December 2015

PART A

(a) Distinguish between non - economic and economic activities of human beings.

Ans: Economic activities refer to the actions of the individuals associated with the manufacturing and consumption of products and services. These are done for monetary gain. All the economic activities have significant characteristics to acquire wealth, earn a livelihood and facilitate economic growth. Activities performed must be lawful and legally binding to gain income. Unlawful activities like theft, smuggling, drug dealing, burglary are not economic activities.

Economic activities performed by the individuals include:

- Producing the goods and services
- Consuming the delivered goods or services
- Distributing the produced goods or services
- Resource management
-

Non-economic activities are those activities done to offer products or services to others with no purpose of financial gain. Individuals achieve self-satisfaction and no remuneration returns. Other individual sentiments are addressed, and activities are initiated for personal content. Examples of non-economic activities include helping disabled person, homemaker managing daily tasks, cultural and religious activities etc..

Economic activities	Non-economic activities
Activities are done for a living.	Activities are done for personal satisfaction.
Economic growth and development is achieved.	Psychological and social change is achieved.
These activities are done in three sectors- primary, secondary and tertiary.	Activities are based on interests , habits, hobbies; hence no sectors are involved.
Main aim is to earn financial remuneration by providing services.	The main idea includes psychologically and emotionally developing by performing such activities.
Business and employment are the superior outcomes of performing these activities.	Personal satisfaction and social responsibility are achieved by performing non-economic activities.

(b) State the qualities of a good entrepreneur.

Ans: Qualities of an Entrepreneur are:

i. Independence: Many entrepreneurs who started their businesses resisted being pigeonholed or following routine habits. In fact, entrepreneurs become frustrated when they have to follow someone else's direction. They have to be the boss. They like to be in control. They find it difficult to work under the direction of others.

ii. Hard Work: Willingness to work-and work hard-is an outstanding trait of entrepreneurs. A successful entrepreneur described his early experiences that they worked endless, twelve hour days and sometimes seven days a week.

iii. Desire-to Achieve Goals: They have a strong desire to overcome problems and setting up successful business ventures which eventually give adequate profits. They considered profit as measure of their achievement and performance rather than making money alone.

iv. Foresight arid Dynamic Outlook: Basically, these people have wide knowledge about business environment i.e., market, consumer attitude, technological development, etc. Further, they ore dynamic in forecasting business uncertainties and risks, accordingly, they take quick and sound decisions.

v. Open-mindedness: They are intelligent in predicting changes in business environment. However, they never resist changes because they know that they cannot stop it. Therefore, they are habituated to open-mindedness even though sometimes they lose crores of' rupees due to changes in consumer tastes which ultimately forced them to change their technology, etc.

vi. Optimistic Outlook: They are generally inclined to believe that present problems are of it temporary nature and conditions will be more favourable in due course. Entrepreneurs are always eager to achieve their goals in the best possible manner, to get outstanding results which they can be proud of.

vii. Working Relationship : The success of a business mostly depends upon its workers first rind then their links with other business undertakings. Most of the successful business entrepreneurs have had harmonious relationships with others. This builds up their reputation in the market.

viii. Good Organisers : They are good at bringing together different types of resources needed for starting a business and making it operationally efficient. They can convince people about the prospects of business, get their cooperation, raise funds, procure machinery, arrange supply of materials, select right type of employees and coordinate various activities relating to the business.

ix. Innovative Aptitude: Most of the successful entrepreneurs have innovative aptitude. They spend part of their income on research and innovative activities so that they offer suitable products to meet the demands of consumers. Some of our industrialists like Tata, Birla, Kirloskar, etc. have established their own research centres.

(c) Describe the methods of raising long - term capital.

