Market.** [July-'22]

**Ans. Meaning:** A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'. In another words, financial markets may be channels through which flow loanable funds directed from a supplier who has an excess of assets toward a demander who experiences a deficit of funds.

**2. Write a note on Secondary Market.** [PTA-2; QY-'19; FRT-'22]

**Ans. (i)** Secondary market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here.

**(ii)** The trading takes place between investors who follow the original issue in the primary market.

**(iii)** It covers both stock exchange and over the counter market.

**3. Bring out the scope of Financial Market in India.**

**Ans. (i)** The financial market provides financial assistance to individuals, agricultural sectors, industrial sectors, service

sectors, financial institutions like banks, insurance sectors, provident funds and the government as a whole.

**(ii)** With the help of the financial market all the above stated individuals, institutions and the Government can get their required funds in time.

**(iii)** Through the financial market the institutions get their short term as well as long term financial assistance.

**(iv)** It leads to the overall economic development.

### IV. LONG ANSWER QUESTIONS.

**1. Distinguish between New Issue Market and Secondary Market. (any 5)**

[Govt. MQP-'19; PTA-1; Sep-2020; FRT & July-'22]

**Ans.**

| S. No | Basis for Comparison       | New Issue Market   | Secondary Market  |
|-------|----------------------------|--|---|
| 1.    | Meaning                    | The market place for new shares is called primary market. (Initial Issues Market)                          | The place where formerly issued securities are traded is known as Secondary market. (Resale Market) |
| 2.    | Buying                     | Direct   | Indirect  |
| 3.    | Financing                  | It supplies funds to budding enterprises and also to existing companies for expansion and diversification. | It does not provide funding to companies.   |
| 4.    | Buying and selling between | Company and Investors  | Investors   |
| 5.    | Gained person              | Company  | Investors   |
| 6.    | Intermediary               | Underwriters   | Brokers   |





2. Enumerate the different types of Financial Markets. (any 5) [PTA-2; QY-'19; May-'22]

**Ans.** Financial markets can be classified in different ways. They are as follows :

(i) **On the Basis of Type of Financial Claim :**

(a) **Debt Market :** Debt market is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, corporate Debentures or Bonds).

(b) **Equity Market :** Equity market is the financial market for trading in Equity Shares of Companies.

(ii) **On the Basis of Maturity of Financial Claim:**

(a) **Money Market :** Money market is the market for short term financial claim (usually one year or less) Example : Treasury Bills, Commercial Paper, Certificates of Deposit

(b) **Capital Market :** Capital market is the market for long term financial claim more than a year Example : Shares and Debentures

(iii) **On the Basis of Time of Issue of Financial Claim:**

(a) **Primary Market :** Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers (companies). Here the money from investors goes directly to the issuers.

(b) **Secondary Market :** Secondary market is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.

(iv) **On the Basis of Timing of Delivery of Financial Claim**

(a) **Cash/Spot Market :** Cash or Spot market is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

(b) **Forward or Futures Market :** Forward or futures market is a market where the delivery of asset and payment of cash takes place at a pre-determined time in future.

(v) **On the Basis of the Organizational Structure of the Financial Market :**

(a) **Exchange Traded Market :** Exchange traded market is a centralized organization (stock exchange) with standardized procedures.

(b) **Over-the-Counter Market :** Over – the – counter market is a decentralized market (outside the stock exchange) with customized procedures.

3. Discuss the role of Financial Market.

[Mar-2020; Aug-'21; FRT-'22]

**Ans.** One of the important requisites for the accelerated development of an economy is the existence of a dynamic and a resilient financial market. A financial market is of great use for a country as it helps the economy in the following manner.

(i) **Savings Mobilization :**

Obtaining funds from the savers or surplus units such as household individuals, business firms, public sector units, Government is an important role played by financial markets.

(ii) **Investment :**

Financial market plays a key role in arranging the investment of funds thus collected, in those units which are in need of the same.

(iii) **National Growth :**

Financial markets contribute to a nation's growth by ensuring an unfettered flow of surplus funds to deficit units. Flow of funds for productive purposes is also made possible. It leads to overall economic growth.

(iv) **Entrepreneurship Growth :**

Financial markets contribute to the development of the entrepreneurial class by making available the necessary financial resources.

(v) **Industrial Development :**

The different components of financial markets help an accelerated growth of industrial and economic development of a country and thus contributing to raising the standard of living and the society's well-being.

**PTA QUESTIONS AND ANSWERS**

**I. VERY SHORT ANSWER QUESTIONS.**

**2 MARKS**

1. Write a note on Financial Market.

[PTA-1; QY-'19]

**Ans.** A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'.

**II. SHORT ANSWER QUESTIONS.**

**3 MARKS**

1. Differentiate Spot Market from Future Market.

[PTA-1; May-'22]

| S.No | Spot Market   | Future Market  |
|------|---|--|
| 1.   | Spot market is a market where the delivery of the financial instrument and payment of cash occurs immediately i.e. settlement is completed immediately. | Future market is a market where the delivery of assets and payment of cash takes place at a pre-determined time in future. |
| 2.   | Spot market is also known as cash market.   | Future market is also known as Forward market.   |

**III. LONG ANSWER QUESTIONS.**

**5 MARKS**

1. What are the functions of Financial Markets?

[PTA-3]

**Ans.** The financial market two functions :

I. Intermediary Functions

II. Financial Functions

**I. Intermediary Functions :** The intermediary functions of a financial market include the following

- (i) **Transfer of resources :** Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.
- (ii) **Enhancing Income :** Financial markets allow lenders earn interest / dividend on their surplus investible funds and thus contributing to the enhancement of the individual and the national income.
- (iii) **Productive Usage :** Financial markets allow for the productive use of the funds borrowed and thus enhancing the income and the gross national production.
- (iv) **Capital Formation :** Financial markets provide a channel through which new savings flow to aid capital formation of a country.
- (v) **Sale Mechanism :** Financial market provides a mechanism for selling of a financial asset by an investor so as to offer the benefits of marketability and liquidity of such assets.
- (vi) **Information :** The activities of the participants in the financial market result in the generation and the consequent dissemination of information to the various segments of the markets, so as to reduce the cost of transaction of financial assets.

**II. Financial Functions :** The financial functions of a financial market include the following :

- (i) Providing the borrowers with funds so as to enable them to carry out their investment plans.
- (ii) Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in productive ventures.
- (iii) Providing liquidity in the market so as to facilitate trading of funds.



