+2 COMMERCE

New Syllabus Study Material for the academic year 2019

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CHAPTER – 1 PRINCIPLES OF MANAGEMENT

Very short answer questions

1. What is Management? Pg.1

Management is goal oriented and it is an art of getting things done with and through others. Management is the process of conducting a set of function such as –

- ✓ Planning,
- ✓ Organizing,
- ✓ Staffing,
- ✓ Directing and Controlling to get the work done in an efficient and effecting manner.

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2. List out the management tools.pg. 2

Tools of management have been developed such as,

- ✓ Accounting
- ✓ Business law
- ✓ Psychology
- ✓ Statistics
- ✓ Econometrics
- ✓ Data processing, etc.

These branches of management profession have enhanced the practical utility of the science of management.

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3. **Who is a manager? Pg.4**

- ✓ A manager is one who performs both administrative and functional activities.
- ✓ Although the managers works on the top most level of the administration and on the middle or lower level of the management.
- ✓ The Managers deals with various units such as - Production, Marketing, Finance, Accounting, Distribution and Research Development.

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4. State the meaning of Authority. Pg.8

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

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5. What do you mean by Span of management? Pg.10

The Span of Management refers to the number of subordinates who can be managed efficiently by a superior.

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

Short answer questions

1. **Define the term management. Pg.2**

Peter F. Drucker: The Practice of Management -

"Management is a multipurpose organ that manages a business and manages manager, and manages worker and work."

Henry Fayol -

"To manage is to forecast, to plan, to organise, to command, to co-ordinate and to control."

Management is goal oriented and it is an art of getting things done with and through others. Management is the process of conducting a set of function such as –

- ✓ Planning,
- ✓ Organizing,
- ✓ Staffing,
- ✓ Directing and Controlling to get the work done in an efficient and effecting manner

2. **Is management an Art or Science?pg.3**

There is always a discussion about the nature of management whether it is an Art of doing things or it is a pure Science of getting things done.

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.

For example, plant leaves have starch in them which can be proved or disproved in a Botany lab.

Similarly the management principles can be put to test in an organization where men, machine, money and materials (4 Ms).

If these principles cannot be exactly proved or disproved due to changing environment, policies and practical difficulties. So, management can be described as an inexact science.

Everyone believes that **management is an art -** because, the 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.

3. Differentiate management from Administration. Pg.5,6 (any 5)

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
1. Meaning	An organized way of managing people and things of a business organization is called the Management.	The process of administering an organization by a group of people is known as the Administration.
2. Authority	Middle and Lower Level	Top level
3. Role	Executive	Decisive
4. Concerned with	Policy Implementation	Policy Formulation
5. Area of operation	It works under administration.	It has full control over the activities of the organization.
6. Applicable to	Profit making organizations, i.e. business organizations.	Government offices, military, clubs, business enterprises, hospitals, religious and educational organizations.
7. Decides	Who will do the work?And How will it be done?	What should be done? And When is should be done?
8. Represents	Employees, who workfor remuneration	Owners, who get a return on the capital invested by them
9. Work	Putting plans and policies into actions.	Formulation of plans, framing policies and setting objectives
10. Function	Executive and Governing	Legislative and Determinative

4. What are the principles of Taylor? Pg.7

Principles of scientific management propounded by Taylor are

1. Science, Not Rule of Thumb
2. Harmony, Not Discord
3. Mental Revolution
4. Cooperation, Not Individualism
5. Development of each and every person to his or her greatest efficiency and prosperity.

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5. What determines the span of management? Pg.10

Span of management

The Span of Management refers to the number of subordinates who can be managed efficiently by a superior.

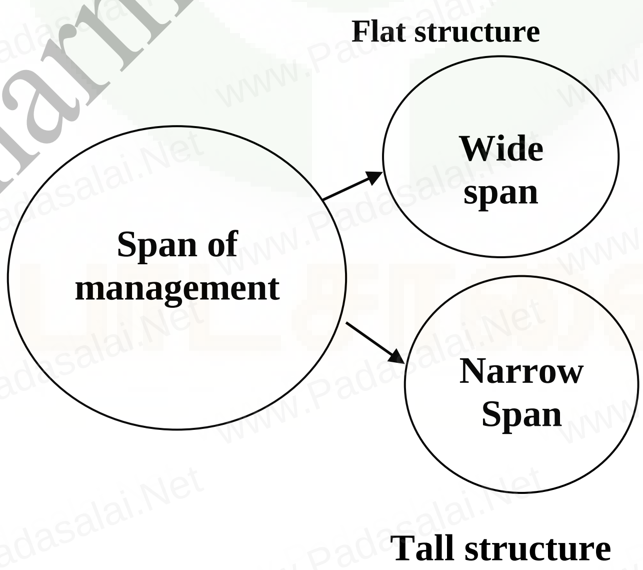
Simply, the manager having the group of subordinates who report him directly is called as the span of management.

The Span of Management has two implications:

1. Influences the complexities of the individualmanager's job
2. Determine the shape or configuration of theOrganization

The span of management is related to the horizontal levels of the organization structure.

There is a wide and a narrow span of management



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

b) Whereas, with the **Narrow Span** - the hierarchical levels increases, hence the **organizational structure would be tall.**

Long answer questions

1. Write about the contribution of Drucker to management. Pg. 3

Peter F. Drucker: The Practice of Management -

"Management is a multipurpose organ that manages a business and manages manager, and manages worker and work."

The contribution of Drucker to management as follows-

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 also it 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 secure the best allocation and utilisation of human, material and financial resources.

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2. Explain the management process in detail.pg.5

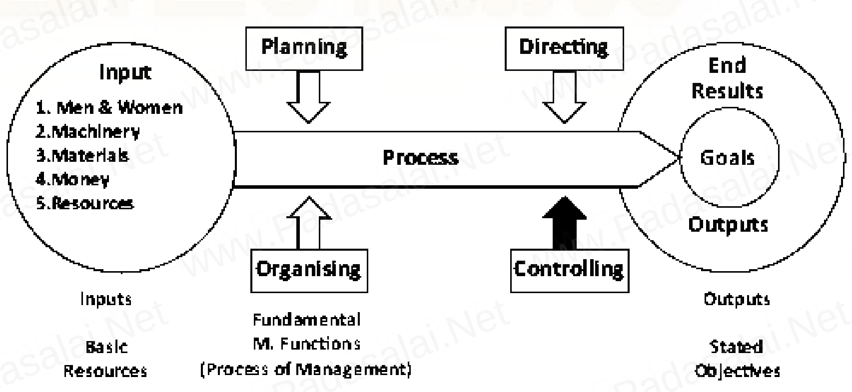
Management Process

Management is the process which implies that what a person does in the context of his individual duties and responsibilities assigned by his or her immediate higher authority.

A process also implies ongoing and unceasing cyclical operations. In management there is planning-action-control cycle.

There are twin purposes of the management process:

i. Maximum productivity or profitability and
ii. Maximum human welfare and satisfaction.



Process of Management

There are five parts of management as a process:

1. **Management is Co-Ordination:**

   The manager of an enterprise must effectively coordinate all activities and resources of the organisation, namely, -
   - ✓ men,
   - ✓ machines,
   - ✓ materials and
   - ✓ money the four M's of management.

2. **Management is a Process:**

   The manager achieves proper co-ordination of resources by means of the managerial functions of -
   - ✓ planning,
   - ✓ organising,
   - ✓ staffing,
   - ✓ directing and
   - ✓ controlling.

3. **Management is a Purposive Process:**
   a) It is directed toward the achievement of predetermined goals or objectives.
   b) Without an objective, we have no destination to reach, i.e., a goal
   c) Therefore both management and organisation must be purposive or goal-oriented.

4. **Management is a Social Process:**

   It is the art of getting things done through other people.