Ans: Long-term capital may be raised by companies from, one or more of the following sources:

i) Capital market which consists of individual investors, financial institutions and investment companies
ii) Special financial institutions consisting of development banks and institutional ' investors.'

iii)Leasing companies

iv)Foreign sources

v)Retained profits

i) Capital market: Transactions involving procurement of funds and supply of funds which take place among individuals and various organisations may be regarded as the capital market. Thus, the capital market is not located in a particular place. There are no fixed categories of investors and dealers in the market. Another type of market in connection with business finance, known as the money market. Money market refers to transactions involving borrowing and lending of money for short periods for which again there is no definite place set aside in a town.

ii) Special financial institutions: After independence many financial institutions have been established in India with the primary objective to provide medium and long-term financial assistance to industrial enterprises. Institutions like Industrial Finance Corporation of India (IFCIs), Industrial Reconstruction Bank of India, State Financial Corporation (SFCs), State Industrial Development Corporation (SIDCs), have been established to provide financial support to set up new enterprises as well expansion and modernisation of the existing enterprises. On the other hand, at the state level there are State Financial Corporations (SFCs) and Industrial Development Corporations (SIDCs). These state level institutions mainly provide long-term finance to relatively smaller companies. These institutions (both national level and state level) are known as 'Development Banks' because their main objective is to provide financial assistance to industrial enterprises for investment projects, expansion or modernisation of plants in accordance with the priorities laid down in the Five Year Plans.

Besides the development banks, there are several other institutions known as investment companies or investment trusts which subscribe to the shares and debentures offered to the public by companies. For example, the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), the Unit Trust of India (UTI), etc., come under this category.

iii) Manufacturing companies can secure long-term funds from leasing companies. For this purpose, a lease agreement is made whereby plant and machinery and fixed assets may be purchased by the leasing company and allowed to be used by the manufacturing concern for a specified period on payment of an annual rental. At the end of the period the manufacturing company (lessee) may have the option of purchasing the asset at a reduced price. The ownership of the asset remains with the leasing company (lessor) during the lease period. To meet its financial requirements, a manufacturing company may also sell its existing fixed assets to a leasing company at the current market price on the condition that the leasing company would lease the assets back to the seller for a specified period. Such an arrangement is known as 'sale and lease back'. The manufacturing company in this case gets the immediately without having to part with the physical possession of the assets. It continues to use the assets on payment of periodical rent for the lease.

iv)Foreign sources: Funds can also be collected from foreign sources which usually consist of: a) foreign collaborator, b) international financial institutions, and c) non-resident Indians (NRIs)

a) Foreign Collaborators: If approved by the Government of India, large companies may be able to secure long term finance based on collaboration agreements with companies abroad. Foreign collaboration may, thus, enable Indian companies to secure equity capital from abroad through the subscription of foreign collaborator to their share capital, or by way of supply of technical knowledge, patents, drawings and designs of plants or supply of machinery.

International Financial Institutions: There are several international financial institutions which provide long-term funds for industrial development all over the world. The most important among them are: i) The World Bank, and ii) International Finance Corporation.

The World Bank grants loans for specific industrial projects of high priority included in the national development plan. The loans must be guaranteed by the Government of India, and may be given directly to an industrial concern, or through a Government agency, or may be given to the IOBI for refinancing to companies.

b) The International Finance Corporation (IFC) was established in 1956. It is an affiliate of the World Bank. As you know the World Bank grants loans only to governments of member-countries or private enterprises with guarantee of the concerned government and it does not provide risk capital to enterprises in member-countries. s. IFC was set up to assist the private undertakings without the guarantee of the member-countries. It also provides them risk capital. IFC grants loans to industrial firms for a period of 8 to 10 years. Such loans do not require Government guarantee.

c)Non-resident Indians: Persons of Indian origin and nationality living abroad (Non-resident Indians) are also permitted to subscribe to the shares and debentures issued by companies in India. A non-resident or a company controlled by a non-resident can invest up to a maximum of 5% of the paid-up equity capital of an Indian company.

v)Retained profits: An important source of long-term finance for ongoing profitable companies is the amount of profit which is accumulated as general reserve from year to year. To the extent profits are not distributed as dividend to the shareholders, the retained can be reinvested for expansion or diversification of business activities. It be used for renovation of assets or modernisation of plant and equipment. It may be interpreted that the existing shareholders provide the finance. Hence, the company must decide to reinvest profits only when the rate of return is comparable with that of other similar companies. A part of the profits must be distributed as dividend keeping in mind shareholders expectation and the effect of dividend rate on the market price of shares. Retained profit is an internal source of finance. Hence it does not involve any cost of floatation which has to be incurred to raise finance from external sources. Further, the company does not have to face the uncertainties of external financing. The only drawback of this source of long-term finance is that it depends on the availability of adequate profits for retention.