## GOVERNMENT EXAM QUESTIONS AND ANSWERS

### I. CHOOSE THE CORRECT ANSWERS.

**1 MARK**

1. Which one is non marketable assets? [QY-'19]
  - (a) Government securities
  - (b) Bonds of Public sector undertakings
  - (c) National Savings Certificates
  - (d) Shares of listed companies

**[Ans. (c) National Savings Certificates]**
2. Which of the following is not a correct pair? [Mar-2020]
  - (a) Forward Market - Future Market
  - (b) Debt Market - Government Bonds
  - (c) Money Market - Commercial Papers
  - (d) Equity Market - Debentures

**[Ans. (d) Equity Market - Debentures]**

## ADDITIONAL QUESTIONS AND ANSWERS

### I. CHOOSE THE CORRECT ANSWERS. 1 MARK

#### I. CHOOSE THE CORRECT OPTION.

1. Type of market in which securities with less than one year maturity are traded, is classified as
  - (a) money market
  - (b) capital market
  - (c) transaction market
  - (d) global market

**[Ans. (a) money market]**
2. Process of selling and buying of stocks and bonds is classified as
  - (a) e-trade
  - (b) stock trade
  - (c) both 'a' and 'b'
  - (d) none of these

**[Ans. (a) e-trade]**
3. Primary and secondary markets
  - (a) compete with each other
  - (b) complement each other
  - (c) function independently
  - (d) control each other

**[Ans. (b) complement each other]**
4. In primary markets, first time issued shares to be publicly traded, in stock markets is considered as
  - (a) traded offering
  - (b) Public markets
  - (c) issuance offering
  - (d) initial public offering

**[Ans. (d) initial public offering]**
5. Treasury Bill is basically
  - (a) An instrument to borrow short-term funds
  - (b) An instrument to borrow long-term funds
  - (c) An instrument of capital market
  - (d) None of the above

**[Ans. (a) An instrument to borrow short-term funds]**
6. In primary markets, property of shares which made it easy to sell newly issued security is considered as
  - (a) increased liquidity
  - (b) decreased liquidity
  - (c) money flow
  - (d) large funds

**[Ans. (a) increased liquidity]**
7. Money market where debit and stocks are traded and maturity period is more than a year is classified as
  - (a) shortterm markets
  - (b) longterm markets
  - (c) capital markets
  - (d) None of these

**[Ans. (c) capital markets]**
8. Type of structured market through which funds flow with help of financial instruments such as bonds and stocks is classified as
  - (a) financial markets
  - (b) flow market
  - (c) funds market
  - (d) capital market

**[Ans. (a) financial markets]**
9. The first issues are floated in
  - (a) Primary market
  - (b) Secondary market
  - (c) Commodity market
  - (d) Regulated market

**[Ans. (a) Primary market]**





**II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.**

1.

|      | List I             |    | List II                    |
|------|--------------------|----|----------------------------|
| i)   | Organised sector   | 1) | Corporate debentures       |
| ii)  | Unorganised sector | 2) | Equity shares of companies |
| iii) | Debt market        | 3) | Indigenous bankers         |
| iv)  | Equity market      | 4) | Financial institutions     |

**Codes :**

|     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 1   | 2    | 3     | 4    |
| (b) | 4   | 3    | 1     | 2    |
| (c) | 2   | 3    | 1     | 4    |
| (d) | 3   | 4    | 2     | 1    |

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

2.

|      | List I           |    | List II            |
|------|------------------|----|--------------------|
| i)   | Money market     | 1) | Stock exchange     |
| ii)  | Capital market   | 2) | Sale of securities |
| iii) | Primary market   | 3) | Debentures         |
| iv)  | Secondary market | 4) | Treasury Bills     |

**Codes :**

|     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 1   | 2    | 3     | 4    |
| (b) | 2   | 3    | 1     | 4    |
| (c) | 3   | 4    | 1     | 2    |
| (d) | 4   | 3    | 2     | 1    |

[Ans. (d) (i)-4; (ii)-3; (iii)-2; (iv)-1]

3.

|      | List I                |    | List II               |
|------|-----------------------|----|-----------------------|
| i)   | Savings Mobilization  | 1) | Flow of funds         |
| ii)  | National Growth       | 2) | Government securities |
| iii) | Marketable assets     | 3) | Pension funds         |
| iv)  | Non-marketable assets | 4) | Household individuals |

**Codes :**

|     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 4   | 1    | 2     | 3    |
| (b) | 1   | 2    | 3     | 4    |
| (c) | 2   | 3    | 4     | 1    |
| (d) | 3   | 4    | 1     | 2    |

[Ans. (a) (i)-4; (ii)-1; (iii)-2; (iv)-3]

**III. CHOOSE AND FILL IN THE BLANKS.**

1. \_\_\_\_\_ is an institution or arrangement that facilitates the exchange of financial instruments.

- (a) Financial Market  
(b) Capital market  
(c) Organised sector  
(d) Unorganised sector

[Ans. (a) Financial Market]

2. \_\_\_\_\_ is the financial market for trading in debt instrument that is government bonds or securities.

- (a) Equity market (b) Debt market  
(c) Money market (d) Capital market

[Ans. (b) Debt market]

3. \_\_\_\_\_ is the market for short term financial claim.

- (a) Debt market (b) Equity market  
(c) Money market (d) Capital market

[Ans. (c) Money market]

4. \_\_\_\_\_ market is the market for long term financial claim more than a year.

- (a) Primary market (b) Secondary market  
(c) Equity market (d) Capital market

[Ans. (d) Capital market]

5. \_\_\_\_\_ is the market for securities that are already issued.

- (a) Primary market  
(b) Secondary market  
(c) Debt market  
(d) Equity market

[Ans. (b) Secondary market]

6. \_\_\_\_\_ for productive purposes is also made possible.

- (a) Saving mobilization  
(b) Investment  
(c) Flow of funds  
(d) None of these

[Ans. (c) Flow of funds]

7. Financial intermediation is the process that the financial intermediaries connect \_\_\_\_\_ and \_\_\_\_\_ by transferring funds from one side to another.

- (a) Banks and account holders  
(b) Borrowers and securities firms  
(c) Borrowers and lenders  
(d) Investors and lenders

[Ans. (c) Borrowers and lenders]

#### IV. PICK THE ODD ONE OUT.

1. (a) Debt market  
(b) Secondary market  
(c) Equity share  
(d) Future market **[Ans. (c) Equity share]**

**Reason :** Those shares which are not called as preference share are known as Equity share. Other three are types of financial markets.