5. **Management is a Cyclical Process:**

   It represents planning-action-control-re-planning cycle, i.e., an ongoing process to attain the planned goals.

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3. **Describe the principles of scientific management. pg 9 (any8)**

Principles of Modern Management - Mr.Henry Fayol

1. **Division of Work: ***
   a) According to this principle the whole work is divided into small tasks.
   b) The specialization of the workforce divided according to the –
      - ✓ Skills of a person,
      - ✓ Creating specific personal and professional development
   c) Therefore it leads with increasing productivity; specialization and efficiency of labour.

2. **Authority and Responsibility: ***
    a) This is the issue of commands followed by responsibility for their consequences.
    b) Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.
3. **Discipline:**

    It is obedience, proper conduct in relation to others, respect of authority, etc. It is essential for the smooth functioning of all organizations.
4. **Unity of Command:**
    a) This principle states that each subordinate should receive orders from superior and also accountable to one and only superior.
    b) If an employee receives orders from more than one superior, it is likely to create confusion and conflict.
5. **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.
6. **Subordination of Individual Interest to Mutual Interest:**
    a) The management must put his personal considerations aside and it should give priority to the company objectives firstly.
    b) Therefore the interests of goals of the organization must prevail over the personal interests of individuals.
7. **The Degree of Centralization: ***
    a) The amount of power wielded with the central management depends on company size.
    b) Centralization implies the concentration of decision making authority at the top management.
8. **Line of Authority/Scalar Chain: ***
    a) This refers to the chain of superiors ranging from top management to the lowest rank.
    b) The principle suggests that there should be a clear line of authority from top to bottom linking all managers at all levels.
9. **Stability of Tenure of Personnel:**

    Stability of tenure of personnel is a principle stating that in order for an organization to run smoothly, personnel (especially managerial personnel) must not frequently enter and exit the organization.

10. Esprit de Corps/Team Spirit: *

a) This refers to the need of managers to ensure and develop morale in the workplace; individually and communally.

b) Team spirit helps develop an atmosphere of mutual trust and understanding.

c) Team spirit helps to finish the task on time

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4. Explain the principles of modern management .pg.7

Principles of modern management - Mr.Frederick Winslow Taylor (F.W.Taylor)

1. Science, Not Rule of Thumb:

- In order to increase organisational efficiency, the 'Rule of Thumb' method should be substituted by the methods developed through scientific analysis of work.
- Rule of Thumb means decisions taken by manager as per their personal judgments.
- According to Taylor, even a small production activity like loading iron sheets into box cars can be scientifically planned.
- This will help in saving time as well as human energy. Decisions should be based on scientific enquiry with cause and effect relationships.
- This principle is concerned with selecting the best way of performing a job through the application of scientific analysis

2. Harmony, Not Discord:

Taylor emphasized that there should be complete harmony between the workers and the management since if there is any conflict between the two, it will not be beneficial either for the workers or the management.

It means that there should be complete change in the attitude and outlook of workers and management towards each other.

It becomes possible by-

a. Sharing a part of surplus with workers
b. Training of employees,
c. Division of work
d. Team spirit
e. Positive attitude
f. Sense of discipline
g. Sincerity etc.

Management should always be ready to share the gains of the company with the workers in order to achieving organizational goals.

3. **Mental Revolution:**
   - The technique of Mental Revolution involves a change in the attitude of workers and management towards each other.
   - Thus, mental revolution requires a complete change in the outlook of both management and workers.
   - There should be a spirit of togetherness between workers and management.

4. **Cooperation, Not Individualism:**
   - This principle is an extension of principle of 'Harmony, not discord' .
   - Cooperation, mutual confidence, sense of goodwill should prevail among both, managers as well as workers.
   - Management should always welcome their suggestions and should also reward them viz. reduction of costs or increase in production etc.
   - At the same time, workers should also resist from going on strike or making unnecessary demands from management..
   - Taylor also suggested that there should be proper division of work and responsibility between the two. Management should always guide, encourage and help the workers.

5. **Development of each and every person to his or her greatest efficiency and prosperity:**
   - Efficiency of any organisation also depends on the skills and capabilities of its employees.
   - Through use of scientific approach by way of -
     - Providing proper training,
     - Assigning of work according to his/her physical, mental and intellectual capabilities.
   - This ultimately helps to attain efficiency and prosperity for both organisation and the employees.
   - It also introduced **systematic selection and training procedures**, it provided a way to study workplace efficiency, and it encouraged the idea of systematic organizational design.

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5. **Discuss the implications of span of management.pg.10**

Span of management

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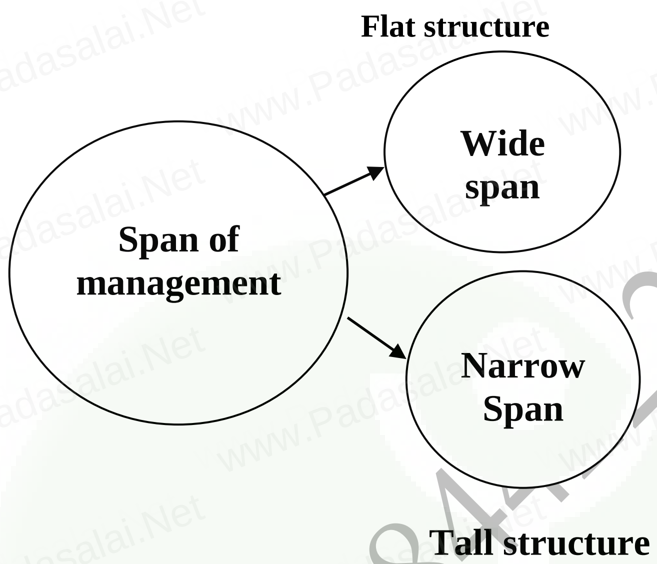

- With the **wider span** - there will be less hierarchical levels, and thus, the **organizational structure would be flatter.**
- Whereas, with the **Narrow Span** - the hierarchical levels increases, hence the **organizational structure would be tall.**

Both these organizational structures have their advantages and the disadvantages.

a) In the case of a tall(narrow) organizational structure

Disadvantages

- In case of tall organizational structure imposes more challenges
- Since the span is narrow, which means less number of subordinates under one superior, requires more managers to be employed in the organization.
- Thus, it would be very expensive in terms of the salaries to be paid to each senior.
- Lack of coordination and control because the operating staff is far away from the top management.

Advantage

- ✓ Cross communication gets facilitated, i.e., operative staff communicating with the top management.
- ✓ Also, the chance of promotion increases with the availability of several job positions.

b) In the case of a flatter(wide)organizational structure-

Disadvantages

- ✓ **where the span is wide -** leads to a more complex supervisory relationship between the manager and the subordinate.
- ✓ It will be very difficult for a superior to manage a large number of subordinates at a time and also may not listen to all efficiently.

Advantages

- ✓ That the number of managers gets reduced in the hierarchy, and thus, the expense in terms of remuneration is saved.
- ✓ Also, the subordinates feel relaxed and develop their independent spirits in a free work environment, where the strict supervision is absent.

Thank you

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CHAPTER - 2 FUNCTIONS OF MANAGEMENT

Very Short Answer Questions

1. Write a short note about Planning.

- Planning is the primary function of management. Nothing can be performed without planning. .
- In short, planning refers to deciding in advance..
- Planning should take place before doing any action –
- what shall be done, where, how and who shall do it.

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2. What is meant by Motivation?

- The goals are achieved with the help of motivation.
- Motivation includes increasing the speed of performance of a work.
- This is done by a resourceful leader.
- The workers expect, favourable climate conditions to work, fair treatment, monetary or non-monetary incentive, effective communication and gentleman approach

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3. What is meant by Controlling?

- Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions.
- The control function helps in identifying under performers and arranging remedial training for them.
- It is the control function which facilitates synchronization of actual performance with predetermined standards.

