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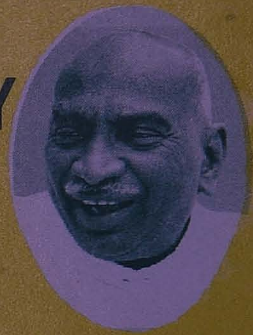

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PART - III

LESSONS 1-16

PRE FOUNDATION COURSE

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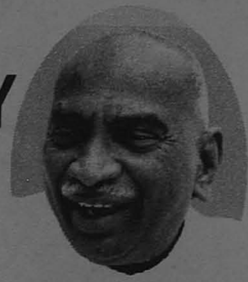

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PART - III

LESSONS 1-16

PRE FOUNDATION COURSE

Printed by **AMUTHACHAKAM**, Madurai16. 800 Copies

SYLLABUS

PREFOUNDATION - COMMERCE

Unit I - Commerce and Economic Activities - Branches of commerce, Transport, Warehousing, Banking, Insurance and Advertising.

Unit II - Kinds of Commerce - Whole Sale, Retail - Types of Whole Sale and Retail organizations and its kinds and duties.

Unit III - Internal and International Trade - Definition - Features - Advantages and Disadvantages.

Unit IV - Need for Banking - Meaning of Bank - Kinds of Banks - Functions of Commercial Banks - Definition of Money - Functions of Money.

Unit V - Important Transport Methods.

Unit VI - Meaning of Insurance and Principles of Insurance.

PREFOUNDATION COURSE

SCHEME OF LESSON

Lesson No :

1. Introduction.

2. Branches of Commerce.

3. Banking

4. Types of Business - Sole Trading business, Partnership business.

5. Joint stock Company

6. Whole Sale trade

7. Retailers.

8. Consumer Co - operative Stores.

9. International Trade.

10. Money

11. Classification of Banks.

12. Functions of Commercial Banks.

13. Functions of Central Bank.

14. Transport.

15. Water Transport.

16. Insurance.

OPEN UNIVERSITY SYSTEM

PREFOUNDATION COURSE EXAMINATION, MAY 1986

Part III - Commerce

(New syllabus)

Time : Three hours. Maximum : 100 marks.

Part - A 4x5=20 marks.

Answer any four questions

Answer should not exceed five lines

All questions carry equal marks.

1. What are branches of commerce?

2. What is Sole Trade business?

3. State the features of partnership.

4. What are the features of sole proprietorship ?

5. What is international trade?

6. Who is called as wholesaler?

7. What is Insurance?

Part B (3x10=30 marks)

Answer any three questions

Answer should not exceed fifteen lines.

8. Explain the importance of Money.

9. What is Memorandum of Association and how does it differ from Articles of Association?

10. Explain the functions of Retail Traders.

11. Explain the advantages of Partnership business.

12. Explain the types of partners.

13. Explain the advantages of Ship Transport.

Part C (4 x12 ¹/2=50 marks)

Answer all questions

Answer should not exceed two pages.

8. Explain the principles of Insurance.

9. What are the advantages and disadvantages of advertising?

16. Explain the various types of banks.

11. Compare Sole trader with Partnership business.

OPEN UNIVERSITY SYSTEM

PREFOUNDATION COURSE EXAMINATION, MAY 1986

Part III - Commerce

(For those who joined in July 1984 and later)

Time : Three hours. Maximum : 100 marks.

Part - A (4x5=20 marks.

Answer any four questions

Answer should not exceed five lines

All questions carry equal marks.

1. What are branches of commerce?

2. What is Demand Draft?

3. State any three names of nationalized banks.

4. Who is called Wholesaler?

5. State the importance of Transport in Commerce

6. What are the features of Sole Trading business?

7. What is Excise Duty?

Part B (3x10=30 marks)

Answer any three questions

Answer should not exceed fifteen lines.

8. State the important functions of Money.

9. What are the differences between Current account and Savings bank account?

).What are the functions of Wholesaler and Retailer?

. Compare the Sole Trading Business with Partnership business.

!. Explain the Principles of Insurance.

13. Does the International Trade help the Internal Trade?

Part C (4 x12 ½=50 marks)

Answer all questions

Answer should not exceed two pages.

8. Explain structure of Co - operative banks and its functions.

9. Explain the importance of advertising?

16. How Water Transport helps to Commerce?.

11. Explain the rights and duties of Partners in Partnership business.

LESSON - 1

INTRODUCTION

In olden days, goods were exchanged for goods. Production was restricted to domestic consumption. As human wants are unlimited, mass production is carried out, Due to the growth of civilization and standard of living of the people, business activities were developed. As a result of living of the people, business activities were developed. As a result of this, money as a medium of exchange has come into existence. All business related activities have shown tremendous growth. Business activities are classified into industry and commerce. Here commerce includes trade and aids to trade such as transport, banking, insurance, warehousing, advertising etc.

DEFINITION OF COMMERCE :

J. Stephenson defines Commerce as "the sum total of those process which engaged in the removal of hindrances of person, place and time in the exchange of commodities"

Evelyn Thomas defines commercial activities as, “activities dealing with the buying and selling of the goods and distribution of finished products form the producers to the customers".

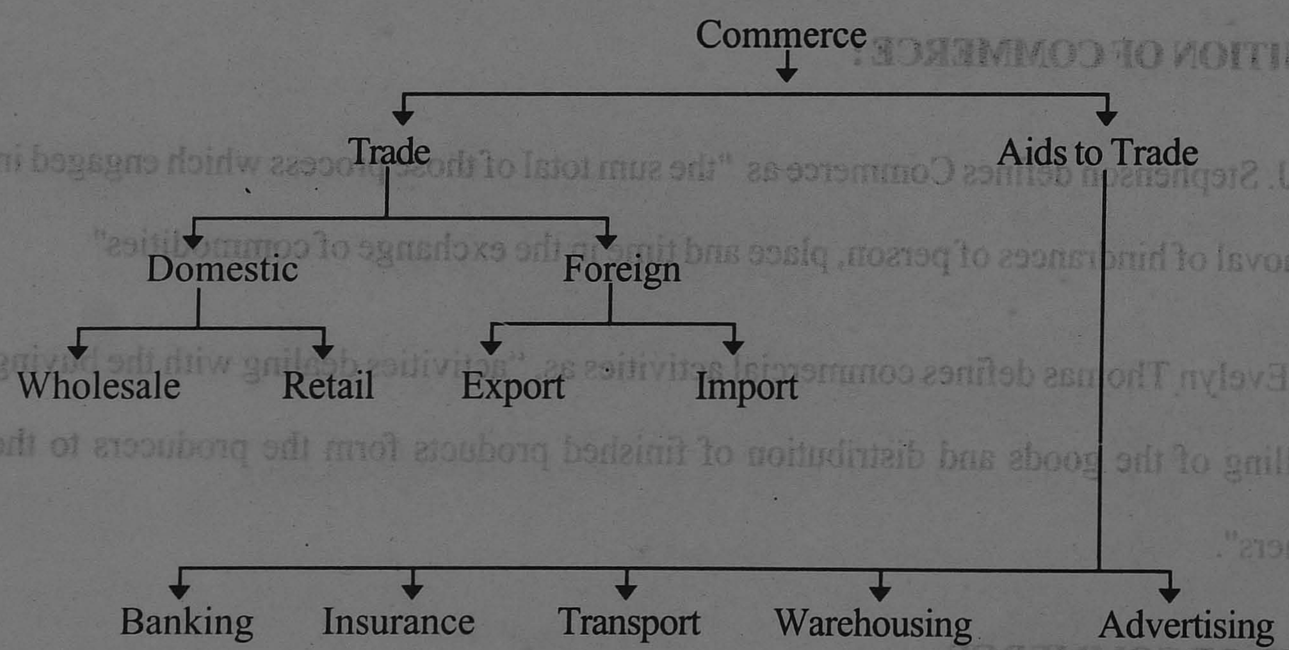
WHEEL OF COMMERCE :

In modern world we are enjoying a very happy life and good standard of living because of the development of Commerce. Commerce provides all the things we require to lead a happy life.

Commerce refers to all those activities, which are necessary to bring goods and services from the place of their origin to the place of their consumption. Commerce includes trade and aids to trade. The aids to trade consist of Services such as :

- Transport
- Banking
- Insurance
- Warehousing
- Advertising and
- Communication

The following figure explains the types of Commerce.



Commerce and Economics

There is a close relationship between Commerce and Economics. Economics is the base for Commerce. So many scientist and teachers says that economics is the mother of commerce.

The following are the activities are carried out by the human beings to fulfill their needs. They are as follows:

- Production
- Exchange
- Distribution
- Consumption

So economic is the analysis of above said four points. Commerce is considered as the part of economics. Commerce is concerned with not merely buying and selling but also facilitates a smooth flow of goods and services from the producers to consumers and form one place to another place.

The combination of two basic economics division is called Commerce. They are

- Exchange
- Production

Apart from above said two economic divisions, Commerce includes some sub commerce units like

- Banking
- Transportation
- Insurance
- Cash and cash payment methods and
- Warehousing

Basic Components of Economics

The need of Human beings is the base for introduction of Commerce. The following are the four important components.

- Scarcity
- Diversity
- Problem of Product Demand
- Division of Labour

Scarcity

The basic human needs are divided into three; they are Food, Cloth, and shelter. To fulfill these needs goods and services are required. There are no required natural resources to fulfill the human needs, because human wants are unlimited. So, available natural resources are integrated and used properly. Commerce is very much helpful for shifting surplus natural resources to scarce place of natural resources.

Diversity

Natural resources are different from one place to another place, all the resources are not available in one place. It is purely based on the climatic condition of the nation. For example paddy cultivation in Tamil Nadu is more when compared to Kerela. So where the product is available more which is shifted to scarcity affected areas.

Problem of product Demand

As we already mentioned earlier, human wants are unlimited and they try to fulfill other needs apart from basic needs. Due to this necessity, the demand is also increased, so it creates problem in demand.

Division of Labour

Natural resources and climate condition is differ from place to place, so the nature of work is also differ from place to place. This creates a situation to shift the product from one part of the country to another part.

The above said economic factors are the base for commerce. So without economics there is no commerce. Therefore commerce and economics is the base for one another.

LESSON 2

BRANCHES OF COMMERCE

Producers are few in numbers and are separated from millions of consumers. Producers cannot deal directly with each and every consumer. So the producer and consumer do not know each other. This difficulty is known as hindrance. This hindrance is removed by commerce. It has many branches in itself. They are :

- Trade
- Transport
- Warehousing
- Bank
- Insurance
- Advertisement

In this lesson we shall see the first three types of classification in detail.

Trade

Trade means buying and selling of goods for money. There are two persons included in trade namely, buyer and seller.

Generally trade may be classified into two. They are:

a) Home Trade

b) Foreign Trade

What is Home Trade?

Home trade is one, which is carried on within the boundaries of a particular country. It consists of buying and selling of goods within the country. In this case, both the buyer and seller belong to the same country.

Eg: Mangoes grown in Andhra Pradesh are sold in Tamil Nadu. Wheat grown in Punjab is sold in Tamil Nadu.

Foreign Trade

Foreign trade is a trade between two countries. It involves the exchange of goods of one country with other countries. It is generally, carried out by large business houses. Eg: Petroleum products of Gulf countries are sold in India.

Types of Foreign Trade

Import Trade

Import trade means buying goods from a foreign country for domestic use. Eg: India imports Petroleum from Saudi Arabia.

Export Trade

Export trade means sale of domestic goods to foreign countries. Eg: Export of Iron ore India to Japan

Entrepot Trade

Entrepot trade means importing of goods from one country and exporting the same to other foreign countries. The country which carries on this trade is acting as collecting and distributing centre for certain special facilities like large bonded ware houses, assembling and value addition facilities.

Transport

Meaning

The word 'transport' is derived form the Latin word 'transportare' which comprises of two expressions, viz., 'trans' which means 'across' (or the other side) and 'portare' means to carry'. In short transport means carrying from one place to another. Very few people actually produce the goods they require and they obtain such goods by giving money in exchange for them. But the question is about the availability of goods at the right time and place. This responsibility is ably shouldered and discharged by transport.