2. (a) Capital formation  
(b) Sale mechanism  
(c) Information  
(d) Money market **[Ans. (d) Money market]**

**Reason :** Money market is the market for short term financial claim. Other three are functions of financial markets.

#### V. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

1. (a) Debt market - Bonds  
(b) Money market - Commercial paper  
(c) Capital market - Stock exchange  
(d) Equity market - Equity shares of companies

**[Ans. (c) Capital market - Stock exchange]**

2. (a) Secondary market - Stock exchange  
(b) Marketable assets - Shares of listed companies  
(c) Non-marketable assets - Bank deposits  
(d) Money market - Government Bonds

**[Ans. (d) Money market - Government Bonds]**

#### VI. CONSIDER THE FOLLOWING STATEMENT.

1. **Assertion (A) :** Government need funds to provide goods and services to the people.

**Reason (R) :** Financial market facilitates business firms as well as governments to raise the needed funds by issuing an selling different instruments. Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A).

(c) (A) is true, but (R) is false.

(d) (A) is false, but (R) is true.

**[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]**

2. **Assertion (A) :** Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.

**Reason (R) :** Financial market plays a key role in arranging the investment of funds thus collected, in those units which are in need of the same.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A).  
(c) (A) is true, but (R) is false.  
(d) (A) is false, but (R) is true.

**[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]**

3. **Assertion (A) :** Marketable assets are those which can be easily transferred from one person to another without much hindrance.

**Reason (R) :** Shares of listed companies and government securities are the examples of marketable assets.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A).  
(c) (A) is true, but (R) is false.  
(d) (A) is false, but (R) is true.

**[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]**

#### VII. CHOOSE THE CORRECT STATEMENT :

1. (i) Business firms need large funds to undertake a desired project.  
(ii) Financial market also helps investors to facilitate them to invest surplus funds and earn a return.  
(iii) The Indian financial system can be broadly classified into organized sector and unorganized sector.

- (a) (i) is correct  
(b) (i) and (ii) are correct  
(c) (ii) and (iii) are correct  
(d) (i), (ii) and (iii) are correct

**[Ans. (d) (i), (ii) and (iii) are correct]**

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2. (i) Unorganized sector consist of Regulators, Financial institutions, Financial Markets and financial services.  
 (ii) The organised sector consists of Money lenders, Indigenous Bankers etc.  
 (iii) The financial system facilitates the flow of funds from the suppliers to the users.  
 (a) (i) is correct                      (b) (ii) is correct  
 (c) (iii) is correct  
 (d) (i), (ii) and (iii) are correct

[Ans. (c) (iii) is correct]

3. (i) Equity market is the financial market for trading in equity shares of companies.  
 (ii) Stock exchange is an important institution in the secondary market.  
 (iii) Exchange Traded Market is a centralized organisation (stock exchange) with standardized procedures.  
 (a) (i) is correct  
 (b) (ii) and (iii) are correct  
 (c) (ii) is correct  
 (d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

**II. VERY SHORT ANSWER QUESTIONS. 2 MARKS**

**1. What is money market?**

**Ans.** Money market is the market for short term financial claim. (E.g) Treasury Bills, Commercial paper, Certificates of Deposit.

**2. What do you mean by capital market?**

**Ans.** Capital Market is the market for long term financial claim more than a year. (E.g) Shares, Debentures.

**III. SHORT ANSWER QUESTIONS. 3 MARKS**

**1. Write a short note on**

- (a) Primary market      (b) Secondary market

**Ans. (a) Primary market :**

(i) Primary market is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers.

(ii) Here the money from investors goes directly to the issuers.

**(b) Secondary market :**

(i) Secondary market is the market for securities that are already issued.

(ii) Stock exchange is an important institution in the secondary market.

**2. Explain the classification of financial assets.**

**Ans.** Financial assets can be classified differently under different circumstances. One such classification is :

(i) Marketable assets

(ii) Non-marketable assets

**(i) Marketable Assets :**

(a) Marketable assets are those which can be easily transferred from one person to another without much hindrance.

(b) Example : Shares of Listed companies, Government securities, Bonds of Public sector undertakings etc.

**(ii) Non-marketable Assets :**

(a) If the assets cannot be transferred easily, they come under this category.

(b) Example : Bank deposits, Provident funds, Pension funds, National savings Certificates, Insurance policies etc.





## CHAPTER

## 5

## CAPITAL MARKET

## CHAPTER SNAPSHOT

- 5.1 Meaning and Definition
- 5.2 Characteristics of Capital Market
- 5.3 Kinds of Capital Market
- 5.4 Functions and Importance of Capital Market
- 5.5 Indian Capital Market – Evolution and Growth
- 5.6 New Financial Institutions

## EXERCISE

## I. CHOOSE THE CORRECT ANSWERS.

1. Capital market do not provide [PTA-1; FRT-'22]
  - (a) Short term Funds
  - (b) Debenture Funds
  - (c) Equity Funds
  - (d) Long term Funds

[Ans. (a) Short term Funds]

2. When the NSEI was established [PTA-2; QY-'19; Mar-2020]
  - (a) 1990
  - (b) 1992
  - (c) 1998
  - (d) 1997

[Ans. (b) 1992]

3. Primary market is a Market where securities are traded in the [PTA-2; FRT & July-'22]
  - (a) First Time
  - (b) Second Time
  - (c) Three Time
  - (d) Several Times

[Ans. (a) First Time]

4. Participants in the capital market includes [PTA-3; FRT-'22]
  - (a) Individuals
  - (b) Corporate
  - (c) Financial Institutions
  - (d) All of the above

[Ans. (d) All of the above]

5. The \_\_\_\_\_ was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.

- (a) OTCEI
- (b) Factoring
- (c) Mutual Funds
- (d) Venture Funds Institutions

[Ans. (a) OTCEI]

## II. VERY SHORT ANSWER QUESTIONS.

1. What is Capital Market? [PTA-2; FRT & July-'22]

Ans. Capital market is a market where buyers and sellers engage in trade of financial securities like bonds and stocks. The buying and selling is undertaken by participants such as individuals and institutions.

2. Write a note on OTCEI. [QY-'19]

Ans. (i) OTCEI means Over The Counter Exchange of India.

(ii) The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.

(iii) It addresses some specific problems of both investors and medium-size companies.



