June 2020

ECO-01 Business Organisation

Part A

1. Attempt any four of the following:

   Differentiate between:

   (a) Business and commerce

Ans:

Business	Commerce
Business refers to all those activities which are done with the aim of earning profits.	Commerce refers to all activities which facilitates the exchange of goods from producer to end consumer.
Huge amount of capital is needed.	Requires less capital.
It is a connectivity between owner and client.	It is connectivity between producer and consumer.
Business is a wider concept.	It is just a part or a subset of business.
It focuses on planning, advertising, selling, marketing, accounting and supervising manufacturing.	It focuses on buying and selling part of a business

(b) Capital market and money market

Ans:

Capital Market	Money Market
A marketer including all institutions, organisations, and instruments providing medium and long-term funds is known as a capital market.	A market for short-term funds that is meant to use for a period of upto one year is known as Money market.
The participants of capital market are banks, financial institutions, foreign investors, ordinary retail investors from public, and public and private companies.	The participants of money market are banks, financial institutions, foreign investors, and public and private companies. However, ordinary retail investors from public do not participate in this market.
The capital market deals in securities of medium and long term.	The money market deals in securities of short-term with a maximum tenure of one year.
The securities that comes under the capital market are considered liquid. It is because of the stock exchange. However, these securities are less liquid as compared to the instruments of money market.	Money market securities are highly liquid.

The instruments of a capital market are riskier. The investors may face the risk in return as well as principal repayment, as the companies issuing the securities may fail.	The instruments of a money market are less risky or safe as they are used for a short period of time and also because of the soundness of the issuers.
The expected return of a capital market is higher. It is because along with regular interest or dividend, the investors have chances of capital gain.	The duration of money market is short; therefore, the expected return here is less.
Companies approach capital market when they need fixed capital.	Companies approach money market when they need working capital.
Transactions involving procurement of funds and supply of funds which take place among individuals and various organisations may be regarded as the capital market.	Transactions involving borrowing and lending of money for short periods for which again there is not definite place set aside in a town
Shares, debentures,bonds,retained earnings etc.	Treasury bills, Commercial papers, Certificate of deposit, trade credit etc.

(c) Intensive distribution and exclusive distribution

Ans: Intensive distribution (also called Mass Distribution) is where a company supplies their product to all markets (essentially they are found everywhere). These products can be found in almost every place a person shops(grocery stores, gas stations, supermarkets, etc.).Intensive distribution aims to provide saturation coverage of the market by using all available outlets. For many products, total sales are directly linked to the number of outlets used (e.g., cigarettes, beer). Intensive distribution is usually required where customers have a range of acceptable brands to choose from. In other words, if one brand is not available, a customer will simply choose another.

This alternative involves all the possible outlets that can be used to distribute the product. This is particularly useful in products like soft drinks where distribution is a key success factor. Here, soft drink firms distribute their brands through multiple outlets to ensure their easy availability to the customer.

Hence, on the one hand these brands are available in restaurants and five star hotels and on the other hand they are also available through countless soft drink stalls, kiosks, sweetmarts, tea shops, and so on. Any possible outlet where the customer is expected to visit is also an outlet for the soft drink.

Exclusive distribution is, essentially an extreme modification of selective distribution. Companies are far more selective with where their product can be purchased at. Exclusive distribution uses one distributor for entire region.

Exclusive distribution is an extreme form of selective distribution in which only one wholesaler, retailer or distributor is used in a specific geographical area.

When the firm distributes its brand through just one or two major outlets in the market, who exclusively deal in it and not all competing brands, it is said that the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek a high prestigious image.

Typical examples are of designer ware, major domestic appliances and even automobiles. By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries price, promotion, credit inventory and service policies. The firm also hopes to get the benefit of aggressive selling by such outlets.