In a wider sense, the term 'transport' includes all the clerical, mental and manual occupations involved in the operation of road, rail, canal, sea and air transport. In a restricted sense, however, it denotes the services of these various forms of transport. They aid commerce by conveying goods from the places of their production or origin to innumerable places of consumption at the right time they are wanted. Goods have no use unless they made available at a place where and when they are wanted. They are said to acquire place and time utilities when they made available at right place and right times. Transport is, thus an integral part of commerce. Simply, transport is a means to carry men and materials (except pipelines, which carry liquid materials) from one place to another resulting in creation of place and time utilities.

Types of Transport

Transport system can be classified in different ways depending on the types of transport, the ways and means of transport and also the motive power used in transport.

Transport can be divided into three important types:

a. Land - Road Transport

b. Water - Water Transport

c. Air - Air Transport

TRANSPORT

ROAD TRANSPORT	WATER TRANSPORT	AIR TRANSPORT
a. Pack animals	a. Canal and River Transport	
b. Bullock carts	b. Ocean Transport	
c. Motor lorries and buses		
d. Tram ways		
e. Railways		

Functions of Transport

1. It increases the efficiency of production
2. It stimulates wants by increasing quantity and variety of consumer goods
3. It develops and expands the market
4. It helps specialization and mass production

5. Transport increases the mobility of labour and capital

6. Transport aids economic growth

7. Transport helps price stability.

Warehousing

Warehousing is one of the functions of marketing. The place where the goods are stored is called as warehouse. The term "ware" means products. Storage or godown is generally located near the factory to keep the raw material and finished products. Storage is only a holding place. Whereas, the warehouse is located near the market to perform the other marketing functions such as grading, standardization, blending, mixing and packing etc. Therefore, we may say that a warehouse holds goods as a distribution center. The development of science and technology has improved the ways and means of storage.

Meaning of warehouse

It is defined as a place specially suited for storage for a particular commodity. In common parlance, warehouse means warehouse means godown. According to Stephenson "a warehouse is an establishment for the storage or accumulation of goods". It is a place where the goods are stored for future use.

Kinds of Warehouses

Generally, warehouses can be classified into the following types:

1. Private Warehouse:

These are owned by private persons store their own products. Large scale manufactures, wholesalers, and bio stockiest have their own warehouses at different distributing centers in order to maintain the regular supply of goods with dealers and others. All expenses and risk involved in storing the goods are borne by them. Only the large and steady sales volume holders find it economical in maintaining such warehouses.

3. Public Warehouse :

These are started to provide storage services and facilities to the retailers, wholesalers, and stockist and even to the general public. These warehouses impose rental charges for the space used and service charges for providing services such as inspection packing, shipping and invoicing the goods. These are constructed at strategic places where rail and road transportations are available.

3. Co- operative Warehouse:

These are organized to provide warehousing facilities to members and others. Co-operative warehouses are formed by such person who would like to become its members. Its efficiency depends upon the full utilization of space, self-less management, loyalty of the members and resources.

4. Bonded Warehouse:

These types of warehouses are licensed by the government and are permitted to accept the goods under bond. The imported goods awaiting clearance are kept in these warehouses till the duty is paid. The goods will be delivered only after payment of the duty. These types of warehouses are situated near the ports.If the government owns the bonded warehouses the customs authorities will have direct control over the warehouses. The owners of the goods are allowed to inspects, bottle, brand and blend the goods.

5. Cold Storages:

The products are to be stored in cold storages, which uses the technique of refrigeration to extend the period of marketing. For example: Perishables such as fruits, vegetables, fish, meat and eggs etc., are stored for future consumption.

6. Household Warehouses:

These are small storage places used for meeting the requirements, of small family wherein the surplus goods are stored. In villages, the agriculturalists store their produce in small rooms for meeting their consumption. These are all called household warehouses.

Advantages of Warehousing

The following are the advantages of warehousing :

1. Warehousing safeguards the stock of the merchants who do not have storing place.
2. Warehouses reduce distribution cost of the traders by storing the goods in bulk and allow the traders to take the goods in small lots to his shop.
3. Warehouses near the market help the customers to take out the goods at a lower cost.
4. Some warehouses provide indirect financial assistance to the traders. For eg: bonded warehouses provide facilities to release the goods proportionately after getting the dues in installments.

5. Warehouses stabilizes the prices of the goods by effecting the movement of the goods.

6. It helps in the selection of channel of distribution. For eg. Manufacturer will prefer to appoint a wholesaler or retailer who has his own warehouse.

7. It assists in maintaining the continuous sales and avoids the possibilities of "out of stock position.

LESSON -3

BANKING

Introduction

Banking is considered to be the nerve center of trade, commerce and business in a country. It plays a vital role in distributing the money for the development of trade, industry and commerce.Therefore we may say that banking is the lifeblood of modern commerce. Bankers are not only dealers in money but also leaders in economic development of a country.

Need for Banking

A sound banking system is necessary to achieve the following objectives.

1. Savings and Capital formation
2. Canalization of Savings
3. Implementation of Monetary Policy
4. Encouragement of Industries
5. Regional Development
6. Development of Agriculture and other neglected sectors

Meaning of Bank

In simple words is an institution, which deals in money and credit.

1. According to Herbert L. Hart "A banker is one who in the ordinary course of his business honours cheques drawn upon him by persons from and for whom he receives money on current accounts".

2 .According to Banking Regulation Act "Banking means the accepting for the purpose of lending or Investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise".

Features of Banks

From the above definitions the features of a bank may be listed follows:

1. Acceptance of deposits of money from the public.

2. Obligation to refund deposits on demand.

3. Lending or investing money for promotion and development of business.

4. Profitable employment of funds received as deposits from the public.

5. Money is withdrawable by cheque or draft.

In 19th July 1969, fourteen banks were nationalized. Again in March, six banks were nationalized. Apart from this State Bank of India and its seven subsidiary banks are functioning now.

INSURANCE

Introduction

Every business is exposed to different types of risks such as fire, theft, burglary, accident, etc. Some of the risks can be transferred to specialized institutions known as Insurance companies. Insurance is nothing but socialization of risks. Insurance companies indemnify the loss of the insured.

Necessity of Insurance

Insurance is the best protection against risks attached to business, property and life. Business involves many risks. There is always the danger of goods being damaged or destroyed while they are on transit or when they are kept in godowns. This loss arising on account of fire, accident, theft, etc., is reduced largely by gathering the goods insured. Like business, human life is also exposed to many risks. A family generally depends on the income brought in by the bread winner, but when a death suddenly occurs, the family may be left in every difficult situation. Uncertainty is inherent in human life. Insurance substitutes this uncertainty by providing financial compensation.

Meaning

Insurance is based on principles of Co-operation. The losses of a few are shared by many. An Insurance company, otherwise called the insurer organise this co-operative effort. Insurance is a contract between the insurer and insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against. In consideration the insured agrees to pay premium regularly. The person whose risk insured is called the insured or assured. The person who agrees to compensate the loss arising form the risk is called the insurer or assurer or underwriter.

Types of Insurance

Generally insurance can be broadly divided into three, they are:

- Life Insurance
- Fire Insurance

- Marine Insurance

The above said three categories are studied in detail at Insurance subject.

Advantages of Insurance

1. Insurance provides certainly
2. Insurance provides protection
3. Risk sharing
4. Prevention of loss
5. It provides capital
6. It improves Efficiency
7. It helps Economic Progress.

ADVERTISING

Introduction

Advertising is a promotional activity for marketing a commodity. In the present day world of mass production and distribution, advertising serves as a powerful tool in the marketing machinery. Different producers manufacture similar types of goods. They have tough competition in the market. Every producer is trying to create demand for his product. Advertising helps the manufacturer to increase his sales or maintaining his market. It is only through proper advertising a new product can be introduced in the market.

Meaning and Definition

The world 'Advertising means a non-personal stimulation of demand for a product. It is the activity through which visual or moral messages are addressed to the general public. Advertising aims at influencing the public to buy goods or services. The purpose of advertising is to create a desire for the products among the consumers. Advertisement carries a convincing message about the availability, utility and superiority of a commodity.

Merits of Advertising

The merits of advertising may be stated as follows:

Benefits to Manufactures

1. Advertising increases sales volume of product. Mass production leads to reduction in the cost of production and thus increases profit.

2. It helps easy introduction of products into the markets.

3. It helps to create an image and reputation not only of the product but also of the advertiser.

4. Retail price maintenance is possible.

5. It helps to establish a direct contact between manufacturers and consumers.

Benefits to Consumers

1. Advertising gives information about the price and quality of commodity. It guides a consumer to choose the product.

2. It helps them to know where and when the products are available. It reduces their shopping time.

3. It provides an opportunity to the consumers to compare the merits and demerits of various substitute products.

4. It increases the utility of given commodities for many people.

5. Modern advertisements are highly informative.

Benefits of Community or Society

1. Advertising leads to large-scale production creating more employment opportunities to various people directly and indirectly.

2. It stimulates the consumers to buy new variety of goods. It helps to uplift the standard of living of the people.

3. It gives more income to press. It leads to availability of newspapers at a cheaper rate.

Media of Advertising

Media is a device through which an advertising message is conveyed to consumers. Proper selection of a medium is necessary to achieve the desired results. Any wrong or careless selection is likely to result in wastage of efforts and money.

In selecting a suitable medium, the following factors are to be taken to consideration.

1. The characteristics of the products

2. Funds available for advertising

3. Nature of the market (i.e.) different segments

4. The degree of competition

5. Medium to be adopted

6. Coverage of the Medium

7. Size of the advertising

8. The probable cost of advertising

9. The nature of product and position in the market.

Media of Advertising

The media of advertising may broadly be classified into Ten types. They are:

1. Indoor advertising

2. Outdoor advertising

3. Direct advertising

4. Promotional advertising

5. Web advertising or Internet advertising

6. Radio advertising

7. Television advertising

8. Film advertising

9. Exhibition

10. Window Display

Advertisement Copy

It is a copy which is prepared by the producers about their products and published it for the purpose of giving information about their products to the public is called Advertisement Copy.

Objectives of Advertisement Copy

1. To initiate the public to see the advertisement
2. To initiate the public for hearing the advertisement
3. To inform the products feature and
4. To initiate the public to purchase the product.

Features of Advertisement Copy

The following are the features of Advertisement Copy

1. Attention Value
2. Suggestive Value
3. Memorising Value
4. Conviction Value
5. Sentimental Value
6. Educational Value
7. Instinctive Value

LESSON-4

TYPES OF BUSINESS - SOLE TRADER

Introduction

Forms of business organization can be divided into two main types on the basis of ownership viz., corporate form and non- corporate form. In the corporate form, the legal entity of the enterprise is distinct from that of its owners i.e., the ownership is separated from its management and the owners cannot take direct control over the business.

But in a non-corporate form, the enterprise and its owners are considered as having the same entity i.e., the ownership and business are not separated. Owners can have direct control over business. Non-corporate business may be organized either as a sole proprietorship or as a partnership or as a joint hindu family business. In this chapter the meaning, features, merits, demerits, suitability and social responsibility of sole trader business are discussed in detail.

Meaning

A sole trader-ship is the oldest form of business organization. It is easy and simple to organize. It is found in each and every country in the world. This type of organization has not lost its utility even today. Sole proprietorship is a form of organization in which an individual invests the entire capital, uses his own skill and is solely responsible for the result of his business. He may borrow money and employ assistants. But he alone owns and controls the business and bears it profit and loss. The only legal formality is to get a licence from the local authority viz, municipality, panchayat etc., for running certain type of business. It is also known as individual proprietorship or one-man business. The person who contributes capital and manages the business is called as sole trader of sole proprietor.

DEFINITION

1. According to P.K. Ghosh and Y.K. Bhushan, "The sole proprietorship is a form of organization in which an individual introduces his own capital, uses his own skill and intelligence, and is entirely responsible for the results of its operations.

2. Dr. O.R.Krishnaswami has defined the sole trader form of organization as "a business carried on by a single person exclusively by and for himself".

MERITS

1. Easy Formation
2. Direct Motivation
3. Flexibility
4. Retention of Business Secrets
5. Quick Decision
6. Higher reward
7. Effective Control
8. Increase in Sales
9. Smooth running of Business
10. Inexpensive Management
11. Higher Credit Rating
12. Self-Employment
13. Development of Personality
14. Equal Distribution of Economic Wealth
15. Easy Dissolution
16. Better Co-ordination

DEMERITS

1. Limited capital
2. Limited Managerial Ability
3. Unlimited Liability
4. Short Life
5. Hasty Decisions
6. Lack of Specialization
7. Uneconomic Size
8. Lack of Consultation
9. Uncertainly
10. Risk of Entire Loss

PARTNERSHIP

Introduction

The need of partnership form of organization arose form the limitations of sole proprietorship. In sole proprietorship, financial resources and managerial skills are limited. One man cannot supervise personally all the business activities. Moreover, risk-bearing capacity of an individual is also limited. It is at this stage that a need for associating more persons arises. Hence more persons are associated to form groups to carry on business.