**3. Who are the participants in a Capital Market?**  
[FRT-'22]

**Ans.** The participants of the capital market include individuals, corporate sectors, Government, banks and other financial institutions.

**4. How is price determined in a Capital Market?**

**Ans.** The price of the securities is determined based on the demand and supply prevailing in the capital market for securities.

### III. SHORT ANSWER QUESTIONS.

**1. What are the various kinds of Capital Market? Explain. (any 3)**  
[QY-'19]

**Ans.** Capital market is divided into two i.e. primary market and secondary market.

**(i) Primary Market :**

(a) Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue Market.

(b) The primary market deals with those securities which are issued to the public for the first time.

(c) In the primary market, borrowers exchange new financial securities for long term funds.

(d) There are three ways by which a company may raise capital in a primary market. They are,

(i) Public Issue

(ii) Right Issue

(iii) Private Placement

**(ii) Secondary Market :**

(a) Secondary Market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here.

(b) The trading takes place between investors who follow the original issue in the primary market.

(c) It covers both stock exchange and over-the counter market.

**2. Explain any two functions of Capital Market.**

**Ans.** The functions of capital market are as follows:

**(i) Savings and Capital Formation :**

(a) In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Government, etc.).

(b) The twin features of reasonable return and liquidity in stock exchange are definite incentives to the people to invest in securities.

(c) This accelerates the capital formation in the country.

**(ii) Ready and Continuous Market :**

(a) The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.

(b) Easy marketability makes investment in securities more liquid as compared to other assets.

**3. Explain about Factoring and Venture Capital Institutions.**

**Ans. (i) Factoring Institutions :**

(a) "Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/sale of account receivables.

(b) The factoring institutions collect the book debts for and on behalf of its clients.

(c) Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

**(ii) Venture Capital Institutions :**

(a) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.

(b) Venture capital funds bring into force the hi-technology projects which are converted into commercial production.

(c) They include Risk Capital Foundation of IFCI, Venture Fund of IDBI, SIDBI, Technology Development and Infrastructure Corporation of India (TDICI) and others.

### IV. LONG ANSWER QUESTIONS.

**1. Discuss the characters of a Capital Market.**

[PTA-3; Mar-2020; FRT-'22]

**Ans.** The characters of a capital market are as follows :

(i) **Securities Market :** The dealings in a capital market are done through the securities like shares, debentures, etc. The capital market is thus called securities market.

(ii) **Price :** The price of the securities is determined based on the demand and supply prevailing in the capital market for securities.

(iii) **Participants :** There are many players in the capital market. The participants of the capital market include individuals, corporate sectors, Government, banks and other financial institutions.



- (iv) **Location** : Capital market is not confined to certain specific locations, although it is true that parts of the market are concentrated in certain well-known centers known as stock exchanges. It has its impact in the overall economy, wherever suppliers and users of capital get together and do business.
- (v) **Market for financial assets** : Capital market provides a transaction platform for long term financial assets.

**2. Briefly explain the functions of capital market. (any 5)**

**Ans.** The capital market functions are as follows :

- (i) **Savings and Capital Formation** : In capital market, various types of securities help to mobilise savings from various sectors of population like individuals, corporate, government, etc.
- (ii) **Permanent Capital** : The existence of a capital market/stock exchange enables companies to raise permanent capital.
- (iii) **Industrial Growth** : The stock exchange is a central market through which resources are transferred to the industrial sector of the economy. The existence of capital market/stock exchange encourages people to invest in productive channels.
- (iv) **Ready and Continuous Market** : The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.
- (v) **Reliable guide to Performance** : The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency.
- (vi) **Proper channelisation of funds** : The prevailing market price of a security and relative yield are the guiding factors for the people to channelize their funds in a particular company.

**3. Explain the various types of New Financial Institutions. (any 5)**

**Ans. (i) Venture Fund Institutions :**

- (a) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.

- (b) Many specialised financial institutions have promoted their own venture capital funds.
- (c) They include Risk Capital Foundation of IFCI, Venture capital of IDBI, SIDBI, TDICI and others.

**(ii) Mutual Funds :**

- (a) Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called "**Mutual Funds**".
- (b) Specialized financial institutions like LIC, UTI, etc., beside commercial banks such as SBI, and Canara Bank are carrying out the business of mutual funds.

**(iii) Factoring Institutions :**

- (a) "Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/sale of account receivables.
- (b) Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

**(iv) Over the Counter Exchange of India (OTCEI):**

- (a) The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.
- (b) It addresses some specific problems of both investors and medium-size companies.

**(v) National Stock Exchange of India Limited:**

- (a) NSEI was established in 1992 to function as a model stock exchange.
- (b) The Exchange aims at providing the advantage of nation-wide electronic screen based "**scripless**" and "**floorless**" trading system in securities.





## GOVERNMENT EXAM QUESTIONS AND ANSWERS

### I. VERY SHORT ANSWER QUESTIONS. 2 MARKS

1. Oil and Coffee are sold in a commodity market. Mention the market to which they belong. [Sep-2020]

**Ans.** Oil - Hard Commodities  
Coffee - Soft Commodities

### II. SHORT ANSWER QUESTIONS. 3 MARKS

1. Explain about Venture Fund institutions. [Mar-2020]

#### Venture Fund Institutions :

- (i) Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- (ii) Many specialised financial institutions have promoted their own venture capital funds.
- (iii) They include Risk Capital Foundation of IFCI, Venture capital of IDBI, SIDBI, TDICI and others.

2. Give three suggestions to a salaried emooeye to invest in Gilt - Edged Securities. [Sep-2020]

- (i) Guaranteed return on investments
- (ii) No speculation in securities
- (iii) Institutional based investors which are compelled by law to invest a portion of their funds in these securities.
- (iv) Predominated by such institutions as LIC, GIC, PFs and the commercial banks.
- (v) Heavy volume of transactions necessitating negotiation of each transaction.