(d) Government Enterprise and Public Limited Company

Ans: There are certain differences between a government enterprise and public limited companies. They are as follows:

i. Paid-up capital : In the case of a government company not less than 51%of the paidup share capital is held by the central government or by the state government or jointly by the central or one or more state governments. There can be any combination of the shares owned by the central and state governments. But the total paid-up capital owned by one or more governments should be 51% or more, to make it a government company. It may be noted that there are a few government companies which have private participation in the equity. In the case of non-government companies, major share of the paid-up capital is held by the private individual.

ii. Auditor appointment : The auditor of a government company is appointed by the government on the advice of the Comptroller and Auditor General of India (CAG). He is also empowered to direct the auditor about the manner and method of auditing. Sometimes, the CAG himself carries out the audit of government companies under the Companies Act. The Auditor of a non-government company is appointed by the General Body of the company.

iii. Annual reports : The annual reports along with audit reports of government companies are laid before Parliament if it is a central government company, and before the state legislature in case of a state government company. In case of a non-government company, the audit reports are laid before its General Body.

iv. Provisions of the Companies Act : Central government has the power to exempt any provision of the Companies Act from applying to a government company except the provisions regarding audit. But, central government has nothing to do with regard to the provisions of the Companies Act relating to a non-government company.

(e) Super market and Departmental store

Ans: A departmental store is a large-scale retail store in which there are several departments each selling a particular type of product. The departments are like separate retail shops operating in the same building. On the other hand, A Super-market is a large-scale retail store which offers for sale a wide P variety of consumer good of regular use.

All kinds of consumer goods are sold in departmental stores. But perishable goods, like vegetables, fruits, bread, butter, milk, etc., are not sold in these stores. To attract customers, the departmental store also provides a few services and facilities like hair-cutting saloon, beauty parlour, restaurant, reading room, telephone, toilets, and even recreation ' - facilities. Contrarily, the articles sold in a super market may include stationery, toiletry, dress materials, ready-made garments, toys, grocery items, crockery, kitchen utensils, medicines, as well as bread, butter, meat, eggs, fruits! vegetables, etc.

In a super-market the products sold are generally low priced, fast-moving items of daily need. Durable goods like refrigerators, electric fans, radio, television, etc., are not available in super-markets. A departmental store mostly concentrates on consumer' durables and fashion goods.

In a departmental store there are separate counters served by salesmen, whereas super-market operates on a self-service basis.

Customers are not provided with services and facilities like hair-dressing, recreation, etc., in a supermarket. These may be available in large departmental stores, although not in every such store.

The items are placed in separate stalls in the same building, or kept on shelves or tables in a hall in the case of super market. Whereas in a departmental store, the departments are like separate retail shops operating in the same building.

(f) Equity shares and preference shares.

Ans: Difference between Equity shares and Preference shares:

Equity Shares	Preference Shares
Equity shares are ordinary shares of a company that represent ownership of the company.	Preference shares are ones that carry preferential rights in terms of dividend payment and repayment of capital.
Equity Shares are the shares that carry voting rights and the rate of dividend also fluctuate every year as it depends on the amount of profit available to the company.	**Preference Shares** are the shares that do not carry voting rights in the company as well as the amount of dividend is also fixed.
Equity shares cannot be converted into preference shares.	Preference shares could be converted into equity shares.
Equity shares are irredeemable	preference shares are redeemable.
Equity shareholders are at high risk in comparison to preference shares.	In comparison to equity shareholders, the risk is low in the case of preference shares.
In the case of equity shares, the dividend rate is not fixed. The rate of dividend on these shares depends on profits available and the discretion of directors.	Dividend is payable on preference shares at a fixed rate and is payable only if there are profits.
Equity shareholders are entitled to receive bonus stocks from the company.	Preference shareholders are not entitled to receive bonus shares.
Lower costs of equity shares make them easily accessible to any investor, specifically a small investor.	Higher costs of preference shares makes them accessible to medium and large investors.
It is mandatory for companies to issue equity share capital.	It is not mandatory for every company to issue preference share capital.
Equity shares serve as means for long-term financing.	Preference shares serve as means for mid-term and long-term financing.