In partnership form of organization comes into existence in two ways. It may come into existence either as a result of expansion of the sole trading concern or two or more persons joining together through an agreement to form a partnership. In other words, it is an extension of sole trading concern.

History reveals that the partnership organization was started with the enactment of Partnership Act in 1907 in England. In India, the Act was approved in 1932. The Act governs the formation, management and control of various partnership firms in the country. A number of partnership enterprises are seen in market today. Examples of partnership firms are: running a cinema theatre, a book shop, chit funds etc.

DEFINITION OF PARTNERSHIP

According to the Section of Indian Partnership Act of 1932, partnership is "the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all."

In the words of Prof. Haney, "partnership is the relation existing between persons, competent to make contracts, who have agreed to carry on a lawful business in common with a view to private gain".

According to Dr. William R. Spriegel, "partnership has two or more members, each of whom is responsible for obligation of the partnership. Each of the partners may bind the others and the assets of partners may be taken for the debts of the partnership".

In the words of Kimball and Kimball, "A partnership or firm as it is often called, is thus a group of men who have joined capital or services for the prosecuting of some business".

Partnership may be defined as, "that form of business organization in which, partners agree to share the profits of a lawful business, managed and carried on either by all or by any one of them acting for all".

PARTNER, FIRM AND FIRM NAME

Persons who enter into partnership are individually called "Partners" and collectively "a firm" and the name under which the business is carried on is called "firm name".

FEATURES OF PARTNERSHIP

The following are the main features of partnership firm.

1. Agreement

A partnership is created by an agreement. The agreement may be oral or in writing. It is better to put it in writing to avoid misunderstanding in future.

2. Multiplicity of Person

Partnership is the relationship between two or more persons. So, there must be more than one person. The maximum number of partners has been limited to 10 in the case of banking business and 20 in the case of other business.

3. Contractual Relation

The relation that exists between the partners in a partnership is said to be contractual and not natural relation arising out of mutual love and affection. According to Indian Partnership Act, "the relation of partnership arises from contract and not from status". Only persons legally capable of making an agreement can become partners. Lunatics, insolvents cannot become a partner.

4. Lawful Business

Partnership is formed to do a business. Business means any trade or occupation of profession. [Eg. partnership of chartered accountants, partnership of lawyers, general stores etc.] The Business must be legal i.e.., not against any law in force in the country. A partnership to smuggle goods from one country to another is illegal.

5. Sharing of Profits

The profit or loss of partnership is shared by the partners in the ratio as given in the agreement. Normally profit or loss is shared according to the capital contribution of partners. But sometimes the partners may agree that a particular partner need not share nay loss. If there is no agreement regarding sharing of profit of loss, all the partners share equally.

6. Agency Relationship

There must be agent and principal relationship between the partners. Every partner is a proprietor as well as an agent of the firm. The business of the firm may be carried on by all or any of them acting for all. Partnership is, therefore, described as an extension of the 'Principle of Agency'.

7. Unlimited Liability

The liability of partners is unlimited. Each and every partner has unlimited liability for business debts. If the assets of partnership are not sufficient to repay all the business debts in full, the private assets of all the partners can be used to settle the debts. Therefore, a partner's liability for business debts is not limited to his contributed capital. But the unlimited liability of a partner is also joint and several.

8. Joint and Several Liability

The liability of partners is joint and several. The creditors of partnership firm can claim their dues from the private assets of all the partners taken together or they can take action against the private properties of any one of the partners to get back their dues.

9. No Separate Legal Entity

A partnership firm has no separate legal entity. The firm and the partners are one and the same. A collective name of partners is known as "firm". No firm can exists without partners. The rights and liabilities of the partners are the rights and liabilities of the firm. Management and control of the firm vests with the partners who are also the owners.

10. Implied Agency

Each and every partner is considered to be an agent of the business. Unless otherwise agreed, all the partners are entitled to take part in the management of the business. Every partner as a agent can bind the firm by his acts done in good faith and on behalf of the firm. This is known as the implied authority of partnership.

11. Utmost Good Faith

The basis of partnership business is good faith and mutual trust among the partners. Each and every partner should act honestly and faithfully in the conduct of business. They must render true account and complete information regarding the conduct of the business. No partner can make any secret profit. Distrust and suspicion among the partners may lead to the failure of firms.

12. Non-Transferability of Interest

No partner can transfer his interest or sell his share to any other person without the consent of all other partners. This is based on the principle that a partner, being an agent himself, cannot further delegate his authority unilaterally to others.

13. Registration

In India the registration of partnership firm is not compulsory. It is only optional. If it is registered, it can enjoy certain advantages. A firm can be registered any time.

ADVANTAGES

The following are the advantages of partnership form of organization.

1. Easy Formation

A partnership firm is very easy to form. No formal documents are required to be prepared as necessary in the case of Joint Stock Company. A simple agreement among the partners is sufficient to start a partnership firm.

2. Registration not compulsory

A partnership firm is relieved of registration because registration is not compulsory. It is left to the discretion of the partners.

3. A Larger Financial Resources

As a number of partners contribute to the capital of the firm, it is possible to collect larger financial resources than the sole proprietorship. Creditworthiness of the firm is also higher because every partner is personally and jointly liable for the debts of the business. Larger resources give greater scope for the expansion of business.

4. Greater Managerial Talent

The Partners may be assigned duties according to their talent. Different functional departments may be managed and controlled by different partners. The talent and experience of partners will help to increase the efficiency of the business resulting in more profit.

5. More Credit Standing

The Partners may have sufficient contacts in the market. They can offer more guarantees to the financial institutions of obtain loans. The liability of partners being unlimited, they will be able to raise more finance. As compared to sole trading business, partnership concern has more credit worthiness.

6. Quicker and Better Business Decisions

In partnership, there are many partners. Every partner has the right to be consulted. Hence business problems can be thoroughly discussed and the best decisions can be arrived. "Two or more persons are better than one". Partners meet often and take decisions promptly. Thus it avoids taking hasty business decisions.

7. Sharing of Risk

The risk in a business is shared by more persons. The burden of every partner will be much les as compared to the burden of sole trader. Further, the business expansion will not be hampered for fear of risk.

8. Relationship between Reward and Work

The Partners work hard to earn more profits. There is a direct relationship between hard work and reward. The more they work the more will be reward.

9. Protection of Minority Interest

All important matters connected with the business are decided only by unanimous agreement of all the partners. So the majority of partners cannot disregard the interest of the minority partners. Thus minority interest is well protected.

10. Flexibility

By mutual consent the partners can change the nature of business easily as they like. So business can always be responsive to changing needs. Its price policy, capital, profit sharing ratio etc. can be changed easily.

11. Close Supervision

Wastages can be avoided as the partners themselves look after the business. They have direct access to the employees and can encourage them for more production. The management of partnership is much cheaper as compared to a joint stock company where experts are paid high salaries.

12. Easy Dissolution

The Partnership can be easily dissolved on insolvency, lunacy or death of a partner. If the partnership is at will, then any partner can get the firm dissolved by giving a notice to other partners. No legal formality is required at the time of dissolution.

13. Better Human and Public Relations

Presence of more number of partners helps to develop personal touch with this employees, customer, government and the public. Cordial relationship with the employees, customer, government and the public. Cordial relationship with the public helps to enhance the goodwill of the firm.

KINDS OF PARTNERS

There are different kinds of partners classified on the basis of managerial interest, profit sharing, behavior and status. They are as follows.

1. Active partner

A Partner who takes active part in the management of the partnership firm is known as active or working or managing or general partner. His liability is unlimited.

2. Sleeping Partner or Dormant Partner

The partners who merely contribute capital and do not take active interest in the conduct of the business of the firm are called sleeping or dormant or financial partners.

3. Nominal or Ostensible Partner

He is partner who neither contributes capital nor takes any part in the management of the firm. He lends his name to used as partner in the business to increase the reputation of the firm. They are not eligible for a share in the profit. They are also liable to the creditors for the debts of the firm.

4. Partners in Profit Only

A person who shares the profit of a firm but does not share the loss is called "Partners in profit only". Usually he has no voice in the management of the firm. But his liability to third parties is unlimited.

5. Partner by Estopped

A Person may not be really a partner in the business. But by his behavior he makes outsiders believe that he is a partner in the business. Then, he is liable to such outsiders who advance money to the firm or enter into a contract under such false belief. Such a person is known as "Partner by estoppel". He cannot later on deny that his is not a partner.

6. Partner by Holding out

When a person who is not really a partner in a business, is described as a partner to others, then he must at once deny it when he comes to know about it. If he keeps quiet, then he is liable to other persons who do business with that partnership believing that he is also a partner. Such a person is called partner by holding out.

7. Secret Partner

Secret partner is one whose name is not disclosed to outsiders. The position of secret partner lies between active and sleeping partner. He can take part in the working of the business. He is not known to the public as a partner. He has the same rights and liabilities as that of other partners.

8. Sub-Partner

When a person makes an arrangement with a partner to share his profit, he is known as a sub-partner. Such a sub-partner has no rights against the firm, as he is not liable for the debts of the firm.

9. Minor as a Partner

A minor is a person who has not completed 18 years of age, where a guardian is appointed by a court, and his age of majority extends to 21 years. Legally, a minor cannot become a partner because he is incapable of entering into a contract. He may, however, be admitted to the benefits of partnership with the consent of all partners.

The position of a minor partner may be studied under the following two heads.

a) Position before attaining majority

i) He has a right to share the property and profits of the firm as may have been agreed upon.

ii) He has a right to have access to and inspect and take a copy of the accounts of the firm.

iii) His liability is confined only to the extent of his share in the profits and property of the firm. Over and above his capital, he is neither personally liable nor his private properties is liable.

b) Position on attaining majority

On attaining majority the minor partners has decide within six months by giving notice whether he shall continue in the firm or not. If he decided to continue as partner, he becomes liable to the firm from the date, on which he was admitted as minor partner. If he decides not to continue as partner, he is not liable for the debts of the firm after the date of notice.

RIGHTS, DUTIES AND LIABILITIES OF PARTNERS

Generally, the rights, duties and liabilities of partners are laid down in the partnership deed. In case the partnership deed does not specify the rights and duties, the provisions of Partnership Act 1932 will apply. The Act lays down the following rights and duties of a partner.

RIGHTS OF PARTNERS

1. Every partner has a right to take part in the conduct and management of the business.

2. Every partner has a right to express opinion on any matter related to the firm.

3. Every partner has a right to be consulted before taking important decisions.

4. Every partner has a right to inspect and take copy of books of account and records of the firm.

5. Every partner has the right to an equal share in the profits of the firm unless otherwise agreed by the partners.

6. Every partner has the right to receive interest on loans and advances at the rate of 6% per annum.

7 Every partner has the right to be indemnified for the expenses incurred and losses sustained by him in the ordinary conduct of the firm's business.

8. Every partner has an equal right to use the assets of the firm for its business.

9. No new partner can be admitted into partnership without the consent of other partners.

10. Every partner has a right to retire from the firm.

DUTIES OF PARTNERS

The duties of partners can be classified into 1. Absolute duties and 2. Qualified duties.

ABSOLUTE DUTIES

Absolute duties are fixed by law which cannot be violated by partners agreement. These duties are applicable to all partnership.

1. Every partner must act diligently and honestly in the discharge of his duties to the maximum advantage of all partners.

2. Every partner must act in a loyal and faithful manner towards each other.

3. Every partner must act within the scope of the authority entrusted to him.

4. Every partner is bound to share the losses of the firm equally unless otherwise agree.

5. Every partner must indemnify the firm against loss sustained due to his willful negligence in the ordinary course of business.

6. No partner can transfer or assign his interest in the firm to other without the consent of other partners.

7. Every partner must maintain and render true and correct accounts relating to the firm's business.

8. No partner can engage himself in a business which is likely to complete with the business of the firm.

9. Every partner should use the firm's property only for the firm's business and interest.

10. No partner can make any secret profit by way of commission on purchases or sales effected on behalf of the firm.

QUALIFIED DUTIES

Qualified duties given in the Act can be modified by an agreement of partners entered into.