3. Explain Right issue. [FRT-'22]

**Ans.** When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue.

## ADDITIONAL QUESTIONS AND ANSWERS

### I. CHOOSE THE CORRECT ANSWERS. 1 MARK

#### I. CHOOSE THE CORRECT OPTION.

1. Rights Issue refers to the shares issued to
  - (a) Employees
  - (b) Public
  - (c) Existing directors
  - (d) Existing shareholders

**[Ans. (d) Existing shareholders]**
2. Which one of the following is not the main functions of a capital market?
  - (a) To mobilise the savings from various sectors of population
  - (b) To enables companies to raise permanent capital
  - (c) To provide employment opportunities for various sectors of the population
  - (d) To encourage the people to invest in productive channels

**[Ans. (c) To provide employment opportunities for various sectors of the population]**
3. Which of the following is the advantage of investment of foreign capital in India?
  - (a) It brings larger industrial profits
  - (b) It reduces our imports

- (c) It expands our exports
- (d) It brings in new technical know-how

**[Ans. (d) It brings in new technical know-how]**

4. Which market facilitates capital formations?

- (a) Primary market
  - (b) Secondary market
  - (c) Debt market
  - (d) Money market
- [Ans. (a) Primary market]**

5. The existence of a capital market enables companies to raise

- (a) capital formation
  - (b) permanent capital
  - (c) industrial growth
  - (d) all of these
- [Ans. (b) permanent capital]**

6. Which markets make possible to generate foreign capital?

- (a) Primary market
  - (b) Secondary market
  - (c) Money market
  - (d) Capital market
- [Ans. (d) Capital market]**

7. NSEI was established in

- (a) 1990
  - (b) 1992
  - (c) 1996
  - (d) 1998
- [Ans. (b) 1992]**



8. The NSDL was set up in the year  
 (a) 1990 (b) 1992  
 (c) 1996 (d) 1998 [Ans. (c) 1996]
9. In capital markets, major suppliers of trading instruments are  
 (a) government and corporations  
 (b) liquid corporations  
 (c) instrumental corporations  
 (d) manufacturing corporations  
[Ans. (a) government and corporations]
10. Which of the following instruments are traded in capital market?  
 (a) Government agency securities  
 (b) Negotiable bank CDs  
 (c) Repurchase agreements  
 (d) Commercial papers  
[Ans. (a) Government agency securities]
11. Which of the following does financial services industry consist of?  
 I) Tele communication      II) Insurance  
 III) Fund Management      IV) Trusts  
 (a) I and II                      (b) III and IV  
 (c) I, II and III                (d) II, III and IV  
[Ans. (d) II, III and IV]

**II. MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.**

|    | List I               |    | List II          |
|----|----------------------|----|------------------|
| 1. | i) Capital market    | 1) | New Issue Market |
|    | ii) Securities       | 2) | Resale market    |
|    | iii) Primary market  | 3) | Debentures       |
|    | iv) Secondary market | 4) | Long term funds  |

**Codes :**

|     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 1   | 2    | 3     | 4    |
| (b) | 4   | 3    | 1     | 2    |
| (c) | 2   | 3    | 1     | 4    |
| (d) | 3   | 4    | 2     | 1    |

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

|    | List I                  |    | List II                 |
|----|-------------------------|----|-------------------------|
| 2. | i) Hard commodities     | 1) | Financial risk          |
|    | ii) Soft commodities    | 2) | Scripless and floorless |
|    | iii) Derivatives market | 3) | Coffee and sugar        |
|    | iv) NSEI                | 4) | Rubber and iron         |

**Codes :**

|     |     |      |       |      |
|-----|-----|------|-------|------|
|     | (i) | (ii) | (iii) | (iv) |
| (a) | 1   | 2    | 3     | 4    |
| (b) | 4   | 3    | 1     | 2    |
| (c) | 2   | 3    | 4     | 1    |
| (d) | 3   | 2    | 1     | 4    |

[Ans. (b) (i)-4; (ii)-3; (iii)-1; (iv)-2]

**III. CHOOSE AND FILL IN THE BLANKS.**

1. \_\_\_\_\_ forms an important core of a country's financial system.  
 (a) Capital market (b) Financial market  
 (c) Money market (d) Debt market  
[Ans. (a) Capital market]
2. Capital market offers an ideal source of \_\_\_\_\_ finance.  
 (a) internal (b) external  
 (c) both (d) none of these  
[Ans. (b) external]
3. Capital market is called \_\_\_\_\_ market.  
 (a) financial (b) money  
 (c) securities (d) debt  
[Ans. (c) securities]
4. Capital market provides a transaction platform for \_\_\_\_\_ term financial assets.  
 (a) long (b) short  
 (c) medium (d) none of these  
[Ans. (a) long]
5. Capital market is divided into \_\_\_\_\_ categories.  
 (a) two (b) three (c) four (d) five  
[Ans. (a) two]
6. \_\_\_\_\_ market is a market for new issues or new financial claims.  
 (a) Secondary (b) Primary  
 (c) Money (d) Debt  
[Ans. (b) Primary]
7. \_\_\_\_\_ is a way of selling securities privately to a small group of investors.  
 (a) Public issue (b) Rights issue  
 (c) Private Placement (d) None of these  
[Ans. (c) Private Placement]
8. \_\_\_\_\_ commodities are raw materials typically mined.  
 (a) Hard (b) Soft  
 (c) Both (d) None of these  
[Ans. (a) Hard]
9. \_\_\_\_\_ are typically grown agricultural primary products such as wheat and sugar.  
 (a) Hard commodities (b) Soft commodities  
 (c) Capital markets (d) Financial markets  
[Ans. (b) Soft commodities]



10. A best efforts offering is sometimes used in connection with a \_\_\_\_\_ of new, long-term securities.  
(a) Public issue  
(b) Private placement  
(c) Privileged subscription  
(d) all of the above [Ans. (a) Public issue]
11. Financial intermediaries \_\_\_\_\_.  
(a) do not invest in new long-term securities  
(b) include insurance companies and pension funds  
(c) include the national and regional stock exchanges  
(d) are usually underwriting syndicates  
[Ans. (b) include insurance companies and pension funds]
12. Capital market provide funds for projects in \_\_\_\_\_ areas .  
(a) backward (b) rural  
(c) urban (d) none of these  
[Ans. (a) backward]
13. Stock exchange \_\_\_\_\_ speculation in shares.  
(a) does not allow (b) discourage  
(c) encourage (d) prohibits  
[Ans. (c) encourage]
14. Primary market is concerned with \_\_\_\_\_.  
(a) Increase in shares  
(b) Decrease in shares  
(c) Issue of New shares  
(d) None of these  
[Ans. (c) Issue of New shares]
15. Secondary market deals with \_\_\_\_\_ traded in primary market.  
(a) Purchase of securities (b) Sales of securities  
(c) Resale of securities (d) None of these  
[Ans. (c) Resale of securities]
16. Second hand securities are traded in \_\_\_\_\_.  
(a) Primary market  
(b) Secondary market  
(c) Commodity market  
(d) Regulated market  
[Ans. (b) Secondary market]
17. Inclusion of securities in the official list of stock exchange is called \_\_\_\_\_.  
(a) Listing (b) Unlisting  
(c) Ordered (d) None of these  
[Ans. (a) Listing]

#### IV. PICK THE ODD ONE OUT.

1. (a) Primary market (b) Securities market  
(c) Price (d) Location  
[Ans. (a) Primary market]

**Reason :** Primary market is a kinds of capital market. Other three are characteristics of capital market.

2. (a) Capital formation (b) Mutual funds  
(c) Industrial growth (d) Foreign capital

[Ans. (b) Mutual funds]

**Reason :** Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual funds'. Other three are functions of capital market.