Part B

2. Mention various prerequisites for deciding an ideal form of Business Organisation? 10

Ans: Features of an ideal form of business organisation are :

i) Ease of formation: An important factor for preferring a particular form of organisation to another is the ease with which a business can be brought into existence. The comparative ease of difficulty in forming a particular form of organisation mainly depends on three factors: {i) formation expenses by way of registration fee, stamp duty, fees of legal experts, charges involved in the drafting of documents, obtaining licenses, etc., (ii) legal formalities, and (iii) procedural delays, etc. Unless necessary, it is better to go for an organisation which is easy to form.

ii) Scope of raising capital: The choice of organisation mainly depends on the amount of capital required which is determined by the nature of business and the scale of operations. Ideal form of organisation is one which provides scope for raising the amount of capital as and when required. For example, the amount of capital needed will not be much for opening a retail shop in groceries than to set up a sugar factory.

iii) Extent of liability: limited liability is considered as an important feature of a good form of organisation.

iv) Flexibility of operations: : The form of organisation should be very flexible and adaptable to changing business conditions without much difficulty or complication. For example, if you want to expand your business, diversify or modernise the plant and equipment, the organisalion should be able to meet all requirements.

v) Stability and continuity: Stability and long life of business is desirable from the point of view of owners, employees, and customers. Employees always prefer a stable and continuous employment. If the business is stable, the owner should be able to formulate plans for the future and to make investments paying for a considerable length of time.

vi) Effectiveness of management: The success of any business enterprise depends on the efficiency of management. Managerial efficiency depends on skills, motivation, flexibility, adaptability, etc. It is difficult for an individual to possess all these qualities.

vii) Extent of government control and regulations: If the governmental control and regulations are too many, the enterprise may have to divert a lot of time, money and energy for complying with legal formalities and instructions. In some cases there may be too much interference by the government officials in the day-to-day business of the firm. But too much governrllent interference is not favoured by the entrepreneurs because it mars their initiative and disrupts the working of their business.

viii) Business secrecy: In business, it is important to maintain business secrets without leaking them out to competitors. Therefore, a form of organisation which enables ,retention of business secrets is preferred to the one wherein business secrets are difficult to preserve.

Factors affecting the choice of form of business organisations:

1) Nature of business: Choice of a suitable form of organisation is dependent on the nature of the proposed business. The organisational requirements are different for different types of business. For example, a big cement manufacturing activity and a retail cement shop cannot have the same form of organisation. Similarly, the form of organisation suitable for a textile mill is not suitable for a tailoring shop.

2) Volume of business: The expected volume of business also influences the decision about the suitable form of organisation. If the volume of business is small, you need small amount of capital and run less risk. In that case sole proprietorship may be quite suitable. But if the volume of business is large, you need more capital and runs more risk, which a single owner may find it difficult to cope with. So, partnership form or a company form would be considered more suitable.

3) Area of operation: The area of operation of the business also influences the choice of form of organisation. If the area is limited and confined to a particular locality, the suitable form of organisation may be sole proprietorship. If the area is widespread, the suitable form may be a joint stock company.

4) Desire for control: The extent of control and supervision will also determine the choice of organisation. If it is desired to have a direct control over the business operations, a sole proprietorship or a partnership form of business should be adopted. In case if you feel that there is no need for direct control, the company form of organisation is the best.

5) Capital requirements: The form of organisation will also depend on the extent of financial requirements of the business. A business which requires a small amount of capital can be organised on sole proprietorship or partnership basis. But if the financial requirements are huge, then the joint stock company form of organisation may be preferred.

6) Extent of risk and liability: You know business operations involve risk. If the promoters of a business enterprise are deterred by the risk involved, they will start the business on the basis of a limited liability. That means they can go for a company. In case they have capacity to bear the risk involved, it can be organised on sole proprietorship or partnership basis.

7) Government regulations: Governmental controls and regulations are more in company form and cooperative form of organisations compared to the remaining two forms. If you do not want too much government control and regulation, you should choose either sole proprietorship form or partnership form.

3. What is 'Capital Structure'? What are the various factors determining the capital structure? 5+5

Ans: The proportion of fixed interest-bearing capital in the total capital is known as capital gearing. The capital is, thus, said to be highly geared if borrowed. capital is, proportionately very high in relation to the ownership capital. Correspondingly, low gearing of capital signifies a smaller proportion of borrowed capital compared with the ownership capital. The composition of the total capital consisting partly of long-term funds with fixed charge and partly of ownership funds is known as the capital structure. Thus, capital structure refers to the relative proportion in which various sources of long-term finance are used to meet the total financial requirements, like debentures and long-term loans, preference share capital, and equity capital (including reserves and surplus).