LIABILITIES OF PARTNERS

1. Every partner is liable for the debts of the firm to an unlimited extent, jointly and severally.

2. A retiring partner is liable for all the debts incurred before his retirement.

3. An incoming partner is liable only for the debts incurred by the firm after his admission into the partnership.

4. In case of deceased partner, his legal representatives are liable only for the debts incurred by the firm before his death.

5. In the case of minor partner, he is not personally liable for the debts of the firm. Only his share in the profits and assets of the partnership is liable for the debts of the firm.

6. Every partner is liable to make good the loss that the firm or other partners suffer as a result of his negligence.

LESSON-5

JOINT - STOCK COMPANY

The Company organization grew out of failings and limitations of earlier forms of organizations like the individual proprietorship or partnership on one hand and the highly increased needs large scale industry in the era following the individual Revolution on the other.

Definition

The Joint stock Company is an artificial person created for carrying on some business by association of persons.

The Company may be defined as an artificial person (being association of natural persons) recognized by law, with distinctive name, a common seal, a common capital comprising Transferable shares of fixed value carrying limited liability, and having a perpetual (continous, uninterrupted) succession.

Characteristics of the Company

The following are distinctive characteristics of a company:

1. A company is an artificial person created by Law.

2. It has Common Seal with the name of company.

3. It has continuous existence which is not affected by death, insolvency or retirement of any shareholder or director.

4. Shareholders liability is limited up to their face value of the shares.

5. The Capital of the Company comprising transferable shares or fixed value.

6. It is an Association created for a common purpose.

7. The Management of the Company is vested with Board of Directors.

KINDS OF COMPANIES

Companies may be classified form three different points of view.

1) FROM THE POINT OF VIEW OF INCORPORATION.

a) Chartered Companies : These companies incorporated under a special charter. For example the East India Company, the Chartered Bank of Australlia, India and China, etc. are incorporated by the grant of a special Royal Charter. In India, this form or organization does not exit now because there is no monarchy.

b) Statutory Companies : In this case a special Law or Act is passed to establish the company. This is done only in special cases when it is necessary to regulate the working of the company for some specific purpose. Example of such companies in India are : the industrial Finance Corporation of India, The Air India etc.,

c) Registered Companies : These companies incorporated under the provisions of the Companies Act. The Companies Act, 1956 lays down the procedures by which a company can brought into existence. Anybody who wants to incorporate company can do so by taking necessary steps outlined therein.

2) FROM THE POINT OF VIEW OF LIABILITY :

a) Companies with unlimited liability : In this case, the liability of the members is unlimited as is the case in partnership or sole proprietorship. The members can be called upon to pay an unlimited as is the case in partnership or sole proprietorship. The members can be called upon to pay an unlimited amount (even from their private estate) to satisfy the creditors of the company when it is wound up.

b) Companies with liability limited by guarantee: In this case, the members agree to pay a sum addition to the amount of shares held by them if need arises in order to pay the creditors of the Company. The additional amount payable by the members is laid down in the Memorandum or Articles of Association. This type of company is formed mostly, when the work is of non-profit making nature.

c) Companies with liability limited by Shares : In this case, liability of the members is limited only to the amount of shares held by them. It means that a member can be called upon to pay only the unpaid amount of shares held by him.

3) FROM THE POINT OF VIEW OF PUBLIC INTEREST:

a) Private Company : A Private Company is defined as a company, which by its articles:-

i) Limits the number of its members to 50, excluding those who are its employee or were its employees formally,

ii) Prohibits an invitation to the public for subscription its shares and debentures,

iii) Restricts the transfer of its shares.

b. Public Company : A public company is a company which is not a private Company. Such Company can be formed by minimum of seven persons (as against two in the case of a private company) though there is no maximum limit to its membership laid down by law. It offer its shares to the public at large and is able to collect large sum of money to finance its projects. The shares of public company can be transferred by the members to others without any restriction by the Company.

c. Government Companies : A Company is called a " Government Company" under section 617 of the Companies Act, 1956, if at least 51 per cent of its share capital is held by the Central Government, State Government or Central Government and any number of State Governments.

Distinction between a Company and Partnership Firm: The nature of company organisation can be understood more clearly by comparison with partnership which is also owned by a group of persons but is fundamentally different from it. The two forms of organisation may be distinguished on the following bases:

(i) Formation : A Company is formed through registration under the Companies Act or incorporation in pursuance of an Act of Legislature. A partnership is, on the other hand, an association of persons based on mutual agreement among them, and is not compulsorily required to be registered under the relevant Act.

(ii) Legal status : A company is a distinct legal entity separate from the of the investors contributing to its capital. It may act in its own right without making shareholders liable for it. A partnership has no legal existence apart from its members. That is why the acts of the firm bind the partners, and the acts of individual partners ordinarily bind the firm.

(iii) Members Liability : The liability of the shareholders of a company is limited either to the nominal value of its shares or to the amount of guarantee given by them in case of companies limited by guarantee. The liability of the partners in a partnership concern is however unlimited and the partners are jointly and severally liable for the debts of the firm.

(iv) Duration : A Company enjoys perpetual succession or continuous existence. A Company being an entity different from that of the members, its existence is not affected or interrupted by the change of membership or the death or insolvency of members. The partnership comes to an end by the death, insolvency or insanity of any partner.

(v) Transferability of Shares : The shareholders of a company enjoy perfect freedom to transfer their shares to others without consulting anybody. A partnership being based on a contract requiring utmost good faith, no partner can transfer his interest in the firm to another person without the unanimous consent of all the remaining partners.

(vi) Number of members : There is no maximum limit to the number of members in a public limited company. A partnership can, however, have a maximum of 20 members for ordinary business, and 10 members for banking business.

(vii) Financial resources : A Company raises its financial resources by the issue of a large number shares of small value which is within the reach of an ordinary investor. Debentures may be issued likewise to a large number of investors to raise loan capital for the Company. A partnership depends upon the capital contributed by a small number of partners. It may raise loans from banks of individuals, but cannot approach the investing public at large with debentures which are freely transferable by the subscribers. The resources at the command of a company are generally much larger than those at the disposal of a partnership firm.

(viii) Management : The shareholders who own the capital of a company cannot take part in the management of its affairs. They have to entrust the management to an elected Board of Directors. Every partner in a partnership firm, on the other hand, carries an implied authority to act for the firm and thus enjoys the right to participate in its management.

(ix) Audit of accounts : Under the Companies Act, every company must get its account audited annually by a qualified Chartered Accountant. This is not obligatory for a partnership firm.

(x) Objects and power : The powers and objects of a company are set out in the Memorandum of Association which can be altered only in accordance with the relevant provisions of the Companies Act. The authorised capital of a Company is similarly fixed by the Memorandum of Association and can be increased or decreased only in the manner laid down in the statue. The objects of a partnership firm and rights and duties of individual partners can be changed with the unanimous approval of all partners; so can its capital be altered by mutual consent. There are no statutory requirements in this regard for a partnership firm.

(xi) Statutory regulation : Right from its inception, a company has to comply with numerous and varied statutory requirements. It has no submit a number of returns and reports to the Government from time to time during its life. A Partnership, through governed by a statute in its broad and essential aspects, is relatively free from state control and statutory regulation.

LESSON-6

WHOLE SALE TRADE

Trade can be classified into two broad categories :

1. Home trade 2. Foreign Trade

The Home Trade can be classified into two categories:

1. Wholesale Trade 2. Foreign Trade

WHOLESALERS

The wholesalers are those merchants who act as intermediaries between the primary producers, manufacturers, or importers on one side and retailers or industrial consumers on the other. They generally buy goods and commodities in large quantities with a view to selling them to the retailers who further sell them to individual consumers on a piece meal basis. The wholesalers do not deal directly with individual consumers and do not sell goods on a piece - meal basis. The wholesalers establishment can be described as the link-roads along which goods and commodities move from producers to those who sell on retail basis. From this description, it will appear that a wholesaler does not produce or manufacture commodities or goods himself but works only as a trader engaged only in buying and selling activities. But, in practice, there are cases where the wholesaler combines manufacturing and retailing operations with his main function of buying and selling in large lots. In accordance with the prevalent practice, the wholesalers may be divided into three types;

(i) Manufacturer Wholesalers: Such wholesalers engage in manufacturing activities to some extent. They may, however, not only sell their own products to the retailers but may also make large scale purchases from other manufacturers to meet the demand of the retail traders. In this way, the wholesalers carry a comprehensive stock of goods, increase their turnover considerably, and by their dual role reduce their overhead expenses.

(ii) Retailer Wholesalers : These wholesalers purchase goods in large parcels (say, truck-loads or wagon - loads, etc.,) from the manufacturers and retail them to the consumers through their own shops. In this manner, they combine the twin functions of wholesaling and retailing.

(iii) Wholesalers Proper : The pure wholesalers are, however, those merchants who concentrate entirely on the functions of buying and selling in large lots, and do not engage in the manufacturing or retailing activities. They are also called distributors. Generally, they maintain a warehouse or godown in some well - located part of the city. The goods are collected from different manufactures in these warehouse. The Goods are then sent to the retailers who place orders for them. sometimes the retailers may send their own messengers to procure supplies of goods from them. Some of the pure wholesalers have vans which visit outlying retailers and supply goods to them. The wholesalers rely mainly on trade discounts, rebates or cash discounts granted by manufactures for their gross profits.

The pure Wholesalers may be classified into three categories from the point of view of the specialisation of dealings:

(a) Mill Supply Wholesales : These Wholesalers sell a wide variety of goods required by the manufacturers of mills for the production of consumers' goods for the market. The mail supply houses purchase the requirements of materials and equipment from a large number of producers and keep them in store fro supply to the manufacturers or industrial consumers.

They send their salesmen to the manufacturers in the various parts of the State or Country and advertise their stocks in technical and trade journals to quicken their turnover. These wholesalers are useful on account of the wide range of goods or products they deal in. They are a boon to the small manufacturers who can easily purchase their requirements on credit and can pay for them when the sale proceeds of the goods have been realised.

(b) Single line Wholesalers : These Wholesalers deal in different varieties in a particular line of goods, and sell goods to many types of buyers of such goods. Examples of such Wholesalers are found in hardware wholesalers or paper or cloth wholesalers. The Wholesale establishments of this type are very useful to the retailers who are interested in purchasing a wide variety of products belonging to one particular line of goods. A retailer in paper can hope to get all the possible varieties of paper, Cardboard, cards, etc., at one place. A dealer in electrical goods can similarly collect his requirements of bulbs, wires, plugs, switches, meters, heaters, etc. form an electrical Wholesaler.

(c) Complete line Wholesalers : The complete line of goods required by a particular industry or trade may be offered for sale by complete line wholesalers. The particulars industry or trade may supply all the requirements of hospitals or mining equipments suppliers may try to meet the varied requirements of hospitals or mining concerns. Such Wholesalers are particularly useful to those special buyers who wish to purchase all their requirements from one dealer. Even to the manufacturers they provide good outlets for their products which my be of use to a particulars trade or branch of industry.

Functions : The Wholesaler performs the following important functions of marketing:

(i) Assembling : The wholesaler collects varieties of a product from different manufacturers and keeps them in stock for sale to the retail sellers.

(ii) Dispersion : The products assembled and kept in stock by the Wholesaler are distributed to the retailers who may be widely scattered.

(iii) Warehousing : The goods assembled from manufacturers or producers are kept in stock in warehousing pending their sale to the retailers. The Wholesalers have to make arrangements for the storage of goods in their warehouses.

(iv) Transportation : The Wholesaler has to move the goods from the factories to his own warehouse and from there to the retail stores. As mentioned earlier, he may empicy his own vans for the purposes of movement and distribution of his goods.

(v) Financing : The Wholesaler provides credit facilities to the retailers and thus finances the retails trade.

(vi) Risk - assuming : Having purchased the goods from the producers or manufactures, the Wholesaler assumes the risks arising out of changes in demand and spoilage or destruction of goods in his warehouse.

(vii) Pricing : The price fixed by the Wholesaler is generally the basis on which the retailer determines the price that he will charge from his customers. This can be said more particularly about products.