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4. What is meant by Innovation?

- ✓ Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.
- ✓ Consumers are satisfied through innovation. Innovation includes –
    - Developing new material,
    - New products,
    - New techniques in production,
    - New package,
    - New design of a product and cost reduction.

Short Answer Questions

1. List out the main functions of management?

- ✓ Managerial functions are time specific, institution specific and country specific.
- ✓ Management functions are called as Managerial process.

The following are the main functions of management

1. Planning
2. Organising
3. Staffing
4. Directing
5. Motivation
6. Controlling
7. Co-ordination

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2. State the importance of staffing.

- ✓ Staffing function comprises the activities of selection and placement of competent personnel.
- ✓ In other words, staffing refers to placement of right persons in the right jobs.

The following are importance Staffing includes –

- ➢ selection of right persons,
- ➢ training the persons,
- ➢ promotion of best persons,
- ➢ retirement of old persons,
- ➢ performance appraisal and
- ➢ adequate remuneration of personnel.

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3. Bring out the subsidiary functions of management.

- ✓ Managerial functions are time specific, institution specific and country specific.
- ✓ Management functions are called as Managerial process.

The following are subsidiary functions of management

1. Innovation,
2. Representati
3. Decision-making,
4. Communication

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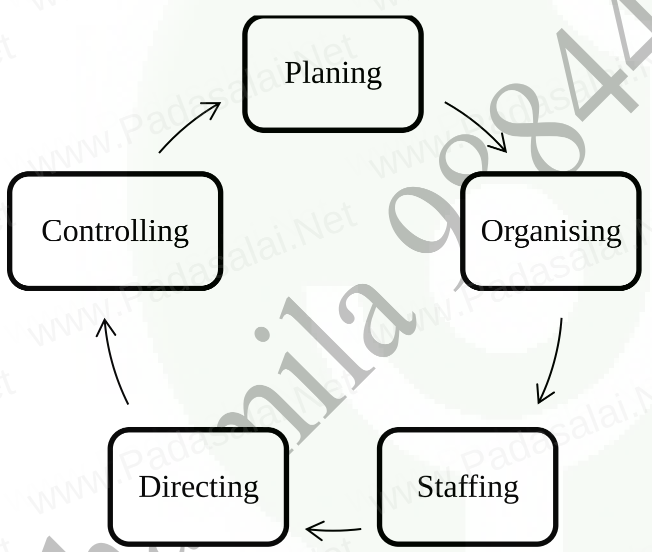
4. State the importance of Motivation.

- The goals are achieved with the help of motivation.
- Motivation help increasing the speed of performance of a work.
- Motivation by a resourceful leader.

Motivation helps in-

- Workers expect
- Favourable climate conditions to work
- Fair treatment
- Monetary or non-monetary incentive
- Effective communication and gentleman approach.

5. What are the main duties of a manager? (refer long answer 1)



Long Answer Questions

1. Explain the various functions of management.

- Managerial functions are time specific, institution specific and country specific.
- Management functions are called as Managerial process

.

Functions Of Management

I. Main function

1. Planning
2. Organising
3. Staffing
4. Directing
5. Motivation
6. Controlling
7. Co-ordination

II. Subsidiary function

1. Innovation,
2. Representati
3. Decision-making,
4. Communication

1. Planning *

- ✓ Planning is the primary function of management. Nothing can be performed without planning. .
- ✓ In short, planning refers to deciding in advance..
- ✓ Planning should take place before doing any action , what shall be done, where, how and who shall do it.

2. Organising

- ✓ Organising is the process of establishing harmonious relationship among the members of an organisation and the creation of network of relationship among them.
- ✓ Organising function work is assigned to employees who are given authority to carry out the work assigned and made accountable for it.

3. Staffing *

- ✓ Staffing function comprises the activities of selection and placement of competent personnel.
- ✓ In other words, staffing refers to placement of right persons in the right jobs.
- ✓ Staffing includes selection of right persons, training the persons, promotion of best persons, retirement of old persons, performance appraisal and adequate remuneration of personnel.

4. Directing

- ✓ Directing denotes motivating, leading, guiding and communicating with subordinates in order to accomplish pre-set goals.
- ✓ 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.

5. Controlling*

- ✓ Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions.
- ✓ The control function helps in identifying under performers and arranging remedial training for them.
- ✓ It is the control function which facilitates synchronization of actual performance with predetermined standards.

6. Co-ordination*

Co-ordination is the synchronization of the actions of all individual in order to attainment of the common objectives of business organization .

. Co-ordination is included in every managerial function –

(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
(vi) Controlling and co-ordination.
(vii) All the activities are divided group wise or section wise under towards the accomplishment of objectives of an organisation.

7. **Motivating***

- ✓ The goals are achieved with the help of motivation.
- ✓ Motivation includes increasing the speed of performance of a work.
- ✓ This is done by a resourceful leader.
- ✓ The workers expect, favourable climate conditions to work, fair treatment, monetary or non-monetary incentive, effective communication and gentleman approach.

II. Subsidiary Functions

1.Innovation

- ✓ Innovation refers to the preparation of personnel and organisation to face the changes made in the business world.
- ✓ Consumers are satisfied through innovation. Innovation includes –
  - Developing new material,
  - New products,
  - New techniques in production,
  - New package,
  - New design of a product and cost reduction.

2. Representation

- ✓ A manager has to act as representative of a company.
- ✓ Manager has dealings with –
  - Customers,
  - Suppliers,
  - Government officials,
  - Banks and financial institutions,
  - Trade unions.
- ✓ It is the duty of every manager to have good relation with others.

3. Decision-making

- ✓ Every employee of an organisation has to take a number of decisions every day
- ✓ Decision- making helps in the smooth functioning of an organisation.

Thank you

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CHAPTER - 3

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

Very short answer

1. Define – MBO

Prof. Reddin defines MBO as, "the establishment of effective standards for managerial positions and the periodic objectives linked vertically and horizontally and with future planning".

2. What are the objectives of MBO? Any 4

1. To measure and judge performance
2. To relate individual performance to organisational goals
3. To foster the increasing competence and growth of the subordinates
4. To enhance communications between superiors and subordinates
5. To stimulate the subordinates' motivation

3. Bring out the meaning of MBE.

- Management by exception is an important principle of managerial control suggested by the classical writers on management.
- Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norm.
- Management by exception (MBE) has both a general business application and a business intelligence application.

4. Mention any two advantages of MBO?

The advantages of MBO are explained below:

- Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.
- MBO process helps the managers to understand their role in the total organisation.
- Manager recognises the need for planning and appreciates the planning.

5. Wrtie any two importance of MBE.

- Management by exception is an important principle of managerial control
- Management by exception focuses on identifying and handling cases that deviate from the norm.
- MBE has both a general business application and a business intelligence application.

6. What is known as KRA?pg. 18

- ✓ 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.
- ✓ The examples of KRA are profitability, market standing, innovation etc.

Short Answer

1. Write the features of MBO. Pg.18 (any 5)

Features of MBO

1. An attempt is made by the management to integrate the goals of an organisation and individuals. This will lead to effective management.
2. MBO tries to combine the long run goals of organisation with short run goals.
3. Management tries to relate the organisation goals with society goals.
4. MBO's emphasis is not only on goals but also on effective performance.
5. It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.
6. It increases the organisational capability of achieving goals at all levels.
7. A high degree of motivation and satisfaction is available to employees through MBO.
8. Recognises the participation of employees in goal setting process.

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2. What are the process involved in MBO? Pg.18 (any 3 explaination)

The process of MBO is explained below:

1. Defining Organisational Objectives
2. Goals of Each Section
3. Fixing Key Result Areas
4. Setting Subordinate Objectives or Targets
5. Matching Resources with Objective
6. Periodical Review Meetings
7. Appraisal of Activities
8. Reappraisal of Objectives

1. Defining Organisational Objectives

- ❖ Initially, organisational objectives are framed by the top level employees of an organisation. Then, it moves downwards.
- ❖ The definition of organisational objectives states why the business is started and exists.