Factors determining the capital structure of a firm are:

1.Nature of the business: If a company is engaged in business activities in which sales are subject to wide fluctuations, it is desirable to have a smaller proportion of borrowed funds. Companies manufacturing televisions, refrigerators, machine tools and capital goods are normally subject to fluctuations in sales from time to time. Companies dealing in essential consumer goods of daily use are products having inelastic demand generally have stable earnings, and thus may depend to a greater extent on borrowed capital.

2. Characteristics of the company: The size of a company as well as its credit standing also determines the extent to which equity or debt capital should be raised. Small firms have to depend more on owners' funds as it is difficult for them to raise long-term loans. This is because investors consider lending to small firms to be riskier. In contrast, large companies must make use of different sources of raising funds as no single source can meet their total financial requirements. Normally investors prefer to lend money to large companies as they believe that their money is safe and the risk is less with big business firms.

3. Cost of finance: Since interest paid on borrowings is chargeable to profits before tax calculation, the cost of debt financing is inevitably lower than the expected rate of earnings (i.e., profitability) on equity capital. Hence, it is always beneficial to raise part of the total financial requirement through long-term loans. With lower cost of debt financing, the overall (average) cost of financing is reduced, and the return on equity capital is higher. This is one of the important determinants of the capital structure.

4. Flexibility of capital structure: The capital structure decision is usually made by management keeping in view their ability to adjust the sources of funds. The scope of changing the capital structure in future happens to be a basic consideration. For instance, in case additional funds are needed, a firm which is already financed with heavy debt may be forced to issue equity shares with a higher cost of finance involved. Or, again if funds raised are to be refunded on account of declining business, a firm may be unable to do so if it earlier relied heavily on equity capital.

5. Availability of cash (cash flow): The ability of a business to discharge its fixed obligations depends essentially on the availability of liquid cash. Profits earned may be adequate to cover the fixed charges arising out of debt, but the firm may not have sufficient cash to pay as the income gets continually invested in the form of more inventory, book debts or even purchase of equipment. Hence, besides profitability, it is necessary to estimate the cash flows before deciding on the proportion of debt in the capital structure.

6. Expected earnings in relation to interest charges: Another factor determining debt-equity ratio is the estimated coverage of interest by profits. If the average earnings of the company are expected to be three to four times the amount of interest payable on borrowed capital, it may be considered safe to raise long-term loans rather than equity capital. Three to four times coverage of interest by earnings is regarded as a reasonable assurance that interest payment would be possible even if profits decline substantially.

7. Effect of debt financing on the earnings per equity share: The effect of debt on the rate of return on equity (or earning per share) is known as 'trading on equity' or 'leverage effect', Thus in business ventures with assured prospect of rising income, there is greater emphasis on debt capital in the capital structure.

8. Management control: Promoters who had major shareholding and control the management of the company take into account the probable effect of raising funds through the Issue of equity shares. Equity shareholders having voting rights can influence the policy decisions of the company or the selection of directors. But the persons who give loans do not have any right to elect directors or to participate in the management of the company. Hence the existing management group, in order to retain their control over management, prefer to raise additional finance through the issue of debentures and preference shares.

4. Write short notes on any two of the following: 5+5

(a) Distinction between Entrepreneur and Intrapreneur

Ans: An entrepreneur is defined as a person who establishes a new business with an innovative idea or concept. An employee of the organisation who is authorised to undertake innovations in product, service, process, system, etc. Is known as intrapreneur.

An entrepreneur is intuitive in nature, whereas an intrapreneur is restorative in nature.

An entrepreneur uses his own resources, I.e. man, machine, money, etc. While in the case of an intrapreneur the resources are readily available, as they are provided to him by the company.

An entrepreneur raises capital himself. Conversely, an intrapreneur does not need to raise funds himself; rather it is provided by the company.

An entrepreneur works in a newly established company. On the other hand, an intrapreneur is a part of an existing organisation.

An entrepreneur is his own boss, so he is independent to take decisions. As opposed to intrapreneur, who works for the organisation, he cannot take independent decisions.

This is one of the salient features of an entrepreneur; he is capable of bearing risks and uncertainities of the business. Unlike intrapreneur, in which the company bears all the risks.