(viii) Grading and packaging : The task of sorting out different grades of products according to quality and other considerations and packing the goods into smaller lots for retailers is also performed by the Wholesalers.

Services : From the above brief account of the marketing functions performed by wholesalers, it is quite evident that the wholesaler renders invaluable services to the retailers and manufacturers. The more important of these may be recounted here:

To Retailers : (i) A retailer has a large number of customers to deal with and has therefore to keep a wide variety of products in store to cater to their individual needs. It may not be practicable for him to collect such a variety of products from different manufacturers directly. He can, however, buy his requirements as convenient intervals from one or a few wholesalers without much trouble.

(ii) The retailers generally suffer from dearth of capital and storage facilities. It is not possible for them to buy goods in bulk at one time and keep them in store to maintain a steady supply in the market. The wholesaler takes it upon himself to warehouse the goods and release them is smaller lots of retailers who can replace and replenish their stocks easily.

(iii) The Wholesalers generally specialise in a few lines of goods and buy from the producers or manufacturers who, in their opinion, produce the best and the cheapest goods. The advantages of such specialisation are automatically passed on the retailers who make their purchases from them.

(iv) The wholesaler assumes most of the risks connected with marketing. He saves the retailers from such risks as marked fluctuations in prices or spoilage of goods, say, due to natural calamity. As it is, the retailer's risk is confined to the small stocks that he keeps in his shop. The wholesaler has, on the other hand, to bear the brunt of such risks because he has much larger stocks than those of the retailer.

(v) The wholesaler finances the bulk of retail trade by supplying goods on credit. Most of the small retails traders buy goods on credit from the wholesalers and pay them when their customers clear their accounts. In the manner, the wholesalers enable the retailers to trade without much working capital.

(vi) The wholesaler brings to the notice and knowledge of the retailers the new types of gods which are being manufactured. Generally, travelers and salesmen are employed for this purpose. Trade circulars and showrooms also help in this function.

To Manufacturers: (i) The manufacturers gets the benefit of large orders of goods of more or less standard type through the wholesalers. The wholesalers either purchase goods in bulk from the manufacturers of collect orders from the retailers and pass them on to the manufacturers. The manufacturer does not have to take trouble or incur the expense of collecting small orders from a large number of retailers and dispatching small lots of goods.

(ii) By taking over the marketing function from the manufacturer, the wholesaler enables him to concentrate on the problems of production. The manufacturer is saved even from the problem of warehousing large stocks of finished goods, because the goods are despatched to the wholesalers in large lots as soon as they are ready.

(iii) The manufacturers can regulate their production according to the changes in the direction and pattern of demand. Such changes are generally indicated indicated well in time by the orders which the wholesalers place with them. Wholesalers remain the close touch with the retailers and keep themselves informed about the changes in tastes, fashion and demand.

(iv) The wholesalers help the manufactures in maintaining an even pace of production by placing advance orders for periods which are generally characterised by slack demand.

LESSON - 7

RETAILERS

The retailer is the last link in the chain of distribution commencing with the consumer. The word 'retailer' is an adaptation of 'retailer', a French work which means 'to cut' "Evidently, the retail trade was viewed as one that cut off small portions from larger lumps of goods". This is the direct opposite of wholesale which means handling of the whole bulk divided into small parts.

The retailer can easily be referred to as the most important intermediary. Under the present - day industrial set-up mass production is geared to the requirements of the ultimate consumers. Retailers, being directly and intimately in touch with the consumers, occupy a strategic position in the whole system of distribution. Though there is a large variety of retail trading organisations, the basic underlying feature of retails trading in purchase of goods from wholesalers and selling it in small lots to the consumers. Since the retailer is connected with the transfer of goods to the ultimate consumers, he has to deal with people of varied taste and temperaments. He has therefore, to be very tactful in his dealings with customers of different types. His efforts should be to please the customers with the best of personal attention and service possible. In competitive retailing, the retailer may have to extent certain extra facilities (like home delivery service). In short, service is of essence in retails selling.

Functions : Like the wholesaler, the retailer - functioning on a small scale of a large scale - also performs a number of important functions connected with the marketing of products. The more important of them are enumerated here:

(i) Assembling of goods from various wholesales.

(ii) Estimation of consumers demand for these products.

(iii) Selling of products to the needs and requirements of consumers.

(iv) Transportation of products of different kinds from the wholesalers.

(v) Warehousing of goods to hold reserves of stocks and maintain uninterrupted supply of products to the consumers.

(vi) Grading of produce or products which have been left ungraded by the manufacturers and wholesalers.

(vii) Assumption of the risk of loss of goods by fire, theft or deterioration as long as they are not sold away.

(viii) Collecting and interpreting market information.

Services: The importance of retail trading as a channel of distribution has already been underlined to some extent. Some of the important services which a retailer renders to the consumers are:

(i) The retailer keeps ready stock of the products which may be needed every day or any day by the consumers. In his absence, the consumers will have to stock their requirements in their homes. This will be extremely inconvenient and cumbersome.

(ii) The retailer keeps a good assortment of various varieties of a product manufactured by different firms. In this way, he provides a variety of choice to his customers.

(iii) By proper display of new products, as also by canvassing through his sales assistants, the retailer brings new products and new varieties to the notice of the consumers. Thus, the retailer keeps his customers well-informed about trends in the production of different varieties of products.

(iv) The retailer offers free expert advice to his customers abouts the merits and uses of the various products.

(v) The retailer's business depends a great deal on personal service and the various facilities which he offers to his customers Home delivery service, sale on credit, etc., are useful facilities provided by the retailer to the consumers.

Types of Retail Business : There is a perplexing variety of retail trading houses. Judged from the point of view of their place of business they may be categorised as (i) itinerant or mobile retails traders, and (ii) fixed shop retailers. These two broad categories and their divisions may be shown as follows:

(i) ITINERANT RETAIL DEALERS

These are retailers who do not operate from fixed business premises but move from place to place for selling goods in small lots to the consumers. They generally work with a very small capital investment and may not stick to a particular line of business throughout, that is to say, they may sometimes give up dealing in one seasonal product in favour of another when there is a change of season. Some of the important species o this category are described below:

1. Hawkers and pedlers: These petty retailers move from door to door in residential localities to sell their wares.

2. Pavement Shops or Street Traders : These traders generally arrange their wares at busy street corners or pavements of busy streets of the city. In Connaught place of New Delhi, for instance, it is common sight to see small book-shops, fountain pen dealers, and dealers in handbags and other household articles doing flourishing business in the corridors in front of the big shops. Generally speaking, such traders deal only in one particular line of products.

3. Cheap Jack : Such traders generally hire small shops centrally located in residential localities and display their wares there.

4. Market Traders : These traders sell their wares at periodical markets weekly, monthly or annual.

(ii) FIXED SHOP RETAILERS

Unlike the itinerant retailers described above, the fixed shop retailers trade in fixed premises. The choice of such fixed premises has, of course, to be made after a careful consideration of the composition and needs of consumers whose needs are to be catered to. Once, however, the choice is made, a change may involve a considerable deal of loss and wastage. The fixed shop retailers may be divided into two sub groups according to the scale of operation : (i) small - scale shops. (ii) large - scale retail shops. The various types of retails shops belonging to each one of the sub-groups are described below:

SMALL - SCALE RETAIL SHOPS

1. Street Stalls : Such stalls are retails shops organised on a very small scale. The stall is generally located at a street crossing or in the main street. It may take the form of a stand with a table or platform which may be used for keeping the goods. Mostly, inexpensive articles like hosiery, fountain - pens and cosmetics are sold at these stall - holders obtain their supplies mostly from the wholesalers, though they may depend upon the local dealers or suppliers, too, for this purpose. The ownership and the management of such retail organisation generally vest in the same individual who acts as the proprietor, organiser and manager.

2. Second -hand good dealers : Organised mostly as individual proprietorship concerns, the retailers dealing in second - hand goods trade in such articles as clothes, books, furniture and other household wares. The assemble second -hand or used articles from those people who have no use for them any longer as also at public and private auctions. Naturally enough, their customers come mostly from the poorer sections of the society.

3. General Stores : The general merchants, as they are called, generally set up their shops in most of the residential localities. The general stores stock a wide variety of products which will be needed by the local residents quite frequently in the course of their everyday life. They are a great boon to the consumers particularly in the far -fetched localities. In their absence, the consumers would have to run to the central market for such minor purchases as tooth - paste or a pair of shoe laces. Such stores are generally run by sole trader concerns. Sales assistants are generally employed to deal with the customers. In very small general stores, the owner himself deals directly with the customers.

4. Single -line stores : Many of the stores in urban deal not a in a variety of lines of products but in a particular line only. To take examples, a chemist deals in different varieties of chemicals while a cloth dealer sells only cloth though he may stock a number of varieties of cloth. These stores are situated in residential localities as well as central market places. Generally they are organised as individual proprietorships with small amounts of capital investments.

5. Speciality shops : These retail agencies are a specialist form of single line stores. They specialise not in the products of a particular line but only in one product of a certain line. Instead of selling a whole range of textiles, a speciality store may deal only in children's wear. Such stores have, of necessity, to be set up in central places. The organisation of such stores is practically the same as that of the single line stores.

The small-scale retial organisations described above are quite often referred to as 'unit stores'. These stores bring most of the advantages of sole proprietorship in their wake. Their strongest point is the direct and personal service which they render to the consumers in various residential areas. in fact, these stores have continues to function even after the development of large -scale retail organisations mainly because of their basic utility and convenience to the public at large. On the other hand, the unit stores suffer from the handicap of limited capital and managerial resources.

LARGE SCALE RETAIL SHOPS

Since retail trading consists in selling goods in small lots, there is a general impression among the lay people that retail organisations would, by implication, be small-scale trading concerns managed by sole traders. This notion about the retail organisation is, however, outmoded and unrealistic. Modern times have witnessed the rise of some very big organisations managed by large joint-stock companies established to sell goods in small lots. Large-scale retailer is, therefore, not a contradiction in terms as it appears to be. Retailing on a large scale brings with it several of the economies associated with large-scale business organisation in general. The more important among them, it will be recalled, are better and more effective advertising, better organised selling, increased turnover, lower overheads per unit of commodity sold and improved management of the sales effort under the guidance of experts. All these economies of large-scale retailing place the large retails units in a superior position in the distributive set-up of a country. But it may be noted here that for all their economies and strength, these units may not be able to oust smaller retail units completely. That is because these units have the advantage of offering convenience of shopping to the customers in various localities and can generally offer more efficient and personalised service to the consumers on account of their close personal touch with them. Likewise these units can introduce a greater deal of flexibility in their policies than the large-scale organisations. In the distributive set-up, therefore, the large and the small-scale retailers are likely to continue to co-exist.

A description of some of the important forms of large-scale retail organisations follows here.

(a) DEPARTMENTAL STORES

A departmental store is a large-scale retail institution comprising a number of departments, each dealing in a separate line of products. It can well be described as a combination of a number of single-line stores under one roof and unified control. Each one of the different departments confines itself to one particular line of goods and is expected to show profit as a unit. Yet all the departments are only components of a business unit. The departmental store offers the widest possible choice of products. One a consumer is attracted into its premises, he can hope to find all that the needs in the store. 'From pin to the plane' is the range of goods which may be dealt in by the different sections of a big departmental store. In fact, their strongest point is the choice of products and their varieties offered by them to consumers who goes out on a shopping errand. The consumer need not move from one shop to another for buying his requirements. All that he has to do is to go to a departmental store. Generally the departmental stores are located in central place in big cities. The buyers who visit the central market can make their purchase without much wastage of time. The bigger departmental stores offer a great number of amenities and attractions to the customers to tempt them to patronise their departments. Restaurants, post and telegraph offices, reading rooms and various form of recreation may be provided to make the customers comfortable in the building.

Origin : Although France is believed to be the original home of departmental stores, the co-operative stores of England can well be regarded as their forerunners. The co-operative stores which were organised in England towards the end of 18th century gradually turned into 'universal providers' i.e., departmental stores, dealing in a wide range of products at a modest profit. This encouraged alert and prosperous businessmen of France to try out this method of retailing in their own country. Thus, some of the leading merchants of Paris set up the two well known stores, "Bon Marche' and the 'Louvre'. These were later on organised into what came to be known as the 'Great Magasins' - a departmental store of world repute. The success of departmental stores in France further led to the adoption of this type of the organisation in other countries like England, Germany and U.S.A. Some of them like Harrods, Selfridges and Whit leys of England and Sears, Roebuck of the U.S.A. have acquired world-wide reputation. Massive is the word that best describes these famous departmental stores.