#### V. WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

1. (a) Venture Fund Institutions – SIDBI  
(b) Mutual Funds – LIC  
(c) Factoring Institutions – Canara bank  
(d) NSEI – 2000  
[Ans. (d) NSEI – 2000]
2. (a) OTCET – Over The Counter Exchange of India  
(b) NSEI – National Securities Exchange of India  
(c) SHCIL – Stock Holding Corporation of India Limited  
(d) NSDL – National Securities Depositories Limited

[Ans. (b) NSEI–National Securities Exchange of India]

#### VI. CONSIDER THE FOLLOWING STATEMENT.

1. **Assertion (A) :** The term capital market refers to the facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested.

**Reason (R) :** The capital market consists of development banks, commercial banks and stock exchanges.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A).  
(c) (A) is true, but (R) is false.  
(d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

2. **Assertion (A) :** Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.

**Reason (R) :** Many specialised financial institutions have promoted their own venture capital funds.





- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).  
 (c) (A) is true, but (R) is false.  
 (d) (A) is false, but (R) is true.

**[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]**

3. **Assertion (A)** : The factoring institutions collect the book debts for and on behalf of its clients.

**Reason (R)** : OTCEI addresses some specific problems of both investors and medium-size companies.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).  
 (c) (A) is true, but (R) is false.  
 (d) (A) is false, but (R) is true.

**[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]**

4. **Assertion (A)** : Primary market is a market for new issues or new financial claims.

**Reason (R)** : Hence, it is also called new Issue Market.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A).  
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A).  
 (c) (A) is true, but (R) is false.  
 (d) (A) is false, but (R) is true.

**[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]**

### VII. CHOOSE THE CORRECT STATEMENT.

1. (i) The buying and selling is undertaken by participants such as individuals and institutions.  
 (ii) The participants of the capital market include individuals, corporate sectors and other financial institutions.  
 (iii) Capital market provides a transaction platform for term financial assets.  
 (a) (i) is correct  
 (b) (ii) is correct  
 (c) (i) and (ii) are correct  
 (d) (i), (ii) and (iii) are correct  
**[Ans. (c) (i) and (ii) are correct]**
2. (i) Secondary market, borrowers exchange new financial securities for long-term funds.  
 (ii) Secondary market covers both stock exchange and over the counter market.  
 (iii) Capital market has a crucial significance to capital formation.

- (a) (i) is correct  
 (b) (i) and (ii) are correct  
 (c) (ii) and (iii) are correct  
 (d) (i), (ii) and (iii) are correct

**[Ans. (c) (ii) and (iii) are correct]**

3. (i) Government has liberalised foreign Direct Investment (FDI) in the country.

(ii) Commercial banks also investors to withdraw their deposits, and when they are in need of funds.

(iii) The period between 1947 and 1973 marked the development of infrastructure for capital market.

- (a) (i) is correct  
 (b) (i) and (ii) are correct  
 (c) (ii) and (iii) are correct  
 (d) (i), (ii) and (iii) are correct

**[Ans. (d) (i), (ii) and (iii) are correct]**

4. (i) The factoring institutions collect the book debts for and on behalf of its clients.

(ii) OTCEI addresses some specific problems of both investors and medium-size companies.

(iii) NSEI was established in 1992 to function as a model stock exchange.

- (a) (i) is correct  
 (b) (ii) is correct  
 (c) (i) and (iii) are correct  
 (d) (i), (ii) and (iii) are correct

**[Ans. (d) (i), (ii) and (iii) are correct]**

### II. VERY SHORT ANSWER QUESTIONS. 2 MARKS

1. What is securities Market?

**Ans.** The dealings in a capital markets are done through the securities like shares, debentures, etc. The capital market is thus called as securities market.

2. Define capital market.

**Ans.** According to Arun K. Datta, capital market may be defined as "a complex of institutions investment and practices with established links between the demand for and supply of different types of capital gains".

3. What is public issue?

**Ans.** The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.

4. What is SEBI?

**Ans.** SEBI means securities and Exchange Board of India. SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors.



**5. What do you mean by derivatives market?**

- Ans. (i)** Derivatives market facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk.
- (ii)** The instruments derive their value mostly from the value of an underlying asset that can come in many forms - stocks, bonds, commodities, currencies or mortgages.

**6. What is Mutual Fund?**

- Ans. (i)** Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual Funds'.
- (ii)** A mutual fund company invests the funds pooled from shareholders and gives them the benefit of diversified investment portfolio and a reasonable return.

**III. SHORT ANSWER QUESTIONS. 3 MARKS**

**1. How new issues are floated in the primary market?**

- Ans.** There are three ways by which a company may raise capital in a primary market. They are :
- (i) Public issue :** The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.
- (ii) Rights issue :** When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue.
- (iii) Private placement :** Private placement is a way of selling securities privately to a small group of investors.

**2. Write a note on Gilt-Edged market.**

- Ans.** Gilt-Edged Market also known as Government Securities market is the market for Government and semi-Government securities. An important feature of the securities traded in this market. That they are stable in value and are much sought after by banks.

**3. What is commodity market? and explain its types.**

- Ans.** The commodity market manages the trading in primary products which takes place in about so major commodity markets where

financial transactions increasingly outstrip physical purchases which are to be delivered. Commodities are commonly classified in two subgroups.

- (i) Hard commodities :** Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron and ore.
- (ii) Soft commodities :** Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee and sugar.