2. **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.
3. **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.
    - The examples of KRA are profitability, market standing, innovation etc.
4. **Setting Subordinate Objectives or Targets**
    - The objectives of each subordinate or individual are fixed
    - There should be a free and frank discussion between the superior and his subordinates.
5. **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.

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3. List out any Four process of MBO. Pg.18

1. **Defining Organisational Objectives**
    - Initially, organisational objectives are framed by the top level employees of an organisation. Then, it moves downwards.
    - The definition of organisational objectives states why the business is started and exists.
2. **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.
3. **Fixing Key Result Areas ***
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4. **Setting Subordinate Objectives or Targets**
    - The objectives of each subordinate or individual are fixed
    - There should be a free and frank discussion between the superior and his subordinates.

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4. What are the Process of MBE? Pg.20,21

- Process of MBE , is necessary to set objectives or norms with predictable or estimated results.
- These performances are assessed and get equated to the actual performance.
- The deviation gets analysed. With an insignificant or no deviation, no action is required and senior managers can concentrate on other matters.
- If actual performances deviates significantly, the issue needs to be passed to the senior managers, as an "exception has occurred".
- Finally, the aim is to solve this "exception" immediately

Long Answer

1. What are the major advantages of MBO? Pg.20

- Management By Objectives (MBO) is a management system in which each member of the organisation effectively participates and involves himself.
- This system gives full scope to the individual strength and responsibility.
- MBO harmonises the goal of an individual with the organisation's goal.

Advantages of MBO

The advantages of MBO are explained below:

1. Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.
2. MBO process helps the managers to understand their role in the total organisation.
3. Manager recognises the need for planning and appreciates the planning.
4. MBO provides a foundation for participative management. Sub-ordinates are also involved in goal setting.
5. Systematic evaluation of performance is made with the help of MBO.
6. MBO gives the criteria of performance. It helps to take corrective action.
7. Delegation of authority is easily done with the help of MBO.
8. MBO motivates the workers by job enrichment and makes the jobs meaningful.
9. The responsibility of a worker is fixed through MBO.
10. Decision is taken by the management very quickly. The reason is that each worker knows the purpose of taking a decision and does not oppose the decision.

2. **Explain the various disadvantages of MBO. Pg.21**
   - Management By Objectives (MBO) is a management system in which each member of the organisation effectively participates and involves himself.
   - This system gives full scope to the individual strength and responsibility.
   - MBO harmonises the goal of an individual with the organisation's goal..

<u>Disadvantages of MBO</u>

The disadvantages of MBO arise due to the application of the MBO which are discussed below:

1. MBO fails to explain the philosophy; most of the executives do not know –
   - How MBO works?
   - What is MBO? And
   - Why is MBO necessary? And
   - How participants can benefit by MBO?
2. MBO is a time consuming process. Much time is needed by senior people for framing the MBO.
3. MBO leads to heavy expenditure and also requires heavy paper work.
4. MBO emphasises only on short-term objectives and does not consider the long-term objectives.
5. The status of subordinates is necessary for proper objectives setting. But, this is not possible in the process of MBO.
6. MBO is rigid one. Objectives should be changed according to the changed circumstances, external or internal. If it is not done, the planned results cannot be obtained.

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3. **What are the advantages of MBE? Pg.20**
   - Management by exception is an important principle of managerial control suggested by the classical writers on management.
   - Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norm.
   - Management by exception (MBE) has both a general business application and a business intelligence application.

<u>Management by exception provides the following benefits:</u>

1. It **saves the time of managers** because they deal only with exceptional matters. Routine problems are left to subordinates
2. It focuses **<u>managerial attention</u>** on major problems. As a result, there is better utilisation of managerial talents and energy.
3. It facilitates **delegation of authority**. Top management concentrates on strategic decisions and operational decisions are left to the lower levels.

4. There is increase in **span of control**. This leads to motivation and development of subordinates.
5. 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.
6. MBE keeps management alert to opportunities and threats by identifying critical problems. It can avoid uninformed and impulsive action.
7. Management by exception provides better yardsticks for judging results. It is helpful in objective performance appraisal.

---

4. Discuss the disadvantages of MBE. Pg.21

The main disadvantage of MBE -

1. Only managers have the power over important decisions, which can be demotivating for employees at a lower level.
2. Furthermore, it takes time to pass the issues to managers.
3. Managing employees who deviate from the normal procedures. Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.

Thank you

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CHAPTER – 4 INTRODUCTION TO FINANCIAL MARKETS

Very Short Answer

1. What are the components of organized sectors? Pg. 24

The Indian financial system can be broadly classified into organized sector and unorganized sector.

Indian financial system

Organized sector

1. Regulators,
2. Financial Institutions,
3. Financial Markets
4. Financial Services.

Unorganized sector.

1. Money Lenders,
2. Indigenous Bankers

---

2. Write a note on financial market. pg. 24

Financial market refer to the market wherein financial instruments such as financial claims, assets and securities are traded.

A financial market deals with exchange of financial instruments such as -

- Equity shares,
- Preference shares,
- Debentures,
- Deposits and loans,
- Corporate stocks and bonds,
- Government bonds.

---

3. What is equity market? pg.25

- Equity market is the financial market in which - Equity Shares of Companies are issued and trade, either through exchange or over – the counter market.
- Equity market is also known as stock market.

Types of equity market -

1. Primary market
2. Secondary market
3. Derivatives markets

---

4. What is debt market? Pg.25

It is the financial market in which trading of Debt Instrument such as

- ✓ Government Bonds or Securities,
- ✓ Corporate Debentures or Bonds.

5. **How is prize decided in a secondary market pg. 2**

Secondary market is the market which involves in the trading of securities that are already issued in the primary market.

The prize decided in a secondary market depends –

- ✓ on the market Fluctuates and
- ✓ on the demand and supply force

Short Answer

1. **Give the meaning and definition of financial market. Pg.24**

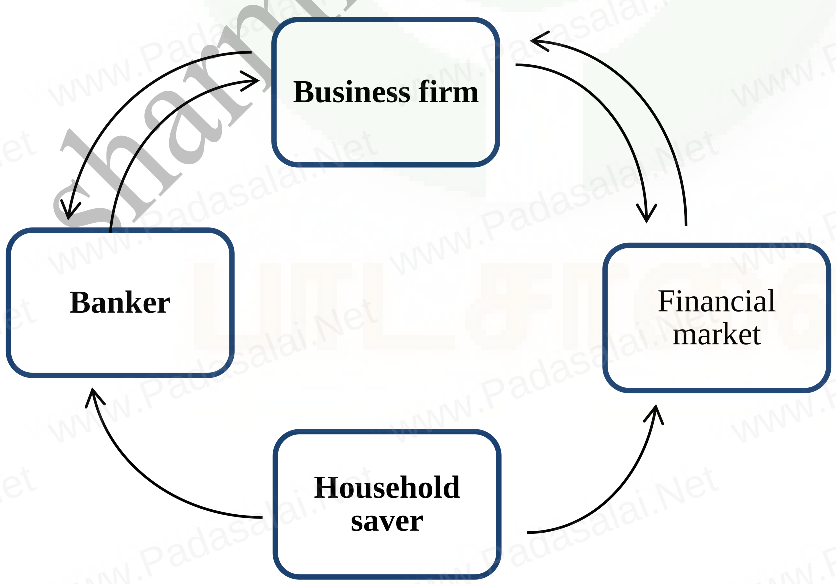
Meaning –

Financial market refer to the market wherein financial instruments such as financial claims, assets and securities are traded.