- The important reasons which led to the rise and growth of departmental retail stores may be enumerated as under:

(i) The mass production of goods which became the most distinctive feature of the industrial set up after the industrial Revolution called for mass selling outlets. The departmental stores were evolved to meet this important need of industry.

(ii) The growing intensity of competition led to the development of co-operative stores, and these stores highlighted the enormous scope which a many-line store has. This led ambitious businessmen to try out the idea of variety selling on a large scale through departmental stores.

(iii) The growth of large cities and towns spread over extensive areas make it unprofitable to establish and run large-scale retail stores in small localities. The only way out was to set up large retail stores in central market places which are frequented by people from all corners of the city concerned.

(iv) The rise of a well-to-do class of people in most of the advanced countries has also facilitated the development to departmental stores. These people require articles of high quality and look for service and comfort while buying their requirements. The small retailers could not cater to the needs and tastes of these people. Thus departmental stores grew up to take advantage of this situation and became the centers of shopping for rich and hard-to-please customers.

Organisation. The department store is a form of large-scale business. It is, therefore, organised mostly as a joint-stock company. As in any company, the Board of Directors is at the top of its organisational structure. The Board is responsible for the formulation of policies and programmes and revision in the light of actual experiences. The Managing Director is a member of the Board and is entrusted with the important task of implementing and executing the policies and programmes chalked out by the Board. He is answerable to the Board of Directors for any loopholes in the working of the organisation. He co-ordinates the work of the various departments as their overall chief. Below the Managing Director or the Sectional Manager in charge of the various section. A section is a division consisting of a number of allied departments. Generally, a departmental store comprises seven sections : (i) Merchandise section (ii) Technical section (iii) Sales section (iv) Staff Section (v) Accounts Section (vi) Building section (vii) Secretarial section. Under the sectional management come the departmental managers each one of whom is in charge of a particular department. Each departmental manager is assisted by a staff consisting of salesmen, clerks, packers, etc., The organisational structure of a departmental store may be depicted through a chart as follows:

Evaluation : As a for a large-scale retail organisation, the departmental store offers the following

advantages :

1. **Economies of large-scale buying :** A departmental store is virtually in the position of a wholesaler as far as buying is concerned. Goods purchased in bulk are cheaper because of the heavy discounts allowed by the manufacturers and saving in freight charges. Moreover, the departmental store can afford to employ expert buyers who may conduct buying for each department.

2. **Central location :** Most departmental stores are located in central positions in the most popular shopping centers. People from all parts of the city and others who come to the city from outside patronise it, This leads to an increase in the turnover.

3. **Convenience of shopping for consumers :** The departmental store makes shopping easy for the consumers (particularly housewives) by providing a whole range of goods belonging to different lines in the same building. "The store succeeds in concentrating in one place opportunities for the satisfaction of innumerable wants of customers scattered over a wide areas".

4. **Economy and convenience of advertising :** The departmental store, being a large-scale organisation, can afford to have effective advertising through press and publicity and through attractively decorated show-windows. Moreover, when the customers enter the store to patronise one department, they are quite likely to be attracted by the display of goods in other departments and made further purchases.

5. **Higher efficiency :** The departmental store, being a large business unit, is generally in a better position to employ skilled staff than most of their smaller counterparts. With experts manning important positions, and an array of skilled salesmen, a departmental store can achieve a high level of efficiency in its working.

6. **Service :** A departmental store plays mainly on the theme of service., the products which it deals in being more or less standardized, the departmental store offers certain services outside the scope of ordinary business which constitutes a definite attraction to the customers.

But the department store is not without its drawbacks. Some of the major handicaps from which it suffers are discussed here:

1. High operating coast : Many of the departmental stores emphasize service so much that the operating expenses including overheads tend to be excessive. Some service departments may be run at a loss to attract customers. The cost of delivery may similarly assume large proportions and increase the burden of selling expenses. To cover the high costs, the goods will be marked at high prices. This is one of the important reasons why the departmental stores find it difficult to sell their goods at reasonable prices. In fact, that is precisely why the clientele of such stores is restricted to very swell-to-do sections of the society.

2. Unsuitable location : The department stores are located mainly in the central parts of urban areas. Thus, they may not suit the needs and convenience of the vast majority of people who live at rather long distances from the central parts of the city. Thus, the central location of such stores is not an unmixed advantage. Generally, "they can obtain the shopping trade while the trade in articles of everyday use, which are frequently wanted at short notice, goes to their smaller rivals who are located near the homes of their customers".

3. Lack of personal elements : Generally, a small retailer pays personal attention to the needs of the customers. In a large departmental; store, the customer may be lost in the hugeness of the crowd of customers that swarm the store. He may not be attended twice in succession by the same salesman. As it is, many of the customers prize personal attention by salesmen so much that they prefer to make their purchases from smaller retails stores.

4. High rentals for premises : As has already been noted, the departmental stores are generally housed in extensive premises enjoying a central location in a city. The rents of such premises are naturally very high. In fact, it may quite be very difficult to find suitable premises for the store in a central area which is even otherwise overcrowded.

Departmental Stores in India : The departmental store organisation has developed a great deal in some of the being cities of the Continent of Europe and the U.S.A. where there is a large number of people belonging to the wealthy, aristocratic class. In India, the position is very different. We have here a majority of people who cannot afford to pay the high prices which departmental stores charge. Departmental stores can, therefore, cater to the needs the tastes of a small section of urban population. This is mainly why such stores have not become very popular in India. Some attempts at organising small departmental stores have been made in India. Some other small stores of this kind are springing up in big cities like Delhi, Bombay, Calcutta, Madras etc. But the departmental stores of India are in no way comparable to the giant stores of the U.K., the U.S.A. and other European countries. In short the departmental store movement has made little headway in India. Of late, some stores are being organised on slightly different lines as compared with the usual stores of this kind functioning elsewhere in the world. Under the new practice, a company with the usual stores of this kind functioning elsewhere in the world. Under the new practice, a company takes a big building on rent or constructs such a building and hires out the space of contractors in different lines. Some common service lime packing, delivery, etc., are rendered by the company concerned. Each one of the contractors is independent in respect of his shop in the building but has to pay an agreed sum to the company.

(b) MULTIPLE SHOPS AND CHAIN STORES

The multiple shop system denotes an organisation which controls a number of stores under a common ownership and management. The various stores may be located in the various localities of a city or may be spread over a number of cities in the country. The multiple shop system is referred to as the chain stores system in U.S.A. The difference between the two is that while multiple shops deal in one product line or its auxiliaries, chain stores of the U.S.A. are chains of departmental stores dealing in diverse products and spread throughout the length and breadth of the country. The stores constitute a chain which has its nucleus in the head office that owns, controls and managers all of them. The cain store or multiple shop organisation is nothing but an extension of the simple retail business.*. When a retailer finds his business expanding fast, he has two alternatives before him; he may hire the adjacent premises and gradually convey his store into a departmental store; or else, he can fire shops in other shopping centres and take advantage of the clientele there. If he chooses the first of these alternatives, he will be laying all his eggs in the same basket and will be risking the whole of his success on the continued prosperity of a geographical site. By opening his branches in other localities and towns, he will naturally be able to make up possible losses at one branch by profit at others. The multiple shop system combines the benefits of large-scale retailing with the advantages of unit stores in various localities. Some of the important features of the system may be outlines as under:

(i) They represent an attempt on the part of the wholesalers of manufacturers to eliminate retailers.

(ii) Each shop is decorated in the same setting and style and follows the unified practice evolved by the central office. Thus, a high degree of standardization and uniformity is attained as regards the interior lay-out of stores, window dressing, and outward appearance.

(iii) Each shop deals in the same type of products.

(iv) The products dealt in are generally those meant for everyday use.

(v) Purchases are effected through the central organisation and a uniform policy of sales maintained in all constituent stores.

Orgin : The multiple shop organisations grew in the United Kingdom practically at the same time when chain stores developed in the U.S.A. Some of multiple shops in the U.K. have grown into huge organisation which are well known even outside that country. The Boots Cash Chemists Organisation with 1,300 and odd branches, the Woolworths, and M/s. W.H. Smith and Co. Ltd, are examples of this kind. In the U,S.A. too, there is a large number of extensive chain store organisation having a nationwide coverage.

Some of the important factors which have encouraged the development of such organisations may be enumerated as follows:

External Factors : The major social and economic trends which have had a cumulative influence on the development of multiple shops are:

a) Growth of population

b) Growing standard of living among consumers

c) increasing emphasis on economy in purchases

d) Gradual decline of personal relationship as a trading factor, and

e) The growing anxiety on the part of the manufacturers and the consumers to do away with superfluous marketing expenses and middlemen.

Internal Factors : The influence of the above mentioned external factors is further augmented by certain internal economies which accrue from working on the lines of multiple shop system, such as:

a) Economies of bulk purchasing by the head office on behalf of the various branches.

b) Benefits of specialisation.

c) Economies of vertical integration of wholesaling and retail trading functions and even of production in many cases.

d) Advantages of a wider distribution of risks over different branches, and

e) The economy of common and mass-scale advertising for all the constituents of the organisation.

On account of these factors, the multiple shop system is fast gaining popularity in many other countries including India, Australia, New Zealand, etc.,

Organisation, Management and Control : Multiple shops, being large-scale retial organisations, are as a rule owned and managed by joint stock companies. The Board of Directors of the company is, therefore, the highest organ of management in such organisation. As in the case of the departmental stores, the Board's programmes and policies are interpreted and implemented under the control and direction of the Managing Director or the General Manager. Under him, there are District Managers who keep him posted about the activities of the various branches included in their respective districts. For this purpose, they have to make periodical visits to the shops in their areas and collect necessary information from the inspectors and superintendents under their control. Then come the branch or the local shop managers who are concerned only with the efficient working of their respective shops and have no direct say in the process of policy making at a higher level. The branch managers are generally required to sell the goods at process fixed by the head office. It may, however, be noted that all these personnel are required to deal with the sales side of the organisation. For the rest of the functions, there will be separate managers responsible directly to the Managing Director, e.g., purchase manager, warehouse manager, finance manager, estate manager and secretary. Since unified advertisement campaigns are considered to be among the basic features of a multiple shop organisation, a publicity manager generally attached to sales manager. He has virtually the same status as the district managers.

The sales at the branches are made almost invariably on cash basis. The cash receipts are deposited with the bank every day. The branch manager is not authorised to use any part of such receipts for current expenditure. All expenses of the branch, particularly rent, wages due to assistants, etc., are paid direct from the head office though sometimes the branch manager may be given a cheque to make these payments.

Provisions for control of stock is an important prerequisite of the successful management of multiple shop organisation. For this purpose, the head office will do well to fix the maximum and minimum quantity of stock in each lime of goods for each branch. This will prevent both shortages and surpluses. Stock sheets may be maintained at each branch, and each branch should be required to submit frequent periodical reports in this regard to the head office.

For the purposes of general comparative assessment of various branches, statement showing a columnar record of the average expenses, percentages of gross profits, etc., may be prepared. A summarised tabular statement of this type not only gives a bird's -eye view of the whole multiple shop organisation but also enables the management to spot out the weak points in the organisation.

Evaluation : The multiple shop or the chain store organisation is advantageous in the following main ways:

a) **Economical buying :** The multiple shop system combines in the best of both the worlds in the sense that on one side it has access to many of the advantages of small business, on the other it enjoys most of the economies of large -scale buying. Since purchases have to be made for all the branches, the central office is in a position to gain the economies of bulk purchasing. It may get into direct touch with manufacturers and obtain substantial discounts. It may get into direct touch with manufacturers and obtain substantial discounts. In fact, its requirements may be large enough to enable it to absorb the entire output of a factory. In such a case, it too will be able to buy goods at considerably low prices.

b) **Speedy turnover :** Being directly in touch with people indifferent localities, the various branches can feel the pulse of the market and find out the current demand for the products of the line in which it deals. The knowledge of the market gained in this manner can be used to ştock such goods as sell fast. Thus, multiple shops can achieve a rapid turnover in different territories.

c) **Elimination of bad debts:** The multiple shops sell goods mostly on cash basis. In the absence of credit sales, the loss of account of bad debts is almost eliminated.

d) **Economical operation :** The multiple shops generally work with lower operating costs than many of their competitors. Several factors combines to make for economy in their working. Some of them are: (a) rapid turnover (b) elimination of bad debts (c) avoidance of the necessity of maintaining staff for keeping accounts or credit sales. (d) Saving through not offering free home delivery service (e) common advertising for all shops of the organisaton.

e) **low prices :** Because of the economy in its operations the multiple shop organisation is able to offer its goods cheaper than competitors. Thus, the shops can easily undersell the competitors and quicken their own turnover.

f) **Adjustment of stock :** Any shortage of goods at any branch can easily be made up by transfer from other branches of other organisation in the same areas. Similarly, the risk of dead stocks can easily by eliminate or at least minimised by inter-branch transfer of goods.

g) **Mutual advertising :** Since advertising material and the interior lay-out etc. are the same for the branches, every branch server to advertise the other of the same organisation. This accounts for further economy in advertising and a quicker turnover.