(d) State briefly the rules for listing of securities on a stock exchange.

Ans: All securities issued by companies and other bodies are not traded in stock exchanges but only the listed securities are traded. Listing means addition of new securities to the existing list of securities being traded on a stock exchange. If a joint stock company or any other body who has issued new securities want them to be traded on the floor of stock exchange and their prices duly published, it has to get the securities included in the list of the stock exchange.

For listing, the company has to make an application and furnish the prescribed illformation to the stock exchange. Section 19 of the Securities Contracts (Regulation) Rules 1957 lays down the minimum requirements with respect to the listing of securities on a stock exchange. Listing implies that the securities have met the satisfaction of stock exchange authorities, in respect of certain prescribed standards of legality, security and work-manship. When a security is admitted to dealings on a stock exchange, it does not guarantee the soundness or profitability of the company, in any manner. It is also not a certificate of the stock exchange for consideration by the investors. However, it indirectly gives an impression to the investor that the quoted security can be considered for investment, as the issuing company has satisfied the management of the stock exchange by fulfilling the required conditions and that there is no concealment. Listing provides a reasonable basis upon which the investor may assure himself about the genuineness of the company.

The main advantage of listing of securities is that the investor gets all the required information about the securities he wants to buy or sell. Certain other advantages of listing are: 1. It provides a continuous market for securities.

2. It enhances the prestige of the company.

3. It provides an indirect check against manipulation of prices by the management.

From the point of view of a company, listing of securities is beneficial in two ways: i) it enhances credit worthiness of the company, and ii) it widens the market of the securities. From the point of view of investors, listing provides safety of dealing and liquidity.

(e) Distinguish between advertisement and publicity.

Ans: Advertising:

The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. There is a huge investment to be made for advertising a single product. The key persons behind advertising are the company and its representatives. Advertising is under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Advertising is always customer focused, i.e., the more creative the advertise, the more are the customers attracted to it. Advertising always speaks the goodness about a product, to persuade the target audience to buy it. In contrast to publicity, the company has to pay money to the media for the space or time used. There is an identifiable sponsor. Normally, a company sponsors it for its product or service.

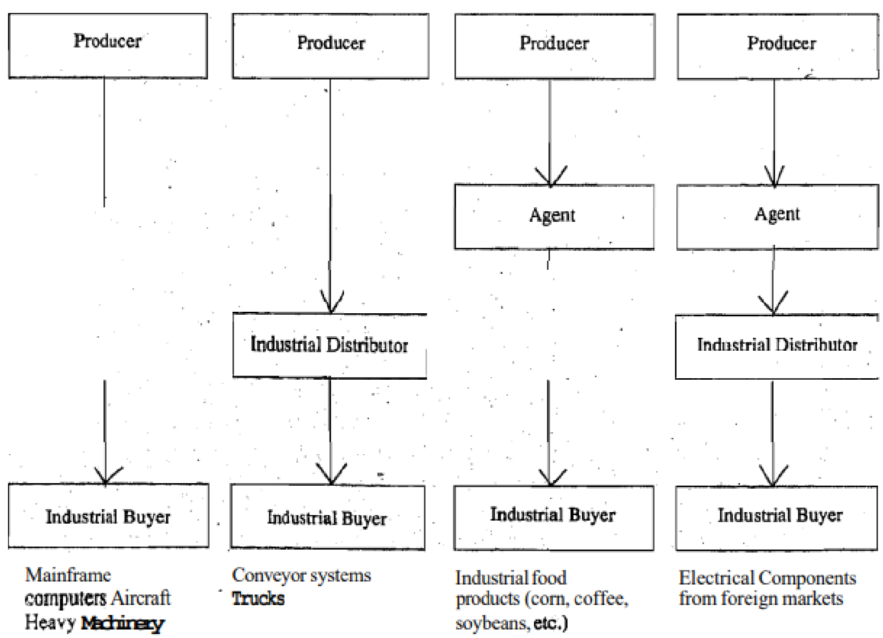
Publicity: The activity of providing information about an entity, i.e., a product, an individual or a company to make it popular is known as Publicity. It is what others say about the product. Publicity does not require any kind of investment. Publicity is done by a third party which is not related to any company. Publicity is not under the control of the company. Publicity is done only one-time act. Publicity is not done keeping customers in mind. Publicity, it is unbiased, and so it will speak the reality, no matter whether it is goodness or illness. Company does not make any payment to the media for the time or space used for publicity. There is no identifiable sponsor. Media presents the information voluntarily.