A financial market deals with exchange of financial instruments such as -

- ➢ Equity shares,
- ➢ Preference shares,
- ➢ Debentures,
- ➢ Deposits and loans,
- ➢ Corporate stocks and bonds,
- ➢ Government bonds.

Financial Market creates and exchange of financial assets from household savers to business firms or financial institutions



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According to **Brigham, Eugene F,** "The place where people and organizations wanting to borrow money are brought together with those having surplus funds is called a financial market."

2. Differentiate spot market from future market. Pg.25

1. **Cash/Spot Market**

It is a market which deals with delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

2. **Forward or Futures Market**

It is a market which deals with delivery of asset and payment of cash takes place at a pre-determined time frame in future.

---

3. Write a note on Secondary Market. Pg. 25

- Secondary market - involves in the trading of securities that are already issued in the primary market.
- Stock Exchange is an important institution in the secondary market,
- only securities that are enlisted in the official list stock exchange can be traded in the market
- The securities of a government traded is know as gilt- edged market.
- Stock exchange is an association or body of individuals registered under certain statutory laws .
- Buyers and sellers trade in securities through agent or broker who are authorized to act in the stock exchange .

---

4. Bring out the scope of financial market in india.pg.25

The scope of financial market in india

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.

Institutions and the Government can get their required funds in time With the help of the financial market .It leads to the overall economic development.

Long Answer

1. Distinguish between new issue market and secondary market. Pg. 27

BASIS FORCOMPARISON	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. Intermediary	Underwriters	Brokers
4. Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification	It does not provide funding to companies
5. How can securities be sold?	Only once	Multiple times
6. Buying and Selling between	Company and Investors	Investors
7. Gained person	Company	Investors
8. Price	Fixed price	Fluctuates, depends on the demand and supply force
9. Organizational difference	Not rooted to any specific spot or geographical location	It has physical existence

2. Enumerate the different kinds of financial markets. Pg.25
Discuss the various types of Financial markets. Pg 25

Types of Financial Markets

I. **On the Basis of Type of Financial Claim**

i. **Debt Market**

It is the financial market in which trading of Debt Instrument such as

- ✓ Government Bonds or Securities,
- ✓ Corporate Debentures or Bonds.

ii. **Equity Market**

It is the financial market in which trading of - Equity Shares of Companies.

II. **On the Basis of Maturity of Financial Claim**

i. **Money Market**

It is the market for trading short term financial claim (usually one year or less) E.g.

- Treasury Bills,
- Commercial Paper,
- Certificates of Deposit

ii. **Capital Market**

It is the market for trading long term financial claim more than a year

Example -

- ✓ Shares,
- ✓ Debentures

III. **On the Basis of Time of Issue of Financial Claim**

i. **Primary Market**

- ➢ It 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.

ii. **Secondary Market**

- ➢ It is the market which involves in the trading of securities that are already issued in the primary market
- ➢ Stock Exchange is an important institution in the secondary market.

IV. **On the Basis of Timing of Delivery of Financial Claim**

i. **Cash/Spot Market**

It is a market which deals with delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

ii. **Forward or Futures Market**

It is a market which deals with delivery of asset and payment of cash takes place at a pre-determined time frame in future.

V. **On the Basis of the Organizational Structure of the Financial Market**

i. **Exchange Traded Market**

It is a centralized organization (stock exchange) with standardized procedures.

ii. **Over–the–Counter Market**

It is a decentralized market (outside the stock exchange) with customized procedures.

3. Discuss the role of financial market. Pg.25

Role of Financial Market

Financial market play a vital important roles in development of economic in following manner

1. **Savings Mobilization**

   Financial pays most important roles in - Obtaining funds from the savers or 'surplus' units such as- household individuals, business firms, public sector units, Government .

2. **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.

3. **National Growth**

   Financial markets contribute to a nation's growth by ensuring an unfettered flow of surplus funds to deficit units.

   Flow of funds provided for productive, It leads to overall economic growth.

4. **Entrepreneurship Growth**

   Financial markets contribute and making available the necessary financial resources.

   For the development of the entrepreneurial class.

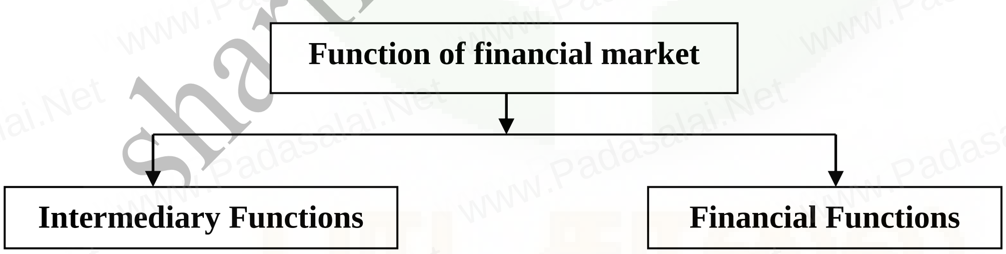
5. **Industrial Development**

   The different components of financial markets help an accelerated growth of industrial and economic development of a country.

   Thus leads to raising the standard of living of the people and the society's well-being.

---

4. What are the functions of Financial Markets? Pg.2



I. Intermediary Functions

The intermediary functions of a financial market include the following:

1. **Transfer of Resources:**

   Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.

2. **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.

3. **Productive Usage:**

   Financial markets allow for the productive use of the funds borrowed and thus enhancing the income and the gross national production.

4. **Capital Formation:**

   Financial markets provide a channel through which new savings flow to aid capital formation of a country.

5. **Price Determination:**

   Financial markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers, based on the demand and supply, It is called price discovery processes.

6. **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.

II. Financial Functions

The financial functions of a financial market include the following:

1. Providing the borrowers with funds so as to enable them to carry out their investment plans
2. Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in productive ventures
3. Providing liquidity in the market so as to facilitate trading of funds.

Thank you

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CHAPTER – 5 CAPITAL MARKET

Very Short Answer

1. What is Capital Market? Pg. 30

Capital market

- Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, and stocks.
- The buying/selling is undertaken by participants such as individuals and institutions.
- The capital market is also composed of those who demand funds (borrowers) and those who supply funds (lenders).

---

2. Write a note on OTCEI. Pg.34

Over the Counter Exchange of India (OTCEI)

- The OTCEI is a financial institution that allow trading of securities across the electronic counters throughout the country.
- Some of the greatest strengths of OTCEI are –
  - Transparency of transactions,
  - Quick deals,
  - Faster settlements and better liquidity.

---

3. What is Mutual Fund? Pg.33

- Mutual fund is a Financial institutions that provide facilities for **channeling savings of small investors into avenues of productive investments** are called 'Mutual Funds'.
- A mutual fund company invests the funds pooled from shareholders and gives a reasonable returns to the shareholder .
- Financial institution like - LIC, UTI, etc.,
  - Commercial banks such as SBI, and Canara Bank are carrying out the business of mutual funds.

---

4. Who are the participants in a Capital Market?

Participants

There are many players in the capital market.

The participants of the capital market include –

- ✓ Individuals,
- ✓ Corporate Sectors,
- ✓ Govt.,
- ✓ Banks And Other Financial Institutions.

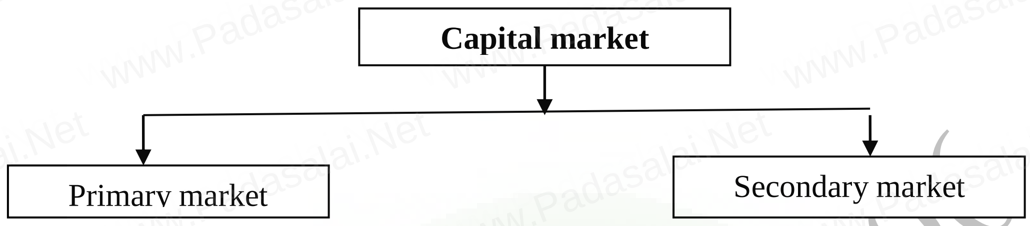
---

5. How is price determined in a Capital Market? Pg. 31

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

Short Answer

1. What are the various kinds of Capital Market? Pg. 31



Capital market

- Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, and stocks.
- The buying/selling is undertaken by participants such as individuals and institutions.
- The capital market is also composed of those who demand funds (borrowers) and those who supply funds (lenders).