**4. Write a note on National Clearance and Depository System (NCDS).**

- Ans.** Under the scripless trading system, settlement of transactions relating to securities takes place through a book entry. The entire scripless trading system comprises the following three segments.
- (i)** National Trade Comparison and Reporting System, which prescribes the terms and conditions of contract for the securities market.
- (ii)** National Clearing System which aims at determining the net cash and stock liability of each broker on a settlement date.
- (iii)** National Depository System, which arranges to provide for the transfer of ownership of securities in exchange on payment by book entry on electronic ledgers without any physical movement of transfer deed.

**5. Discuss about evolution and growth of Indian Capital Market.**

- Ans. (i)** The period between 1947 and 1973 marked the development of infrastructure for capital market. During this period, a network of development financial institutions such as IFCI, ICICI, IDBI and UTI, SFCs and SIDCs were established. These financial institutions strengthened the capital market.
- (ii)** During the period between 1980 and 1992, debenture emerged as a powerful instrument of resource mobilization in the primary market. The public sector bonds were introduced. A number of stock exchanges came into existence. There was a momentous growth in the secondary market.
- (iii)** SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors. New financial services such as credit rating was introduced.



## UNIT VI

CONSUMER  
PROTECTION

## CHAPTER

## 16

## CONSUMERISM

## CHAPTER SNAPSHOT

- 16.1 Consumer
- 16.2 Consumer Exploitation
- 16.3 Meaning and Definition of Consumerism
- 16.4 Importance of Consumerism
- 16.5 Origin, Evolution and Growth of Consumerism
- 16.6 Consumer Protection
- 16.7 Need for Consumer Protection
- 16.8 Consumer Legislation
- 16.9 The Consumer Protection Act, 1986 (COPRA)
- 16.10 Caveat Emptor
- 16.11 Caveat Venditor

## EXERCISE

## I. CHOOSE THE CORRECT ANSWERS.

1. The term 'consumerism' came into existence in the year \_\_\_\_\_.

[PTA-4; SRT, May & July-'22]

- (a) 1960
- (b) 1957
- (c) 1954
- (d) 1958

[Ans. (a) 1960]

2. Who is the father of Consumer Movement?

[Govt. MQP-'19; PTA-5; Sep-2020; Aug-'21; SRT-'22]

- (a) Mahatma Gandhi
- (b) Mr. Jhon F. Kennedy
- (c) Ralph Nader
- (d) Jawaharlal Nehru

[Ans. (c) Ralph Nader]

3. Sale of Goods Act was passed in the year.

[May-'22]

- (a) 1962
- (b) 1972
- (c) 1930
- (d) 1985

[Ans. (c) 1930]

4. The Consumer Protection Act came into force with effect from \_\_\_\_\_

[PTA-1]

- (a) 1.1.1986
- (b) 1.4.1986
- (c) 15.4.1987
- (d) 15.4.1990

[Ans. (c) 15.4.1987]

5. \_\_\_\_\_ of every year is declared as a Consumer Protection Day to educate the public about their rights and responsibilities.

[PTA-2]

- (a) August 15
- (b) April 15
- (c) March 15
- (d) September 15

[Ans. (c) March 15]





**II. VERY SHORT ANSWER QUESTIONS.**

**1. Who is a consumer?** [PTA-1; HY-'19; SRT-'22]

**Ans.** A consumer is one who consumes goods manufactured and sold by others or created by nature (air, water and natural resources) and sold by others. One who avails services such as banking, transport, insurance, etc. is also called consumer.

**2. Give two examples of adulteration.**

[Govt. MQP-'19; PTA-1; Sep-2020; Aug-'21; May-'22]

- Ans.** (i) Mixing of stones with grains.  
 (ii) Mixing of coconut oil with palmolein.  
 (iii) Coffee powder is adulterated with tamarind seed.  
 (iv) Chilli powder is adulterated with brick powder.

**3. What is Caveat Emptor?** [PTA-2; SRT-'22]

**Ans.** 'Caveat emptor' is a Latin term which means "let the buyer beware." In other words, the principle of caveat emptor serves as a warning to the buyers that they have no recourse with the seller if the product does not meet their expectations.

**4. What is Caveat Venditor?**

**Ans.** Caveat venditor means "let the seller beware," by which goods are covered by an implied warranty of merchantability. Unless otherwise advertised (for example, "sold as is") or negotiated with the buyer, nearly all consumer products are guaranteed to work, if used for their intended purpose.

**5. Write a short notes on Consumer Protection Act, 1986.**

- Ans.** (i) The Central Government enacted a comprehensive law called the Consumer Protection Act in 1986.  
 (ii) This Act came into force with effect from 15.04.1987. This Act was further amended in 1993.  
 (iii) The Act is referred in short as 'COPRA'  
 (iv) The act provides safeguards to consumers against defective goods, deficient services, unfair trade practices and other forms of their exploitation.

**III. SHORT ANSWER QUESTIONS.**

**1. What are the important legislations related to consumerism in India? (any 3).** [PTA-5, 6]

- Ans.** The Indian contract Act, 1872  
 (i) The sale of goods Act, 1930

- (ii) The Essential commodities Act, 1955  
 (iii) The Agricultural Products Grading and Marketing Act, 1937  
 (iv) Prevention of Food Adulteration Act, 1954  
 (v) Weights and Measures Act, 1976

**2. What is meant by artificial scarcity?**

[Mar-2020; Aug-'21; SRT-'22]

- Ans.** (i) There are certain situations where the shop-keepers put up the board 'No Stock' in front of their shops, even though there is plenty of stock in the store.  
 (ii) In such situations consumers who are desperate to buy such goods have to pay hefty price to buy those goods and thus earning more profit unconscientiously.  
 (iii) Even in Cinema houses, board may hang in the main entrance '**House Full**' while cinema tickets will be freely available at a higher price in the black market.

**3. Write the importance of consumerism. (any 3)**

[PTA-2; SRT-'22]

- Ans.** The importance of consumerism lies in  
 (i) Awakening and uniting consumers.  
 (ii) Discouraging unfair trade practices.  
 (iii) Protecting against exploitation.  
 (iv) Awakening the government.  
 (v) Effective implementation of consumer protection laws.