As against the above-started advantages, multiple shops suffer from the following **disadvantages:**

a) **Limited lines :** The multiple shops deal in limited lines of products and generally sell only one brand of a particular product. Thus they cannot offer the veriety of choice which departmental stores or even ordinary retail stores can.

b) **Lack of personal service :** To attain uniformity of practice, the multiple shop standardises its methods of business to such an extent that it is a very difficult to provide some attractive services like grant of credit, home delivery service, etc. individual tastes, whims and fancies of the customers cannot be catered to by the multiple shops. On this score, these shops may have no lose a good many customers to the small retailers or departmental stores.

c) **Lack of interest, initiative, etc.** The branch managers are required to act strictly in conformity with the orders and instructions issued from the head office. They are given no direct hand in the policy decision at the higher level. As a result they tend to lose interest in the work of the branch and cease to take initiative in the sale of the goods in stock.

Distinction between Multiple shops and Departmental stores : The multiple shops may be distinguished from departmental stores on following points:

a) **Variety of products :** The departmental stores offer the widest variety of products to satisfy all possible wants of the customers in respect of customer's goods. The multiple shops, on the other hand, sell generally a particular type of products of a particular manufacturer and cannot satisfy all customers. Specialisation is the key note of multiple shops while diversification is the distinctive features of departmental stores.

b) **Prices :** The departmental stores have to bear heavy overhead charges and are, therefore, compelled to sell their products at higher prices than those charges by their competitors. The multiple shops, on the other hand, reap a number of economies in their operation and sell goods cheaper than other retails organisations.

c) **Location :** The departmental stores have necessarily to be located at central positions in big cities so that they can attract enough customers. Multiple shops are, on the other hand, spread over the city and reach the market widely as well as deeply.

d) **Services :** The departmental store caters to the needs and convenience of its customers and places a great deal of premium on personal service. Multiple shops do not lay stress on personal services to the customers and devote their attention to the uniformity of lay-out and decentralisation of selling.

e) **Risk :** The departmental stores run greater risks of business in as much as they sell goods only at one place. On the other hand, the multiple shops reduced their risks by selling goods through different branches at different places. The slow-selling or uneconomical branches may even be closed down.

f) **Advertising :** The departmental store is interested only in the local customers and, therefore, advertises itself and its products in restricted local areas. The multiple shops organise their advertisement campaigns on nation-wide or at least regional basis.

Multiple Shops in India : The multiple shop organisation have made their appearance on the marketing scene in India rather late. In most cases, they represent attempts on the part of the manufacturers to establish direct contacts with the consumers. The Bata stores can be said to be the largest network of multiple stores in India. The jay engineering Works and the Delhi Cloth mills' have also set up their retail stores in all important cities with a view to eliminating middleman. With the expansion of demand for products, many of the retail stores may gradually develop into multiple shop organisations as has been the case in the U.K. and the U.S.A.

LESSON - 8

CONSUMERS CO-OPERATIVE STORES

There are co-operative societies of consumers engaged in the sale of goods on retail basis. Their basic purpose is to eliminate middlemen. The consumers join together to economies and retain the profits for themselves by buying and selling their daily requirements in common. As in the case of all co-operative societies, the capital is subscribed by the members through the purchase of shares of shares of small denominations. Thus, even poorer consumers can become members of such societies, The consumer's co-operative stores purchase their requirements in bulk from the wholesalers at wholesales rates and sell them to their members at market rates. A part of the profit thus earned by the store is passed on to the members in the form of bonus on purchases.

Some of the more important characteristics of such societies are mentioned below:

a) **Membership :** In the case of general consumers co-operative store the membership is open to all adults. In the case of co-operative stores of a particular class (say, mill-workers) the membership may be confined to the persons belonging to that class.

b) **Capital :** The capital of the store is divided into shares of a small value which may be paid for in installments. To avoid undue domination over the society, and to maintain the democratic and co-operative character of the society, ceiling as to the number of shares to be held by a single individual is laid down. Generally, a member can withdraw his money from the capital of the society when he leaves the society.

c) **Voting rights :** One member one vote' is the rule in all co-operative societies including those managing such so-operative stores, thus, whatever be the capital contribution of a member, he will be at par with others in respect of voting rights. This provision is also intended to maintain the co-operative character of the society,

d) **Dividend on share capital :** Besides the bonus to which members are entitled on the basis of purchases made during a year, the members holding shares in the capital of the society are paid dividend of their shares. The rate of dividend in the case of co-operative societies cannot exceed 6¼ % in India.

e) **Cash sales :** The co-operative stores sell goods only on cash basis and, generally, credit is not allowed at all. This eliminates bad debts and encourages the members to lay by the pay cash for their purchases.

Origin : Robert Owen is believed to be the founder of the system of co-operative trading. Soon after Owen took initiative in this direction, some Rocha dale weavers felt that the marketing of goods to the workmen was one of the most wasteful businesses of the country. They, therefore, decided to club together small sums to bring the business of retailing goods under their own control. They charged average retail price of a working class district, paid interest on capital of the subscribers and divided the surplus among members in proportion to their purchases. The same principles are being applied in such stores till now. England became the original home of consumers co-operative store movement. Later on such stores began to be established in other parts of the world including India. In recent months, these stores got a special impetus in many cities of India due to the encouragement provided to them by the Government for the distribution of sugar and other essential commodities.

Evaluation : The consumers' co-operative stores provide a number of important facilities to the consumers, sums of which deserve special mention:

a) The consumers are assured of high standards of quality of goods and are saved from adulteration and other malpractices which may be indulged in by other retails sellers.

b) The consumers have complete control over the society running the store. As such the genuine needs of a majority of the consumers will be promptly met by consumers' distributive co-operatives.

c) The development of co-operative societies has encouraged people to be thrifty so that they can invest more and more in their co-operative Endeavour.

d) Such stores are of great help to consumers in the preparation of family budgets as also in purchasing wisely and carefully.

e) The consumer's co-operatives eliminate middlemen and their profits to a considerable extent. That is why they are generally able to offer various products at more reasonable prices than most other retailers. There is a further saving on purchases when at the end of a certain period, say, a year, the consumers get a bonus on purchases made from the store during such period. Thus consumers are assured of a reliable supply of their requirements at very reasonable prices.

From the point of view of retail selling, the channel of consumer's co-operatives suffers from certain drawbacks. These shortcomings have been brought out by the success achieved by rival competing retail organisations, particularly multiple shops and departmental stores. It has already been noted that the multiple shop tries to achieve a number of economies in respect of buying, selling, use of capital and control of stocks through specialisation of a high degrade. The co-operative stores, too, make an attempt at specialisation buy they run off the track when they try to specialise in a large number of lines. As a result, the co-operative stores are not able to reap so rich a harvest of economies as multiple shops do.

Another aspect in which the co-operative store lags behind the multiple shops is the external appearance of the business premises and the display of goods. The multiple shop pays considerable attention to these aspects and is able to achieve the desired effect on the minds of consumers. The co-operative store, on the other hand, bank rather to heavily on the loyalty of its members and does not attach due importance to window display, etc.

Even with regard to managerial control, the co-operative stores have been left far behind by their more powerful competitions, viz., departmental stores and multiple shops. While most of the large-scale retail houses have started using the systems of accounting and statistical analysis for increasing their competitive efficiency, the co-operative stores do not fare well in this respect.

But it must be admitted that the co-operative societies can pay attention to these shortcoming and can certainly remove them to a considerable extent by more dynamic policies. Basically, the system of consumers co-operative stores do not fare well in this respect.

But it must be admitted that the co-operative societies can pay attention to these shortcomings and can certainly remove them to a considerable extent by more dynamic policies. Basically, the system of consumers co-operation has much to commend itself. In the context of the present rise in prices, these stores have assumed an added social significance, organised on a large scale, the co-operative 'Super Bazars' are doing quite well in serving the community with quality products at reasonable prices.

(d) MAIL ORDER HOUSE

The mail order houses are retail trading houses which receive orders from the public through post and deliver the articles by post, thus avoiding personal shopping by the consumers.

Thus, the post office is the channel through which the mail order business is conducted. Looked at from the stand-point of the customer, it is shopping through post' while the seller may regard it as 'retail selling by post' sometimes, railways may be used for the delivery of goods. The basic feature of mail order business is the absence of direct contract between the buyers and the sellers.

Origin : The mail order business had its origin in the peculiar conditions of the U.S.A. The U.S.A. is a vast country spread over thousands of miles. People have settle down in some of the remotest parts of the country, and have accumulated wealth. Living far away from the cities. Where first class retail stores operate on a large scale, these people found that shopping by mail was the only possible way by which they could order their requirements from big reliable stores or business houses. The business houses also saw and promptly seized opportunities for extensive retail selling which were offered through the medium of mail. Thus originated the mail order business and its hub is the mail order house. One noted mail order house of the world is the Sears Roebuck Company of the U.S.A.

Types of Mail Order Business : The various types of mail order houses may be classified under three broad categories :

a) Manufacturing mail order house : This is in the nature of an agency set up by the manufacturer to sell his goods by mail directly to the consumers, thus eliminating the middlemen from the marketing process.

b) Departmental mail order house : This is only a department of a departmental store executing orders received from outside.

c) Middleman mail order house : Such a business house is concerned only with the sale of goods by mail and does not engage in production or wholesaling. It purchases the requires goods, partly on the receipt of orders and partly in acticipation of orders, from the wholesalers and dispatches them by mail (post or railway) to the consumers. This may be called the mail order house proper.

Mode of Operation : The first step in the operation of mail order business is the preparation of mailing list. The mailing list contains the names and addresses of persons who are likely to be interested in the products to be offered by it for sale by mail. Such lists can be compiled by reference to such sources as government records like the assessment books of municipalities and local bodies; police lists of owners of motor cars and motor lorries for small towns, the lists of members of clubs and trade associations, trade and telephone directories, year-books and travelers reports. To the listed prospects may be sent circular and other relevant literature from time to time. If some of them do not respond at all to the approach made through circulars, etc., they may be dropped and new names may be put on the mailing it.

The preparation of the mailing list is following by advertisements in papers and magazines which can be expected to fail into the hands of the prospects books, leaflets, folders, etc., may be sent to those who show some interest through letters in response to the advertisements. The orders may be received by the mail order house at their premises. Sometimes the house may not like to indicate its address and may call for orders through a Post Box whose number may be indicated in the advertisements and circulars, etc.

When the orders are received by mail, the business house must make arrangements for executing them. The goods are properly packed according to the specifications of the postal

Guide in case they are sent by Registered Parcel Post or by Registered Book Post. Parcels may also be sent by rail though in that case insurance of the goods will be desirable.

Generally, the goods are sent by the system of V.P.P. (value payable post) Under it the goods are delivered to the addressee on the payment of the price to the post office which remits it to the sender of goods.

Suitability of Goods for Mail order : The goods which can be considered suitable for mail order business should generally possess the following characteristics:

a) They should not be easily perishable.

b) They should be gradable.

c) They should be standardised.

d) They should bear a trade mark or a brand name.

e) They should not be too heavy or bulky to be sent mail.

f) Their delivery costs should be comparatively lower than the price of goods.

Advantages :

From the customer's point of view:

i. The customer gets his requirements at his own place and thus saves time and expense of shopping.

ii. The customer can arrange for the payment of price till the goods and delivered by mail.

iii. The articles which are not available in the local markets can be ordered through mail.