1. Primary Market

- Primary market include all the institutions that are involved in the sale of securities for the first time by the issuers (companies).
- In the primary market, borrowers exchange new financial securities for long term funds.
- Thus, primary market facilitates capital formations.
- Hence, it is also called New Issue Market.

There are three ways by which a company may raise capital in a primary market. They are:

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.

Rights Issue:

When an existing company wants to raise additional capital, securities are first offered to the existing shareholders. It is called rights issue.

Private Placement:

Private placement is a way of selling securities privately to a small group of investors.

2. **Secondary Market**
   - It is the market which involves in the trading of securities that are already issued in the primary market
   - It covers both stock exchange and over-the counter market

---

2. Explain any two functions of Capital Market. Pg.32

Functions and Importance of Capital Market

1. **Savings and Capital Formation**

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

   The people invest in securities of capital market because of –
   - Reasonable return
   - liquidity in stock exchange

   This accelerates the capital formation in the country.

2. **Permanent Capital**

   The existence of a capital market/stock exchange enables companies to raise permanent capital.

   The investors cannot commit their funds for a permanent period but companies require funds permanently.

   The stock exchange provide opportunity to investors to buy or sell their securities, while permanent capital with the company remains unaffected.

3. **Industrial Growth**

   The stock exchange is a central market through which resources are transferred to the industrial sector of the economy.

   This encourages people to invest in productive channels.

   Thus it also stimulates industrial growth and economic development of the country by mobilizing funds for investment in the corporate securities.

---

3. Write a note on National Clearance and Depository System (NCDS). Pg.34

National Clearance and Depository System (NCDS)

Under the scripless trading system, settlement of transactions relating to securities takes place through a book entry on electronic ledger .

The entire scripless trading system comprises the following three segments:

a. **National Trade Comparison and Reporting System** - which prescribes the terms and conditions of contract.

b. **National Clearing System** which determines the **net cash and stock liability** of each broker on a settlement date.

c. **<u>National Depository System</u>** – which arranged to **transfer of ownership of securities in exchange on payment by** book entry on electronic ledgers without any physical movement of transfer deed.

---

4. Discuss about evolution and growth of Indian Capital Market. Pg.33

Indian Capital Market – Evolution and Growth

- The infrastructure development of capital market Made between the -period 1947 and 1973.
- During this period, a network of development financial institutions such as –
  - **IFCI** - Industrial Finance Corporation Of India
  - **ICICI** - Industrial Credit And Investment Corporation Of India
  - **IDBI** – Industrial Development Bank Of India
  - **UTI** - Unit Trust Of India
  - **SFCs** – The State Finance Corporations
  - **SIDCs** – Sate Industrial Development Corporations

  These financial institutions strengthened the capital market.
- **During the period between 1980 and 1992, - (any 3 points)**
  - 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
  - SEBI emerged as an effective regulatory body for the primary and secondary markets
  - New financial services such as credit rating was introduced.
- **A number of committees were constituted (any 3)**
  - Committee on Organization and Management of Stock Exchange,
  - Working group on the Development of the Capital Market,
  - A Study Group for Guidelines Relating to Valuation and New Instruments,
  - A High Powered Study Group on Establishment of New Stock Exchange,
  - A Committee on Trading in Public Sector Bonds and Units of Mutual Funds

---

5. Explain about Factoring and Venture Capital Institutions. Pg. 33/ 34

1. Factoring Institutions

- "Factoring" is an arrangement whereby a financial institution provides finance on the basis of sale of account receivables or bills receivable
- The factoring institutions collect the book debts on behalf of its clients.
- Some of the factoring institutions operating in India are
  - Sbi factors
  - Commercial services private limited,
  - A subsidiary of state bank of india
  - Canbank factors limited.

2. **Venture Fund Institutions**

- Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- Venture capital funds bring into force the hi-technology projects which are converted into commercial
  production. .
- They include Risk Capital Foundation of IFCI, Venture Fund of IDBI, SIDBI, Technology Development and Infrastructure Corporation of India (TDICI), and others.

-

Long Answer

1. **Discuss the characters of a Capital Market. Pg. 31**

Characteristics of Capital Market

Following are the nature/characteristic of a capital market:

1. **Securities Market**

The capital market are deals with the securities like shares, debentures, etc.

The capital market is thus called securities market.

2. **Price**

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

3. **Participants**

There are many players in the capital market.

The participants of the capital market include –

- ✓ Individuals,
- ✓ Corporate Sectors,
- ✓ Govt.,
- ✓ Banks And Other Financial Institutions.

4. **Location**

Capital market is not confined to certain specific locations, the market are concentrated in certain well-known centers known as Stock Exchanges.

The suppliers and users of capital market get together and do business under the Stock Exchanges.

5. **Market for Financial Assets**

Capital market provides a transaction platform for long term financial assets.

---

2. Briefly explain the functions of capital market. pg .32

Functions and Importance of Capital Market

1. **Savings and Capital Formation**

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

The people invest in securities of capital market because of –

- Reasonable return
- liquidity in stock exchange

This accelerates the capital formation in the country.

2. **Permanent Capital**

- The existence of a capital market/stock exchange enables companies to raise permanent capital.
- The investors cannot commit their funds for a permanent period but companies require funds permanently.
- The stock exchange provide opportunity to investors to buy or sell their securities, while permanent capital with the company remains unaffected.

3. **Industrial Growth**

- The stock exchange is a central market through which resources are transferred to the industrial sector of the economy.
- This encourages people to invest in productive channels.
- Thus it also stimulates industrial growth and economic development of the country by mobilizing funds for investment in the corporate securities.

4. **Ready and Continuous Market**

- The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities.
- Easy marketability makes investment in securities more liquid as compared to other assets.

5. **Reliable Guide to Performance**

The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency.

6. **Development of Backward Areas**

- Capital Markets provide short term funds and Long term funds for development projects in backward and rural areas.
- This facilitates economic development of backward areas.

7. **Foreign Capital ***

- Capital markets makes possible to generate foreign capital.
- This helps Indian firms to generate **capital funds** from overseas markets by way of- bonds and other securities.
- Government has liberalised Foreign Direct Investment (FDI) in the country.

- This not only brings in foreign capital but also foreign technology which is important for economic development of the country.

8. Easy Liquidity

- With the help of secondary market investors can sell off their holdings and convert them into liquid cash.
- Commercial banks also allow investors to withdraw their deposits, as and when they are in need of funds.

---

3. Explain the various types of New Financial Institutions. Pg.33

New Financial Institutions

A number of Financial Institutions have been established for the credit requirements of various industry and business. A brief outline of these institutions is presented below;

1. Venture Fund Institutions

- Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas.
- Venture capital funds bring into force the hi-technology projects which are converted into commercial production. .
- They include Risk Capital Foundation of IFCI, Venture Fund of IDBI, SIDBI, Technology Development and Infrastructure Corporation of India (TDICI), and others.

2. Mutual Funds

- Mutual fund is a Financial institutions that provide facilities for **channeling savings of small investors into avenues of productive investments** are called 'Mutual Funds'.
- A mutual fund company invests the funds pooled from shareholders and gives a reasonable returns to the shareholder .
- Financial institution like - LIC, UTI, etc.,
  - Commercial banks such as SBI, and Canara Bank are carrying out the business of mutual funds.
- The benefits of mutual fund are -
  - High return,
  - Easy liquidity,
  - Safety and tax benefits to the investors.