**IV. LONG ANSWER QUESTIONS.**

**1. How consumers are exploited? (any 5)**

[Govt. MQP-'19; PTA-4; SRT & July-'22]

- Ans.** Consumers are exploited in many ways. Some of them are given below:  
 (i) **Selling at higher price** : The price charged by the seller for a product/ service may not be commensurate with the quality but at times it is more than the fair price.  
 (ii) **Adulteration** : It refers to mixing or substituting undesirable material in food. This causes heavy loss to the consumers. Adulteration is quite common in food articles. For example: Mixing of stones with grains, coffee powder is adulterated with tamarind seed, etc.  
 (iii) **Duplicate or Spurious goods** : Duplicate products of popular products are illegally produced and sold. Duplicates

**12<sup>th</sup>  
STD**

**INSTANT SUPPLEMENTARY EXAM JULY - 2022  
COMMERCE (with Answers)**

Reg. No.

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TIME ALLOWED : 3.00 Hours]

PART - III

[MAXIMUM MARKS : 90

- Instructions : 1) Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor Immediately.  
2) Use **Blue** or **Black** ink to write and underline and pencil to draw diagrams

**PART - I**

**Note :** (i) Answer **all** the questions. [20 × 1 = 20]

(ii) Choose the most appropriate answer from the given **four** alternatives and write the option code and the corresponding answer.

1. Management is an \_\_\_\_\_  
(a) Art (b) Science  
(c) Art and Science (d) Art or Science
2. Which of the following is verification function?  
(a) Planning (b) Organising  
(c) Staffing (d) Controlling
3. How many times a security can be sold in a secondary market?  
(a) Only one time (b) Two times  
(c) Three times (d) Multiple times
4. \_\_\_\_\_ is a cautious speculator in the stock exchange.  
(a) Bull (b) Bear  
(c) Stag (d) Lame duck
5. The term 'Consumerism' came into existence in the year \_\_\_\_\_.  
(a) 1960 (b) 1957  
(c) 1954 (d) 1958
6. E-recruitment is possible only through \_\_\_\_\_ facility.  
(a) Computer (b) Internet  
(c) Broadband (d) 4G
7. \_\_\_\_\_ is similar to face to face interview.  
(a) Video conferencing interview  
(b) Group interview  
(c) Telephone interview (d) Panel interview
8. The spot market is classified on the basis of \_\_\_\_\_.  
(a) Commodity (b) Transaction  
(c) Regulation (d) Time
9. Caveat Venditor means \_\_\_\_\_.  
(a) Let the buyer beware  
(b) Let the seller beware  
(c) Let the customer beware  
(d) Let the consumer beware
10. Which of the following is not classified into managerial function?  
(a) Planning (b) Marketing  
(c) Organizing (d) Controlling
11. Which of the following is not a consumer right summed up by John F. Kennedy  
(a) Right to safety  
(b) Right to choose  
(c) Right to consume  
(d) Right to be informed
12. \_\_\_\_\_ has to include the mechanism for managing venture in the project report.  
(a) Banker (b) Government  
(c) Lending Institutions (d) Entrepreneur
13. \_\_\_\_\_ ownership makes bold management decisions due to their strong foundation in the international level.  
(a) Private (b) Public  
(c) Corporate (d) MNC's
14. \_\_\_\_\_ is the result of New Industrial Policy which abolished the 'License System'.  
(a) Globalisation (b) Privatisation  
(c) Liberalisation (d) None of these
15. Directors acts as \_\_\_\_\_ for the money of the company.  
(a) Banker (b) Holder  
(c) Agent (d) Trustees
16. \_\_\_\_\_ meeting will be held only once in the life time of the company?  
(a) Statutory (b) Annual General  
(c) Extra - ordinary (d) Class
17. Primary market is a market where securities are traded in the \_\_\_\_\_.  
(a) First Time (b) Second Time  
(c) Three Time (d) Several Times
18. A major player in the money market is the \_\_\_\_\_.  
(a) Commercial Bank  
(b) Reserve Bank of India  
(c) State Bank of India  
(d) Co-operative Bank



19. The initial stage of Marketing system is \_\_\_\_.
- Monopoly system
  - Exchange to Money
  - Barter system
  - Self producing
20. Which of the below is not a goods according to Sale of Goods Act?
- Stocks
  - Dividend due
  - Crops
  - Water

**PART - II**

**Note :** Answer **any seven** questions. Question No. 30 is **compulsory.**  $7 \times 2 = 14$

- State the meaning of Authority.
- What is capital Market?
- Who is called a Broker?
- Write about any two significance of Human Resource Management.
- What is Selection?
- What is Ambush Marketing?
- Which is the supreme objective of business?
- What is privatisation?
- List down the two types of finance for entrepreneur.
- What do you mean by issue of securities at Discount?

**PART - III**

**Note :** Answer **any seven** questions. Question No. 40 is **compulsory.**  $7 \times 3 = 21$

- Define the term Management.
- Give the meaning of Financial Market.
- Explain Bull and Bear.
- Write any six characteristics of Human resources.
- What is meant by Job Portals?
- Explain the types of market on the basis of time.
- Discuss the objectives of E-Marketing.
- Draw a flow chart on 'Passing of Property'.
- Distinguish between an Entrepreneur and Manager.
- Whom do you mean by whole time Director?

**PART - IV**

**Note :** Answer **all** the questions.  $7 \times 5 = 35$

- (a) Explain the principles of Modern Management.  
(OR)  
(b) Explain the characteristics of Money Market.
- (a) Distinguish between New issue Market and Secondary Market.  
(OR)  
(b) Explain the different types of Company Meetings.
- (a) Explain the Internal Sources of Recruitment.  
(OR)  
(b) Write the differences between shares and debentures.

- (a) Explain the various types of tests.  
(OR)  
(b) Discuss the challenges faced by Women Entrepreneurs.
- (a) How the market can be classified? Explain.  
(OR)  
(b) Explain the advantages and disadvantages of Liberalisation.
- (a) How are consumers exploited?  
(OR)  
(b) Explain the features of Stock Exchange.
- (a) Explain the duties of consumers.  
(OR)  
(b) Explain in detail the essential elements of Contract of Sale.



**ANSWERS**

**PART - I**

- (c) Art and Science
- (d) Controlling
- (d) Multiple times
- (c) Stag
- (c) 1960
- (b) Internet
- (a) Video conference interview
- (b) Transaction
- (b) Let the seller beware
- (b) Marketing
- (c) Right to consume
- (d) Entrepreneur
- (a) Private
- (c) Liberalisation
- (d) Trustees
- (a) Statutory
- (a) First Time
- (a) Commercial Bank
- (c) Barter system
- (b) Dividend due

**PART - II**

- Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.
- Capital market is a market where buyers and sellers engage in trade of financial securities like bonds and stocks. The buying and selling is undertaken by participants such as individuals and institutions.