The entrepreneur works hard to enter the market successfully and create a place subsequently. In contrast to intrapreneur, who works for organisation-wide change to bring innovation, ctreativity and productivity.

(b) Factoring

Ans: The amounts due to a company from customers on account of credit sale generally remain outstanding during the period of credit allowed i.e., till the dues are collected from the debtors. By this arrangement the responsibility of collecting the debtors' balances is taken over by the bank on payment of specified charges by the company. This is a method of raising short-term capital and known as 'factoring'. It helps companies to secure finance against debtors' balances before the debts are due for realization, and incidentally also helps in saving the effort of collecting the book debts. The disadvantage of factoring is that customers who are in genuine difficulty do not get the facility of delaying payment which they might have otherwise got from the company.

Factoring is a source of finance for small businesses. Factoring is a financial transaction between a business owner and a third party that provides instant cash to the former in exchange for the account receivables of the business. Account receivables are an asset belonging to the business, but they are generally sold at a discount, since the third party will agree to pay cash only if it is making some profit in the bargain. The discount obviously reduces the profit the small business may have made, but it gets the money needed to continue operations. Factoring is not a loan, but a sale of invoices of the business. It falls in the same category of financial instruments as forfeiting and invoice discounting, all of which enable small business to raise funds. Factoring involves the sale of all the receivables of the business and is a firm based operation.

It helps companies to secure finance against debtors' balances before the debts are due for realisation, and incidentally also helps in saving the effort of collecting the book debts. The bank charges payable for the purpose is treated as the cost of raising funds. Keeping in view the risk of bad debts, the amount to be made available by banks is calculated so as to provide for a margin for non-realisation of debts. The disadvantage of factoring is that customers who are in genuine difficulty do not get the facility of delaying payment which they might have otherwise got from the company.

(c) Foreign sources for raising capital

Ans: Funds can be collected from foreign sources which usually consist of:

i) Foreign collaborator

ii) International financial institutions

iii) Non-resident Indians(NRIs)

i) 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.

ii) 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: a) The World Bank, and b) International Finance Corporation.

a) 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.

iii) 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.

(d) Arguments against advertising

Ans: Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of criticism. The opponents of advertising say that the expenditure on advertising is a social waste as it adds to the cost, multiplies the needs of people and undermines social values. The proponents, however, argue that advertising is very useful as it increases the reach, brings the pay unit cost of production down and adds to the growth of the economy. It is therefore, important to examine the major criticisms against advertising and see the extent to which these are true. This is taken up as follows:

1. Adds to Cost: The opponents of advertising argue that advertising unnecessarily adds to the cost of product, which is ultimately passed on to the buyers in the form of high prices. An advertisement on TV, for a few seconds, for example, costs the marketers several lakhs of rupees. Similarly, an advertisement in print media say in a newspaper or a magazine costs the marketers a large amount of money. The money spent adds to the cost, which is an important factor in fixation of the price of a product. True, advertisement of a product costs lot of money but it helps to increase the demand for the product as large number of potential buyers come to know about the availability of the products, its features etc. and are persuaded to buy it. The increased demand leads to higher production, which brings with it the economies of scale. As a result, the per unit cost of production comes down as the total cost is divided by larger number of units. Thus, the expenditure on advertisement adds to the total cost but the per unit cost comes down which in fact lessens the burden of consumers rather than adding to it.

2. Undermines Social Values: Another important criticism of advertising is that it undermines social values and promotes materialism. It breeds discontent among people as they come to know about new products and feel dissatisfied with their present state of affairs. Some advertisements show new life styles, which don’t find social approval. This criticism is not entirely true. Advertisement in fact helps buyers by informing them about the new products, which may be improvement over the existing products. If the buyers are not informed about these products, they may be using inefficient products. Further, the job of an advertisement is to inform. The final choice to buy or not to buy anyway rests with the buyers. They will buy if the advertised product satisfies some of their needs. They may be motivated to work harder to be able to purchase these products.