3. Factoring Institutions

- "Factoring" is an arrangement whereby a financial institution provides finance on the basis of sale of account receivables or bills receivable
- The factoring institutions collect the book debts on behalf of its clients.
- Some of the factoring institutions operating in India are
  - SBI Factors
  - Commercial Services Private Limited,
  - a subsidiary of State Bank of India
  - Canbank Factors Limited,.

4. Over the Counter Exchange of India (OTCEI)

- The OTCEI is a financial institution that allow trading of securities across the electronic counters throughout the country.
- Some of the greatest strengths of OTCEI are –
  - Transparency of transactions,
  - Quick deals,
  - Faster settlements and better liquidity.

5. National Stock Exchange of India Limited (NSEI)

- NSEI was established in 1992 to function as a model stock exchange.
- The aims of NSEI is to provide –
  - Nation-wide electronic screen based "scripless" and "floorless" trading system in securities.
- NSEI provide an efficient and transparent system of securities trading.

6. National Clearance and Depository System (NCDS)

Under the scripless trading system, settlement of transactions relating to securities takes place through a book entry on electronic ledger .

The entire scripless trading system comprises the following three segments:

a. **National Trade Comparison and Reporting System** - which prescribes the terms and conditions of contract.

b. **National Clearing System** which determines the **net cash and stock liability** of each broker on a settlement date.

c. **National Depository System** – which arranged to **transfer of ownership of securities in exchange on payment by** book entry on electronic ledgers without any physical movement of transfer deed.

7. National Securities Depositories Limited

- The NSDL was set up in the year 1996 for achieving a time bound dematerialization as well as rematerialization of shares.
- The establishment of NSDL is expected to alleviate the problems of post trade transactions in the secondary market.

8. Stock Holding Corporation of India Limited (SHCIL)

Stock Holding Corporation of India Limited (SHCIL) aims at –

- Serving as a central securities depository in respect of transactions on stock exchanges.
- Administration of clearing functions at a national level.

Thank you

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Commerce New Study Material – 2019
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CHAPTER - 6. MONEY MARKET

Very short answer

1. Define the term "Money Market".*

According to Crowther, "the money market is the collective name given to the various firms and institutions that deal in the various grades of near money".

---

2. What is commercial bill market?

- Commercial bill market deal with a - bill of exchange issued by a commercial organization to raise money for short- term needs.
- These bills are of 30 days, 60 days and 90 days maturity.
- The Commercial Bill is an instrument drawn by a seller of goods on a buyer of goods.

---

3. What is a CD market?

Deposits market deals with short-term deposit instruments issued by banks and financial institutions to raise large sums of money.

Certificate of Deposits are available for subscription by –

- ✓ Individuals,
- ✓ Corporations,
- ✓ Trusts,
- ✓ Associations and nris.

It is a document of title to a time deposit. It is a bearer certificate and is negotiable in the market.

---

4. What is Government Securities Market?*

Gilt-Edged Securities is the Government securities – which are issued - for the purposes of - **refunding the maturing securities**, for advance refunding securities, which have not yet matured for cash financing, i.e., **raising fresh cash resources.**

Government Securities plays a significant role in the Indian Money Market.

---

5. What do you meant by Switching?

The purchase of one security against the sale of another security carried out by the RBI in the secondary market as part of its open market operations is described as 'Switching'.

---

6. **What are the Instruments of Money Market? (any 4)**

There are many kinds of Instruments available in Money Market, They were as follows:

1. Treasury Bills in the Treasury Market
2. Money at Call and Short Notice in the Call Loan Market
3. Commercial Bills and Promissory Notes in the Bill Market
4. Commercial Papers
5. Certificate of Deposits
6. Inter-Bank participation Certificates.
7. Repo Instruments.

---

7. **Explain the two oldest money markets.**

The central bank and commercial banks are the major institutions in the money market

- The C**ommercial Banks** are the nerve centre of the whole money market. They are the principal suppliers of short-term funds..
- The **central bank** keeps their cash reserves and provides them financial accommodation in difficulties by discounting their eligible securities.

---

8. **What do you meant by Auctioning?**

A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as 'auctioning'.

Short Answer

1. **What are the features of Treasury Bills?**

Treasury Bills are issued to the public and other financial institutions for meeting the short-term financial requirements of the Central Government.

Treasury Bills incorporate the following general features.

1. Issuer
2. Finance Bills
3. Liquidity
4. Vital Source
5. Monetary Management

---

2. Who are the participants of Money Market?

- There are many participants operating in the Money Market.
- The participants deal with the money market instruments like Treasury Bills, Commercial Bills, Commercial Papers, etc.,
  1. Government of different countries
  2. Central Banks of different countries
  3. Private and Public Banks
  4. Mutual Funds Institutions
  5. Insurance Companies
  6. Non-Banking Financial Institutions
  7. RBI and SBI
  8. Commercial Banks
  9. State Governments
  10. Public

3. Explain the types of Treasury Bills?

Types of Treasury Bills

Treasury Bills are issued to the public and other financial institutions for meeting the short-term financial requirements of the Central Government.

On the basis of periodicity, Treasury Bills may be classified into three. They are:

1. **91 days Treasury Bills** - are issued at a fixed discount rate of 4 per cent as well as through auctions. The RBI holds 91 days
2. **182 Treasury Bills** - they are issued on tap basis throughout the week.
3. **364 days Treasury Bills** - do not carry any fixed rate. The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut off rate.

4. What are the features of Certificate of Deposit?

Certificate of Deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money.

Features of Certificate of Deposit

1. Document of title to time deposit
2. It is unsecured negotiable instruments.
3. It is freely transferable by endorsement and delivery.
4. It is issued at discount to face value.
5. It is repayable on a fixed date without grace days

5. **What are the types of Commercial Bill?**

1. **Demand and Usance Bills**
   - ✓ A demand bill is one **wherein no specific time of payment is mentioned**.
   - ✓ So, demand bills are payable immediately when they are presented to the drawee.

2. **Clean bills and documentary Bills**
   - ✓ Bills that are accompanied by documents of title to goods are called documentary bills.
   - ✓ Clean bills are drawn without accompanying any document.
   - ✓ E.g. Railway Receipt and Lorry Receipt

3. **Inland bills and Foreign Bills**
   - ✓ Bills that are drawn and payable in India on a person who is resident in India are called **inland bills.**
   - ✓ Bills that are drawn outside India and are payable either in India or outside India are called **foreign bills**.

4. **Indigeneous Bills**

   The drawing and acceptance of indigenous bills are governed by native custom or usage of trade.

5. **Accommodation and supply Bills**

   Accommodation bills are those which do not arise out of genuine trade of transactions.

Long Answer

1. **Define Money Market and Capital Market. Explain the difference between the Money Market and Capital Market. Pg. 39**

Sl. No	Features	Money Market	Capital Market
1	**Duration of Funds ***	It is a market for **short-term loanable funds** for a period of not exceeding one year.	It is a market for **long-term funds** exceeding period of one year.
2	**Supply of Funds***	This market supplies funds for financing **working capital requirements of industries** and **short period requirements of the government.**	This market supplies funds for financing the **fixed capital requirements of trade and commerce** as well as the **long-term requirements of the government.**

3	**Deals with Instruments***	It deals with instruments like commercial bills, bill of exchange, treasury bill, commercial papers	It deals with instruments like shares, debentures, Government bonds, etc.,
4	**Role of Major Institution***	The central bank and commercial banks are the major institutions in the money market.	Development banks and Insurance companies play a dominant role in the capital market.
5	**Availability of Instruments**	Money Market instruments generally do not have secondary market.	Capital market instruments generally have secondary markets.
6	**Place of Transaction**	Transactions mostly take place over the phone and there is no formal place.	Transactions take place at a formal place. Eg. stock exchange.
7	**Participants ***	Transactions have to be conducted without the help of brokers i.e., Bankers, RBI and Government.	Transactions have to be conducted only through authorized dealers i.e., Brokers, Investors, Merchant Bankers, Underwriters and Commercial Banks.
9	**Risk**	Low credit and low market risk.	High credit and low market risk
10	**Liquidity**	High liquidity in Money Market	Low liquidity in Capital Market

2. Explain the characteristics of Money Market? Pg. 38

1. **Short-term Funds**

   It is a market purely for short-term funds or financial assets called near money.