(f) State channels of distribution of industrial goods.

Ans: The goods which are consumed by industry for further production of goods are c lled industrial goods. Under this category there are a variety of products such as 7 machinery, equipment, industrial raw-materials (e.g. sugarcane, cotton, coffee, oilseeds, iron ore, etc.), electrical and electronic components, etc.

High value industrial goods like mainframe computers, aircraft, heavy machinery, etc., are supplied directly to the buyers. In these cases manufacturers procure orders by mail on the basis of catalogues and price lists. Sometimes salesmen are also used to contact the buyers. Relatively less expensive items like trucks, conveyor systems, etc., are supplied through 4 distributors. You know industries consume many agricultural products. For instance, tea leaves are processed to prepare tea powder which we use for preparing tea. Agricultural products like corn, coffee, soyabeans, etc., are procured by the industrial buyers through' agent middlemen. When electrical components are imported from foreign markets, they are procured through an agent and industrial distributor.

Channels of Distribution for Industrial Goods



Part B

Attempt any three of the following questions :

2. What is meant by cooperative form of organisation ? Enumerate its main features. 2+8

Ans: Cooperative organisations are generally started by the poor and the economically weak sections to promote their common economic interests through business propositions. The primary objective of any cooperative organization is to render service to its members. The important features of the cooperative organization are service in place of profit, mutual help in place of competition, self-help in place of dependence and moral solidarity in place of unethical business practices.

Features of Cooperative form of organisation:

1. Voluntary Association:

A cooperative society is a voluntary association of persons and not of capital. Any person can join a cooperative society of his free will and can leave it at any time. This has two important connotations:

i)Any person can become a member irrespective of his caste,creed,religion,colour,sex etc.

ii)The members come together to form themselves into an association without any coercion or intimidation.

2. Democratic Management:

An individual member is considered not as a capitalist but as a human being and under cooperation, economic equality is fully ensured by a general rule—one man one vote. Irrespective of the number of shares held by any member, all enjoy equal rights and equal duties.

3. Capital:

Capital of a cooperative society is raised from members through share capital. Cooperatives are formed by relatively poorer sections of society; share capital is usually very limited. The major part is raised either by way of loan from the government and the central cooperative banks.

4. Autonomy and stability: A cooperative society is a self-governing organisation. It is self-sufficient, selfrenewing, and self-controlling within its jurisdiction. A cooperative organisation also enjoys a separate and independent entity distinct from that of its members. It has a perpetual life and is not affected by the entry and exit of members.

5. Service motive: The primary objective of any cooperative society is to provide service to its members.

6. Limited return on capital: In cooperative system, profits are distributed among the shareholders for the capital they have contributed. But the rate of dividend paid to the shareholders is limited to 9% as per the Cooperative Societies Act.

7. Distribution of surplus: In case of cooperative societies, after giving a limited dividend to shareholders, the surplus profits are distributed in the form of bonus.