3. Confuses the Buyers: Another criticism against advertisement is that so many products are being advertised which makes similar claims that the buyer gets confused as to which one is true and which one should be relied upon. For example, we may note similar claims of whiteness or stain removing abilities in competing brands of detergent powder or claims of whiteness of tooth or ‘feelings of freshness’ in competing brands of toothpaste that it is sometimes confusing to us as to which one to buy. The supporters of advertisement, however, argue that we are all rational human beings who make our decisions for purchase of products on factors such as price, style, size, etc. Thus, the buyers can clear their confusion by analysing the information provided on the advertisements and other sources before taking a decision to purchase a product. However, this criticism cannot be completely overruled.

4. Encourages Sale of Inferior Products: Advertising does not distinguish between superior and inferior products and persuades people to purchase even the inferior products. In fact, superiority and

inferiority depends on the quality, which is a relative concept. The desired level of quality will depend on the economic status and preferences of the target customers. Advertisements sell products of a given quality and the buyers will buy if it suits their requirements. No advertisement should however, make false claim about the quality of a product. If a firm makes a false claims it can be prosecuted for the same.

5. Some Advertisements are in Bad Taste: Another criticism against advertising is that some advertisements are in bad taste. These show something which in not approved by some people say advertisements showing women dancing when not required or running after a man because he is wearing a particular suit or using a particular perfume are certainly not good. Some advertisements distort the relationship like employer employee and are quite offensive.

6.Advertising leads to monopoly: Small competitors find it difficult to enter the market due to advertising. This is because large firms create hurdles in their way.

7.Advertising causes undesirable social effects: Certain social effects can be. there due to advertising like it influences the materialistic values and life styles of people in society, certain sex and, horror appeals are used in order to draw the consumers attention, it creates frustration and disappointment when a person cannot purchase and enjoy a particular product.

8. Advertising results in inefficient resource allocation: Advertisements are intended not so much for the benefit of consumers. They are mainly directed to influence the consumer demand to fit whatever has been produced. In other words, advertisements are aimed mainly to change the tastes of people so that they will buy whatever is manufactured. This leads to distortion in consumption expenditure and increases the producers market power. Thus, advertising indirectly determines what people should consume. In this process productive resources i.e., land, labour and capital, may not be used in the best interest of the society.

9. Advertising may act against the freedom of press: Mass media earn huge income from advertisements. If the media are dependent on income from advertisements sponsored by few large business firms, it may be difficult to disseminate information in public interest when it is unfavourable to those big business firms. Big sponsoring firms can threaten the media owners by refusing their advertisements and dictate what media have to do. Thus, the financial dependence of media on advertisements may act against the freedom of press.

5. What do you understand by 'Bank'? Explain various types of banks. 4+6

Ans: Bank is an institution which deals in money. Banks accept surplus money from those who are not needing it immediately and lend it to those who need it.

A bank must perform two essential functions: 1) acceptance of deposits from public, and (2) lending or investing the same.

The distinguishing features of a bank as follows: .

- Acceptance of deposits of money from the public
- Profitable employment of such funds

- Obligation to refund deposits on demand
- Lending or investing money
- Banking as the main business.

Besides receiving deposits and lending or investing funds, the banks also perform various subsidiary services such as collection of cheques, drafts and bills, collection of interests and dividends on securities, making payment on behalf of his customers, remittance of funds, discounting the bills of exchange, acceptance of valuables for safe custody, etc.

Types of banks:

On the basis of their functions, we can classify banks as follows:

Commercial Banks: Commercial banks are the oldest institutions having a wide network of branches throughout the country. A commercial bank is a monetary institution which serves the interest of its depositors by utilising their funds in profitable ventures and provide a variety of services to its customers. Commercial banks may either be owned by the Government or may be run in the private sector. Besides deposit mobilisation,.the commercial banks provide not only short-term loans but also medium and long term loan to trade and industry.

Co-operative Banks: Cooperative banks are private sector banks. A cooperative bank is a voluntary association of members for self help and caters to their financial needs on a mutual basis. These banks are also subject to control and inspection by the Reserve Bank of India. Such banks get their resources from their shares, public deposits and also loans from the state cooperative banks. They also get short and medium term loans from the Reserve Bank of India. To enhance public confidence in cooperative banks, the Reserve Bank of India has extended the Credit Guarantee Scheme to cooperative banks.