2. **Maturity Period**

   It deals with financial assets having a maturity period upto one year only.

3. **Conversion of Cash**

   It deals with only those assets which can be converted into cash readily without loss and with minimum transaction cost.

4. **No Formal Place**
   - Generally, transactions take place through phone, i.e., oral communication.
   - Relevant documents and written communications can be exchanged subsequently.
   - There is no formal place like stock exchange as in the case of a capital market.

5. **Sub-markets**
   - It is not a single homogeneous market.
   - It comprises of several sub-markets each specialising in a particular type of financing.
   - E.g., Call Money Market, Acceptance Market,Bill Market.

6. **Role of Market**
   - The components of a money market are the –
     - ✓ Central Bank,
     - ✓ Commercial Banks,
     - ✓ Non-Banking Financial Companies,
     - ✓ Discount Houses and Acceptance House.
   - Commercial banks generally play a dominant role in this market.

7. **Highly Organized Banking System**
   - The Commercial Banks are the nerve centre of the whole money market.
   - The commercial banks serve as vital link between the Central Bank and the various segments of the money market.

8. **Existence of Secondary Market**

   There should be an active secondary market for these instruments.

9. **Demand and Supply of Funds**
   - There should be a large demand and supply of short-term funds.
   - It presupposes the existence of a large domestic and foreign trade.

10. **Wholesale Market**

    It is a wholesale market and the volume of funds or financial assets traded in the market is very large

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3. Explain the Instruments of Money Market? Pg. 41

<u>Money Market Instruments</u>

There are many kinds of Instruments available in Money Market. In India, till 1986, only a few instruments were available.

<u>They were as follows:</u>

1. Treasury Bills in the Treasury Market
2. Money at Call and Short Notice in the Call Loan Market
3. Commercial Bills and Promissory Notes in the Bill Market
4. Commercial Papers
5. Certificate of Deposits
6. Inter-Bank participation Certificates.
7. Repo Instruments.

1. **Treasury Bill Market**

A market for the purchase and sale of Treasury Bills is known as a "Treasury Bills Market".

Treasury Bills

A Treasury bill is nothing but a promissory note issued for a specified period stated therein.

Types of Treasury Bills

Treasury Bills are issued to the public and other financial institutions for meeting the short-term financial requirements of the Central Government.

On the basis of periodicity, Treasury Bills may be classified into three. They are:

1. 91 days Treasury Bills
2. 182 days Treasury Bills and
3. 364 days Treasury Bills

2. **Certificate of Deposits**

- Certificate of Deposits are short-term deposit instruments issued by banks and financial Institutions to raise large sums of money.
- The Certificate of Deposit is transferable from one party to another.
- They are also known as negotiable certificate of deposit.
- The Issuers of Certificate of Deposits are -
  - Commercial Banks,
  - Financial Institutions, etc.,

3. **Commercial Bills**

- A bill of exchange issued by a commercial organization to raise money for short- term needs. These bills are of 30 days, 60 days and 90 days maturity.
- The Commercial Bill is an instrument drawn by a seller of goods on a buyer of goods.

The Commercial Bill possesses advantages like –

- self-liquidating in nature,
- recourse to two parties,
- knowing exact date of transactions, transparency of transactions etc.,

4. **Commercial Papers**

- commercial paper is an unsecured , short term debt instrument issued by a companies, to raise funds generally for a time period up to one year.
- It is an unsecured money market instrument issued in the form of a promissory note and was introduced in India in 1990.

5. **Repo instrument** - Ready Forward Contract

- A repurchase of agreement , also know as repo, is a form of short – term borrowing, mainly in government securities.
- A dealer or other holder of government securities sells the securities to lender and agrees to repurchase them at an agreed future date at an agreed price.

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4. **Explain the features and types of Commercial Bills? Pg. 42**

Commercial Bills

- A bill of exchange issued by a commercial organization to raise money for short- term needs. These bills are of 30 days, 60 days and 90 days maturity.
- The Commercial Bill is an instrument drawn by a seller of goods on a buyer of goods.
- The Commercial Bill possesses advantages like –
  - self-liquidating in nature,
  - recourse to two parties,
  - knowing exact date of transactions, transparency of transactions etc.,

Features

The features of the Commercial Bills are as follows:

1. Drawer
2. Acceptor
3. Payee
4. Discounter
5. Endorser
6. Assessment
7. Maturity
8. Credit Rating

Types of commercial bills

1. **Demand and Usance Bills**
   - ✓ A demand bill is one **wherein no specific time of payment is mentioned**.
   - ✓ So, demand bills are payable immediately when they are presented to the drawee.
2. **Clean bills and documentary Bills**
   - ✓ Bills that are accompanied by documents of title to goods are called documentary bills.
   - ✓ Clean bills are drawn without accompanying any document.
   - ✓ E.g. Railway Receipt and Lorry Receipt

3. **Inland bills and Foreign Bills**
   - ✓ Bills that are drawn and payable in India on a person who is resident in India are called **inland bills.**
   - ✓ Bills that are drawn outside India and are payable either in India or outside India are called **foreign bills**.
4. **Indigeneous Bills**

   The drawing and acceptance of indigenous bills are governed by native custom or usage of trade.
5. **Accommodation and supply Bills**

   Accommodation bills are those which do not arise out of genuine trade of transactions.

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5. **What are the features of Government Securities? Pg.43**

Government or Gilt-Edged Securities

Gilt-Edged Securities is the Government securities – which are issued - for the purposes of - **refunding the maturing securities**, for advance refunding securities, which have not yet matured for cash financing, i.e., **raising fresh cash resources.**

Government Securities plays a significant role in the Indian Money Market.

<u>The characteristics of Government Securities are discussed below:</u>

1. Agencies *

Government securities are issued by agencies such as-

- Central Government,
- State Governments,
- semi-government authorities
- local Government authorities, e.g. municipalities, metropolitan authorities, port trusts etc.,

2. RBI Special Role *

RBI takes a special and an active role in the purchase and sale of these securities as part of its monetary management exercise.

3. Nature of Securities

Securities offer through guaranteed payment of interest and repayment of principal by the Government.

4. Liquidity Profile

The liquidity profile of gilt-edged securities varies. Accordingly liquidity profile of securities issued by Central Government is high.

5. Tax Rebate *

These securities offer wide-range of tax incentives to investors. This has made these securities very popular for this benefit.

6. **Market**
   - As each sale and purchase has to be negotiated separately,
   - the Gilt-Edged Market is an Over-The-Counter Market.
   - The Government securities market in India has two segments namely
     - primary market and secondary market.

7. **Forms**

The securities of Central and State Government take such forms as –
- Inscribed stock or stock certificate,
- Promissory note and
- Bearer bond.

8. **Participants ***

The participants in Government securities market include the-
- Government sector comprising Central and State Governments

9. **Issue Mechanism**

The Public Debt Office (PDO) of the RBI undertakes to issue government securities.

10. **Issue opening**

A notification for the issue of the securities is made a few days before the public subscription is open.

11. **Grooming Gradual ***

Acquisition of securities nearing maturity through the stock exchanges by the RBI in order to facilitate redemption is described as ‘grooming’.

12. **Switching ***

The purchase of one security against the sale of another security carried out by the RBI in the secondary market as part of its open market operations is described as ‘Switching’.

13. **Auctioning ***

A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as ‘auctioning’.

Thank you

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