3. What is meant by long - term finance ? Describe various sources of long - term finance. 2+8

Ans: Every business unit requires some amount of money for investment in fixed assets besides the money required for day 'to day operations. The! types of fixed assets required for business activities depends mainly upon th6 nature of business. For example, the fixed assets required by manufacturing companies generally include land and buildings, plant and machinery, furniture,'etc. A trading company, on the other hand, may require a godown, office-building, furniture and fixtures, etc.

Fixed assets are long-lived assets and, therefore, investment can be made only with ' long-teim finance i.e., funds which will not have to be returned within five years. Long-term finance is defined as finance required for a period of five years or more. As a result; profits earned on long-term investment in fixed assets invariably extend over a long period in the future. In other words, long-term finance is associated with long-term return on the investment. Since the future is always uncertain, long-term finance must be invested with care and estimation of the future prospects of business.

The importance of long-term finance, therefore, lies in its necessity for investment in fixed assets which is essential particularly for manufacturing activities. At the same time, long-ter-m finance involves long-term commitment of funds which cannot be withdrawn at short notice. And larger the business greater is the need for long-term finance .

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4. How does speculation differ from gambling ? State the various factors affecting prices of securities in a stock exchange. 3+7

Ans: Speculation involves entering into futures contracts (contracts where is affected on a future date), whereby one party agrees to buy (sell) and the other party agrees to sell (buy), a specified quantity of a specified asset (share, commodity, etc) at the today agreed upon price. The person who sells now expects the price of the underlying asset to come down by the time the futures contract is due for settlement. He is called the 'bear' speculator. If his calculations go right, the other party's calculations go wrong. The other party is asked to give the difference in prices and wind-up the contract. There is no physical delivery, but only settlement of price difference.

Gambling is wagering. Wagering refers to a game of chance. Gambling is a very short period investment and the results of the so-called. Investments are known by the roll of the dice or the turn of a card or the performance of a sports team or the pace of the racing horse and so on. There are certain strategies betting known as speed betting and odds betting. The former is used in sports games and latter is used for betting on elections, horses, etc.

Difference between speculation and gambling :

* Speculation is based on foresight while gambling does not involve use of foresight.

* In speculation the intention is to gain from difference in prices while gambling is purely based on betting, either winning the bet or losing it.

* The risk of loss is assumed and anticipated in speculation while gambling artificially creates risk of loss.
* Speculation is a rational activity, based on reasoning while gambling is a kind of blind or reckless activity.

* Speculation is a recognised activity, while gambling is a punishable act.

Factors affecting prices in a stock exchange are:

1. Interest rate: If there is a change in the rate of interest charged by banks on loans and overdrafts, there is a change in the speculative activities, and security prices also change as a consequence of it. Thus, if banks allow credit at lower interest rate, it may induce people to borrow money from banks and engage more in speculative activities to make profits. Hence, price of securities may go up as a result of speculative buying. However, if the interest on bank credit goes up, borrowing will be reduced and demand for securities will be relatively lower. Hence prices of securities will tend to go down.

2. Activities of the financial institutions: When financial institutions start buying securities on a large scale, prices tend to move up because it leads to high expectation among the public about the prospects of the company and there is increased demand all around. Similarly, if there is large scale selling of securities by financial institutions, the price tends to go down.

3. Performance of the company: The prospects of a company as regards future profits and dividend payment are often reflected in the rising or falling prices of its shares. This is because the profit earning capacity and expected dividend rates influence the expectations of investors about the rate of return on investment and future rise in prices. If the prospects are good, there is increased demand for shares, and prices move up. On the contrary, if a company's performance in terms of profit earning and dividend payment allows an unsatisfactory trend, the price of its shares start declining due to reduced demand.

4. Business cycles: Business conditions are periodically found to be subject to prosperity and depression. Prices of securities continue to rise during prosperity as bull speculators are active and go on purchasing securities. However, when speculators are unable to meet their liabilities due to lack of adequate funds, they are forced to bargain for sale as a result of which prices rapidly decline and cause a state of depression in the market.