Land Development Banks: These banks provide long term credit to agriculture for purposes such as pump sets, tractors, digging up wells, land improvement, etc. These banks raise their resources mainly by flotation of debentures, subscribed by the State Bank Group, commercial banks, LIC and by RBI. These banks grant loans to farmers against the security of their land. The land development banks cannot be strictly called banking institutions because they are not required to mobilise deposits and not to maintain cash reserve ratio.

Regional Rural Banks: The main objective for setting up of the RRBYs was to provide credit and other facilities, especially to small and marginal farmers, agricultural laborer's, artisans and small entrepreneurs in rural areas. The RRB's are sponsored by scheduled banks, usually a nationalised commercial bank.

Industrial Banks: These banks have come up to promote rapid industrial development. Such banks provide medium and long term loans to industrial sector. They also do underwriting of public issues by corporate sector and guarantee. They render other services like identification of suitable projects, preparation of project reports, providing technical advice and managerial services, raising standards of management, etc. We have a number of such banks in India, namely, Industrial development Bank of India (IDB), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India Ltd. (ICICI), Industrial Reconstruction Bank of India (IRBI), etc.

Central Bank: Every country has a Central Bank of its own. It is called a Central Bank because it occupies a central position in the monetary and banking system of the country and is the highest financial authority. 1t is the apex bank and the statutory institution in the money market of a country. In India, Reserve Bank of India is the central bank. The main function of this bank is to regulate and supervise the whole banking system in the country. It is a banker's bank and controller of credit in the country. It has the sole right of note issue. It is a lender of last resort and custodian of foreign exchange of the country.

6. Explain sea transportation. Tabulate its classification based on area of operation? Mention its procedure? 3+3+4

Ans: Water transport in general may be classified as: (1) river and canal transport by boats and steamers i.e. inland waterways, and (2) sea or ocean transport by ships.

In the case of inland water transport, loading and unloading of goods can be arranged by setting up private jetties on the route. For instance, transport of jute takes place along the Hooghly river for jute mills in the Calcutta industrial area. The cost of transport is relatively lower than road or rail transport. However, it is a slow moving means of transport. Natural calamities like rains, floods and droughts make inland water transport unreliable. Its limited use is due to the limited areas served by waterways.

Transportation by sea and Ocean is most useful in coastal areas and for international trade. Rail and road connections do not exist between many countries and sea transport is the only means for imports and exports.

For overseas transport, two types of vessels are available: (1) Liners which undertake regular voyages between ports according to a fixed schedule and itinerary, and (2) Tramps which do not have any fixed schedule or itinerary of voyages, but move from port to port and undertake transportation of goods as per agreement with the shippers.

Sea transport is the cheapest mode of transport particularly for heavy and bulky goods. However it is so suitable, even though cheap, for the fast movement of goods. None the less, it is indispensable for trade between countries which are separated by seas.

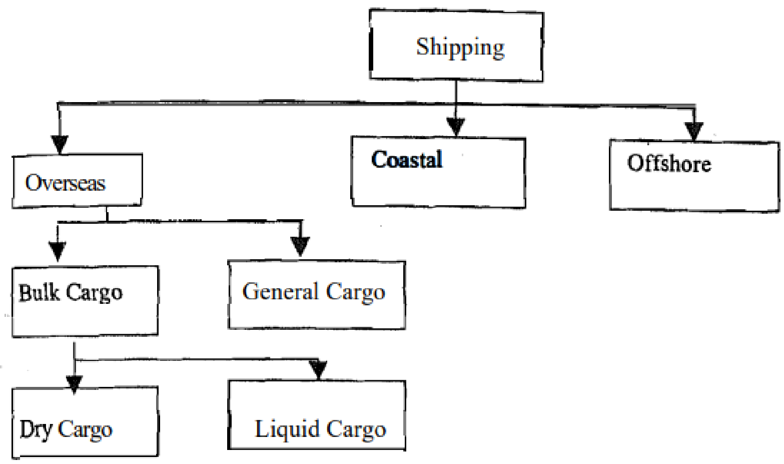
Advantages :

Transportation of goods by sea or ocean is relatively more economical for bulky goods to be carried over a long distance. This is because there is no necessity of constructing or maintaining! tracks on sea routes. Countries with a long coast line as India, can also make use of sea transport for movement of goods by coastal shipping.