5. Changes in Board of Directors: Sometimes, security prices change as a result of changes in the Board of Directors of particular companies. The death or resignation of a well known director may cause doubt or apprehension about the future prospects of the company concerned. In that situation, generally, there would be an adverse effect on the price of shares of that company.

6 sympathetic fluctuation: The prices of securities traded in more than one stock exchange often change due to changes in another exchange. If the prices of some I securities fall in one stock exchange due to some particular reason, it leads to a decline in the prices of the same securities in other exchanges too. This happens due to immediate communication among speculators.

7. Political events: Changes in the composition of government, changes in international relations, conflicts and political upheavals and wars between nations are always found to cause changes in the securities prices. This is because conditions of business and industry are generally affected by political events.

8. Changes in government policy: The changes in government policy with regard to taxation, import-export, price controls, licensing, etc. also influence the prices of securities, For example, if government decides to exempt dividends from income tax, the share prices will go up. If, on the other hand, government decides to raise income tax rates on company profits, the prices may fall. In fact, these days the policy changes by the government have become a major cause for an upswing or a downswing in prices of shares.

9. Miscellaneous factors: Various factors which may not be directly related with stock exchanges also affect prices of securities due to the psychological reaction of speculators. For example, unexpected changes in weather conditions, inadequate or excessive rainfall (which affects agricultural output), may bring about changes in the prices of shares of companies manufacturing fertilisers, edible oils, cotton textiles, etc. Similarly, lockout for a prolonged period may cause prices of shares to decline or illness of a powerful head of government may cause fall in security prices.

5. Explain the difference between functional and merchant middlemen. How do they help the business activities ? 4+6

Ans: Functional middlemen or mercantile agents: A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are also called 'mercantile agents'. Depending on the functions performed, the functional middlemen may be classified into five categories.

i. Factors: A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his control. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession, or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.

ii. Brokers: Middlemen who bring together the buyers and sellers and negotiate the terms and conditions oi sale on behalf of either the buyer or seller are known as brokers. When a broker acts on behalf of the buyer, he is known as buying agent. If the owner of goods employs a broker for sale of the goods, the broker is known as a selling agent. For his services, the broker receives a fixed percentage of the value of transaction as brokerage from the employer i.e., either buyer or seller.

iii. Commission Agent: The commission agent is a middleman who sells goods as an agent of the owner. He takes the, possession of the goods, negotiates the terms of sale with the - intending buyers, and arranges transfer of title of the goods to the buyer. If necessary, the -. commission agent also performs various other functions like storage, grading, packaging, etc. For his services, the commission agent receives remuneration from his, principal as a percentage of the value of goods sold.

iv. Del credere Agents: Generally if any mercantile agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to nonpayment by the buyer. The owner or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the risk of bad debts, he is known as a del credere agent. For bearing,such risk of bad debts, additional commission as a fixed percentage of the amount of credit sales is given to him. This additional commission is called del credere commission. In other words, the delcredere agent bears the loss which may arise on account of bad debt and the owner is protected against the loss.

v. Auctioneers: Middlemen appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers, Bids are then invited by the auctioneer from those present at the time of auction. Sometimes a minimum price is fixed for specific items known as reserve price and bids are not accepted below that reserve price. The goods are sold to the highest bidder. The auctioneer gets commission from the principal (seller) as a percentage on the sale price.

Merchant middlemen : Middlemen who act on their own right buying and selling goods at a profit, tire called merchant middlemen or merchants. They acquire title to the goods and bear the risks of trade besides performing various functions like storing, grading, packing and packaging, etc. Merchant middlemen may be divided into two categories.

i) Wholesale traders ii) Retail traders ,

Merchants who buy goods from producers or manufactures or their agents and sell the same to industrial consumers or retail traders are known as wholesale traders. The middlemen who buy goods from producers or wholesalers and sell the same to ultimate consumers are known as retail traders. Thus, retailers act as the final link in the channel of distribution.

Role of middlemen :

The middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions such as assembling, grading, packaging, storing, financing, risk-bearing, etc. The role of middlemen in the distribution of consumer goods specifically are as follows:

i) Provide local convenience to consumers: Merchant middlemen like retailers are [located at convenient shopping centres. They provide ready delivery of goods to the consumers at convenient points.

ii) Provide field stocks: me agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not provide stock of their goods in different cities which would be quite a cumbersome activity involving huge investment and management problems.

iii) Financing: The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.

iv) Servicing : They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.

v) Acting as channels of communication : The middlemen are in constant touch with different producers and the market. They can provide feed back about the market to the producers on the one hand and pass on information about the products to the consumers on the other.

vi) Help in promotion ; They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity through any other means. Even otherwise, the middlemen being local people are more effective.

6. How do commercial banks contribute to the economic development of a country ? Explain. 10

Ans: Commercial banks are an important part of the company. They not only provide consumers with an essential service but also help create capital and liquidity in the market.

Commercial banks ensure liquidity by taking the funds that their customers deposit in their accounts and lending them out to others. Commercial banks play a role in the creation of credit, which leads to an increase in production, employment, and consumer spending, thereby boosting the economy.

As such, commercial banks are heavily regulated by a central bank in their country or region. For instance, central banks impose reserve requirements on commercial banks. This means that banks are required to hold a certain percentage of their consumer deposits at the central bank as a cushion if there’s a rush to withdraw funds by the general public.

A key component in the growth of a country's economy, commercial banks are vital to the development of industry and trade. They act as guardians of the country's wealth and resources and enable capital to move to productive assets at the appropriate time.

Commercial banks play a specially crucial role in India since they fuel the country's economic growth while also giving significant insights into financial processes. Banks have long been the engine of India's success, offering financial services to a large population at low costs and satisfying the short- and medium-term credit needs of lakhs of industries, particularly medium and small enterprises (MSMEs).

According to the fundamental structure of the Reserve Bank of India Act 1934, all large banks are classified as commercial. However, under the scheduled bank category, there are additional banking categories such as Small Finance bank, payments bank, and Co-operative bank. The banks are further divided according to ownership into public sector, private sector, foreign, and regional rural banks.

Here are some of the reasons why a commercial bank is essential for any country's economic success, especially a fast-growing one like India:

1. Capital formation - Commercial banks promote savings and investment, which help to eliminate capital deficiency. They then put these resources to productive use, boosting capital formation in the country.
2. Funds transfer - With the help of commercial banks, sending funds to anywhere in India or abroad has become very easy.
3. Wealth creation - By providing consulting and advisory services, bank experts can direct investors to mutual funds or direct investments. The bank can operate as custodian for all investment securities, and provide safety deposit boxes, letters of credit for investment opportunities, as well as act as a trustee for wills and investment funds.
4. Funds transfer - With the help of commercial banks, sending funds to anywhere in India or abroad has become very easy.
5. Financialization of savings - Commercial banks are a safe place to save money in the form of deposits.
6. Growth of entrepreneurship - By providing capital to entrepreneurs and investing in productive purposes, banks encourage self-sufficiency, reduce joblessness and promote the right industries.
7. Trading functions - Commercial banks are permitted to operate as market makers for municipal, government, and corporate bonds. Banks can provide issuers with counseling, advisory, and technical direction through their market-making activities.
8. Credit creation - Apart from increasing the money in circulation, bank deposits also make their way to industries, to help them create productive assets. This credit has a multiplier effect on the economy.

7. State the merits and demerits of government participation in business. 10

Ans: The government controls the private enterprises on one hand and directly participate in the business on the other. Government today is engaged in various types of business undertakings. There are several types of services which are provided by government organisations such as electricity, water, postal, telecommunications, transport services, etc.. Besides these organisations, there are many manufacturing industries owned and managed by government. They produce steel, locomotives, machine tools, watches, railway coaches. telephone equipment, and so on. Government undertakings are also involved in the supply of consumer goods like milk (through government milk schemes), bread (Modem Bakeries), cloth (National Textile Corporation), etc.