Disadvantages:

Although sea transport is the only means of transporting goods economically where land connections do not exist between countries, it is a relatively slow-moving means of transportation as compared with air transport or land transport. Moreover, seas and oceans in some parts of the world e.g., in Northern Europe (Scandinavia), North America, etc., are not navigable round the year, Although modem devices have made such waterways navigable, but it is more expensive.

Classification based on area of operation:



Shipping can be broadly divided into three segments viz., coastal, offshore and overseas. The coastal shipping segment encompasses the movement of cargo between different ports belonging to the same country. The offshore shipping segment is limited to the supply of manpower, spares and necessities to offshore installations. The overseas shipping encompasses import and export of merchandise between different countries. This overseas segment can be further divided into two categories as bulk cargo which is concerned with the movement of commodities in bulk and general cargo which involves in the movement of various items in various quantities. Bulk Cargo is further divided into: (1) dry bulk cargo which includes dry commodities like grain, coal, iron ore, etc. and (2) liquid cargo which includes liquids like crude oil, diesel, furnace oil etc.

Procedure:

i. Whenever goods are desired to be transported by sea, it is essential for the consignor to enter into a contract with shipping company. This is known as a contract of affreiglltrnent whereby the shipping company agrees to carry goods, and there is hiring of space in a ship for transportation of cargo of the consignor as per terms and conditions laid down in the contract. When the contract of affreightment involves hiring of a ship or a part of it for a particular voyage or for a specified period, it is known as Charter Party. If it is for a particular voyage, the contract is known as voyage Charter, whereas if it relates to a specified time period, it is known as Time Charter.
ii. Having booked the cargo to be carried, the shipper obtains a 'Shipping Order' from the shipping company or its agent. This is an order hereby the captain of the ship is asked to receive on board the ship specified goods from the shipper.
iii. At this stage, to comply with customs formalities, you have to fill up Shipping Bill in triplicate and submit to the customs office, which scruitinizes the Bill and passes an order for export of the goods. Then you have to pay warfare at the office of the port trust upon which a Customs Export Pass is issued to the, shipper.
iv. You have to deliver the goods at the dock and receive Dock's Receipt. When the goods are loaded, the Shipping Order and the Shipping Bill are to be handed over to the Mate, the captain's assistant. After checking the number of packages and packing, the Mate issues a

receipt to the shipper, known as the Mate's Receipt which is an acknowledgement of receipt of the goods specified in it on board the ship.

v. The Mate's Receipt is a provisional receipt which has to be produced at the office of the shipping company for obtaining the Bill of Lading. This is a document which is issued by the master of the ship or the ship owner or an agent, stating that the goods mentioned in it have been taken on board the ship for transportation as per terms and conditions specified in it. The Bill of Lading, besides being an acknowledgement or receipt of the goods, also serves as a contract of affreightment and as a document o title to the goods. It is freely transferable by delivery, with or without endorsement, and the transferee, as a holder in due course, obtains a valid title to the goods.
vi. A freight note is then sent to the shipper giving details of the freight payable on the consignment plus a charge for supervision of the loading, known as primage. Payment of the amount may be arranged by the shipper. However, if the freight is to be paid by the consignee, the Bill of Lading is marked 'Freight Forward'.
vii. When the consignor (exporter) has shipped the goods, he sends an advice note to the consignee (importer) intimating the date of shipment and the probable date by which the ship is likely to reach the port of destination. The exporter also draws a bill of exchange on the importer for the full amount as per the invoice of the goods sent. Along with the bill of exchange, exporter also sends the invoice, bill of lading, insurance policy, etc. These are forwarded to a branch or agent of the exporter's bank, with the instruction that the documents may be handed over to the importer either on acceptance or payment of the bill of exchange.
viii. When the ship has reached the port of destination, the importer has to arrange payment of the freight, if it has not been already paid by the shipper. The shipping company that makes an endorsement on the back of the Bill of Lading which is known as 'Endorsement for Delivery'.
ix. At the same time, a Bill of Entry giving details of the goods is prepared by the importer in the form supplied by the customs authorities for payment of customs duties, if the goods are dutiable. He is also supposed to pay Port Trust dues and obtain a receipt.
x. Delivery of goods is finally obtained when the above formalities have been completed and the documents of title to the goods are surrendered.