The reasons for the direct participation of government in business and industry may be divided into three categories:

i) basic reasons

ii) ideological reasons

iii) specific reasons.

i) Basic reasons: The government of India was rightly convinced that political independence without economic independence would not have much meaning. It was, therefore, decided to industrialise the country in a big way as early as possible.

The government felt that if the private sector was to take the initiative. it would take an unduly long time to achieve this objective of rapid industrialisation. It was so because the private enterprises lacked adequate entrepreneurship and resources to start large scale ventures.

The government encouraged private enterprises to set up new industries, but also, went into industry in a big way.

It was decided to establish steel plants. fertilizer factories and other units necessary for industrial and agricultural growth. The following is a list of some major enterprises and power projects set up by the government within a decade of Independence- Steel Plants at Rourkela, Bhilai and Durgapur, Indian Telephone Industries.

The intention of the government was to have economic self-reliance in as many areas and as early as possible.

ii) Ideological reasons: Apart from the economic and social consideration, the government had strong ideological commitment to the philosophy of public ownership of the means of production.

iii) Specific reasons: There are many other reasons for the government to participate in business. These are specific to a particular decision. Some of these are listed below.

* Air Transport Business: Till 1953, there were many private air companies in the country. Most of these were financially unsound and had no money to invest in modem and costly aeroplanes, The air transport is of strategic importance to the country. The government, therefore, nationalised nine air companies and created Indian Airlines Corporation and Air India International Corporation in 1953.

* Commercial Banks: The government today is in the banking business in a big way. Over 90% of commercial banking is in the hands of the government. The government rightly wanted the banking system to serve the developmental needs of the economy in conformity with national policy and objectives. It also wanted the banks to have new criteria for advancing loans in order to benefit the weaker sections of the society.

* Oil Industry: In the 1970's the foreign oil companies Burmah Shell, Caltex and Esso were nationalised. Here the objective was that the government should have control over a critical and strategically important resource like oil.

* Various Other Types of Business: There is yet another important reason for the government going into business of various types. Over one hundred cotton textile mills and dozens of engineering and other enterprises have been taken over by the government since Independence. This is done because the government cannot afford to lose production capacity which exists in the units which become sick and which the private sector wants to close down.

From the above, we can conclude the reasons for participation of Government as:

i) The government's role in business in India is greatly justified by economic and social reasons.

ii) Had the government not initiated a large number of industrial activities, the Indian economy would never have got the sound base and self-reliance which it has today.

iii) A large number of enterprises have been forced on the government when they became sick and they could not be allowed to be closed down due to social and economic reasons.

iv) There is an element of ideology in the role which the government has in business today. Had the ideology not been there, the government would have disengaged itself from at least some of its business activities after completing its role as path finder or initiator.

v) The government continues to be in business in a big way because of ideological as well as economic and social considerations.

Demerits of Government participation in Business:

Public enterprises are owned and managed by the government or agencies set up by the government.

- Even though public enterprises are often registered as joint stock companies like any other private sector companies, their way of working is not fully commercial. It is so because these enterprises being close to the government system, often adopt the procedures, practices and attitudes prevalent in government departments.
- Most public enterprises show poor performance due to surplus manpower! and low productivity of the personnel, almost at all levels, particularly so at lower levels.
- Public enterprises are very large in size as compared to private enterprises. Of the first 20 largest industrial enterprises in the country (in terms of assets), not leis than 16 are public enterprises. The complexity of managerial problems increase in geometric progression with increase in size. The public enterprises, by and large, have not been able to adequately cope with their complex managerial and administrative problems.
- The Board of Directors of public enterprises are not fully professional. Often there is no continuity in the job of the top men.
- There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.
- The system of reward and punishment in public enterprises more often resembles that in the government than in similar private enterprises.