From the seller's point of view:

i. The business premises need not be decorated nor need sales assistants be engaged. This makes for economy.

ii. Business can be started even with a small amount of capital.

iii. The risk of bad debts is eliminated particularly when payment is received by V.P.P.

iv. The seller gets a very wide market in which to sell his products.

Drawbacks :

i. It may involve a top-heavy expenditure on advertising and publicity.

ii. The customer does not get an opportunity to satisfy himself as to the quality of the products through inspection.

iii. The illiterate prospects cannot be approached through this channel.

iv. Credit facilities are not available to the customers.

v. There is a considerable scope for fraudulent dealing under this type of business.

vi. The customers who like to make enquiries have to waste time and money in correspondence.

vii. The possible causes of failure of business cannot be traced out by the seller easily.

viii. The orders take time to be executed. The customers cannot avail themselves of mail order system if they need the articles urgently.

Mail Order Business in India : In India, the mail order business has made some headway, though its development has been rather slow. The more important reasons for the relative lack of popularity of such business in India may be outlines a below:

i. The majority of the people consist of ignorant and illiterate people who cannot be approached through the printed word.

ii. Many unscrupulous traders have been using this channel to defraud the innocent public, thus giving a rude shock to the public faith in such business.

iii. Advertising and publicity which are vital for its success are still in a backward stage in India.

iv. Agricultural products which account for the bulk of trade in the country cannot be sold under this system.

With the advancement of education in a country like India where people quite often live at long distances from the central places in cities, the mail order business will have a better scope.

(e) SUPER - MARKETS

The 'Super - Market' is a large-scale retail institution which appeared on the marketing map of the U.S.A. during the inter-war period. Housed in very large-sized premises, the super-market is very much like a huge departmental store dealing mostly in numerous varieties of food products including groceries, fruits, vegetables, meat, confectionery and daily product etc. The most distinctive feature of the super market is the absence of salesmen and shop assistants to help the customers. In a country like the U.S.A. where humar labour is very expensive, a great deal of saving can be effected by doing away with the sales staff. The super-market is, therefore, a product of the peculiar conditions in the U.S.A.

The customers who go to make their purchases in the super - market get wheeled trolleys for carrying their purchases out. As in a self-service Cafeteria, the various products and their varieties are kept in open shelves in well-marked divisions or departments. The customer picks up the required products and places them in trays which are carried to and fro on trolleys. When he has completed his shopping, he wheels the trolley to any of the various exits where he is charged for his purchases. Goods are solid strictly on cash basis.

Evaluation : The super-market is a useful channel of retail distribution, particularly in the context of a developed economy like that of the U.S.A. The various advantages and economies offered by it may be enumerated as under:

(i) Large turnover on account of the variety of choice offered at one place.

(ii) Low prices of products because of saving on sales assistants and various services.

(iii) High profit for the firm due to low costs and high turnover.

(iv) Perfect freedom to the buyer to make his selection without pressure from sales people.

(v) Economies of large-scale operation.

These institutions suffer from two major drawbacks :

(i) They require large and extensive premises, land for which may not be available in crowded cities at economical rates. For this reason they are usually located on the outskirts of cities at long distances from residential localities.

(ii) Products which require explanation by salesmen cannot be dealt in at these markets.

The idea of super-markets seems to be gaining ground. Attempts in this direction have begun to be made in India too. In Delhi itself, the Govind Ballabh Pant Super Market has been built in Connaugt Circus, the posh shopping centre of New Delhi.

(f) HIRE PURCHASE TRADING HOUSES

"The hire-purchase is a form of trade in which credit is granted to the customer on the security of a lien on the goods". To put in simple terms, it is a form a business under which the buyer acquires the ownership of goods only after he has paid the total price in an agreed number of equal installments. Technically speaking, the hire-purchase transaction becomes full-fledged purchase only after the full price is paid and remains only a hire arrangements if there is default in the payment of the full price. The buyer takes possession of the articles concerned on the payment of the initial sum but does not become their owner until and unless the last installment has been paid.

It will be appreciated that hire-purchase trading is only a species of installment selling though technically there is a difference between the two. Under the installment selling or deferred payment system, the property or ownership in articles passes to the buyer as soon as the first installment is paid. If the buyer fails to pay the installments in accordance with agreement, the seller can sue the buyer for the balance, but cannot recover the goods.

Suitability of Goods : The hire-purchase transactions cover a very wide range of products. To be suitable for such trading, however, the articles concerned must possess the following characteristics:

i. **Durability :** The article should at least be so durable as to last longer than the period over which installments are spread.

ii. **Stability of demand :** The demand for the product should not be subject to frequent changes in fashion. If that is the case, the customer may easily return it after payment some installments.

iii. **Standardised specifications :** The articles should possess standard specifications so that it can be easily disposed of in case it has to be resold.

iv. **High price :** The article should be one of such a high price as cannot be paid outright by consumers. Only then will installment selling on hire-purchases basis be justified.

v. **Easy cognizability :** The article should be of a type which can be easily identified and recovered in the event of default.

On the basis of the above factors, the following articles can generally be recommended for hire-purchases selling : furniture, radios, trucks, motor cars, refrigerators, sewing machines, pianos, machinery used by enginees, printers, small and medium manufacturers, builders and contractors, office equipment, hotel equipment and hospital equipment.

Customers : Proper care must be exercised in selecting those customers for the extension of hire-purchase facilities who will be in a position to pay the instalments regularly and in time. For this reason, people with stable and regular incomes should generally be preferred. Generally minors, married women, foreigners without fixed occupations and other people without permanent residence are considered to be unsuitable for selling on hire-purchase basis.

Advantages of Hire-purchase selling :

i. The system enables people of modest means to be certain valuable articles without having to spend a large sum which will be rather difficult for them to arrange. By under taking to pay installments regularly they have compulsorily to save the required sum regularly for every month.

ii. The small-scale and medium, scale manufacturers find a great facility in the system. They can install the required machinery and machine tools without having to find the total sum of capital required for the purpose all at once. In India, the National Small industries Corporation is helping the small industries in this manner.

iii. The hire-purchase trader also stands to gain because the system tempts a very large number of people to buy costly things on easy payments. Hire-purchase facilities thus help in increasing the turnover of non-essential luxury articles which will otherwise be very slow to sell.

iv. People with higher incomes can invest their savings in more profitable securities rather than sink them in articles which are in keeping with their status if they purchase them on hire - purchase basis. Thus, they will have to pay money in small amounts of installments along with interest which will be lower than the interest derived from investment in securities.

Drawbacks :

i. People may be tempted by installment plans to buy things which they cannot afford.

ii. It makes the articles dealt in costlier. the hire-purchase price includes the interest on unpaid balances, the cost of collection of installments and the losses owing to default on the part of the customers, besides the normal price of the article.

iii. The trader runs a very heavy risk under such trading. Although he has the right to reclaim the articles for which installments are not paid, the recovered goods can fetch little because they are after all second-hand goods.

LESSON - 9

INTERNATIONAL TRADE

An economy is described as ' closed economy' if it has no economic transactions with the rest of the worlds. An economy is called an 'open economy' if it has economic transactions with the rest of the world.

The degree of openness of the Indian economy is roughly 7%. The economy of Sri Lanka is more open 40% some African economies are even more open 89% in the case of Mauritius.

Distinction between Domestic trade and International trade:

Domestic trade means buying and selling of goods and services within a country. International trade refers buying and selling between one county and another country.

Distinctive features of International trade :

(1) In International trade, factors of production like labour do not move so freely from one country to another. There are difficulties of language, culture food habit, religion, climate, colour and race. But factors of production move more freely within a country.

(2) In International trade, more than one currency is used. There is, therefore, need for conversion of one currency (i.e.exchange rate) in international transactions. In Internal trade, only one currency is used.

(3) International trade is subject to customs (levy of export / import duties) Internal trade is not affected by such customs.

(4) In International trade, knowledge of market conditions is not so easy to obtain. In domestic trade it is relatively easy to do so.

(5) In International trade, other forces are at work more than the forces of supply and demand. In domestic trade, the forces of supply and demand play a grater role in determining prices.

We shall note, here, the advantages and disadvantages of International trade.

Advantages:

(1) In International trade, a nation obtains commodities which it cannot produce at all or can produce only at very high cost. For example, U.S.A. imports coffee and bananas because she cannot grow them except a very high cost.

(2) International trade makes up the deficiency in the home production of good. For example, the UK produces only a part of her requirements of food grains. The deficiency in supply is made up through imports.

(3) International trade makes possible specialisation between nations and more effective use of resources. Naturally, Every country specialises and produces those commodities in surplus for which she enjoys comparative natural advantage.

(4) International trade makes possible fuller exploitation of natural resources. In India, tea and jute are grown largely for export.

(5) International trade leads to a higher standard of living. For, a larger column and variety of goods and services is available for consumption.

Disadvantages :

(1) In order to earn more foreign exchange, valuable domestic resources may be used up too soon. The consequence will be 'difficult days' in the future e.g. the UK being faced with coal and iron mines rapidly becoming empty.

(2) International trade may make countries too much dependent upon one another in respect of some goods.

(3) International trade may take aggressive violent and harmful. By dumping (sending surplus goods to foreign market at low prices) and other means of unfair competition, foreigners may seek to destroy local industries.

(4) International trade may lead to political domination. Great Britain established a big colonial empire in the past because They sued foreign trade effectively for the purpose.

On balance, the advantages of International Trade are greater than the disadvantages.

Balance of trade : relation between the value of exports and the value of imports in the course of a year.

Favourable : It the value of exports exceeds the value of imports, the balance of trade is said to be favourable.

Unfavourable : It the value of exports is less than value of imports, the balance of trade is said to be favourable.

Balance of payments

The items of export and import are goods (e.g. tea, cloth and machines) They are visible. So, the balance of trade account consists of visible items.

There are other items of export and import. They give rise to receipts or payments such items are not visible. They are invisible items.

(1) Shipping, Insurance and financial services: India must pay for these services rendered by foreigners India receives payments for services rendered to them.

(2) Foreign travel: India receives payments where foreign tourists visit the country. She makes payments when her citizens go overseas for study, pleasure of business.

(3) Cash remittances: India receives payments when it citizens as also companies and well-washer abroad send money to India. She makes payments when foreigners here send their money home.

(4) India receives payments when it receives gifts and aid from other countries. She makes payments when she gives gifts and aid to other nations.

Payments for these items are similar to those for export and import of goods. A record of all money transactions on account of visible and invisible items undertaken by a country with other countries in the course of a year is called 'the balance of payments'.

Balance of payments always balance

Of course, balance of payments which is based upon double-entry system will always balance. But there may be difficulties for a country in securing a balance in her payments position.

Deficit and surplus in balance of payments

when the total receipts exceed total payments on account of 'current' transactions, there will be surplus in the balance of payments. When the receipts do not cover the payments, there will be deficit in the country's balance of payments.

Lesson - 10

MONEY

What is money?

It is "something that everybody is prepared to accept in exchange for goods or services". Briefly It is a generally acceptable means of payment". In India, money is a Rupees and paisa.

Functions of Money

Money is a great invention in economics. It is like the wheel in mechanics, fire in science and vote in politics. In our life, today, money is very used. So our economy is called a 'money economy'.

Barter System

In the olden days, money was not used. Goods were directly exchanged for goods. Such a system is known as barter system.

Difficulties of Barter System

Soon barter system was found inadequate and cumbersome (inconvenient)

(1) Wants of people exchanging goods did not always coincide.

(2) There was no standard measure of value; articles of unequal value (a cow and a chair) could not be sub divided for simple direct exchange.

(3) Wealth could not be stored in commodities for fear of loss of value or perishability)

(4) Goods could not be transported over long distances. For these reasons, the system of barter was given up.

In its place, money was used. This money performs the following functions. (Primary and secondary)

A. Primary functions:

(1) Medium of exchange: As a medium of exchange, money facilitates trade. Commodities are first exchanged for money. Latter, this money is exchanged for goods. This function of money overcomes the disadvantage of double coincidence of wants under barter. (Fouble coincidence means that Raman demanding ride must approach Karuppan having rice but demanding cloth that can be supplied by Raman.)

(2) Measure of value: Money serves as measuring rod. This function of money helps us to compare the values of commodities. Such easy, simple measurement and comparison of values of goods were impossible under barter.

(B) Secondary functions

(3) Store of values: But money is a good store of value. One may keep savings in the form of money. Such saving may be easily used in the future without any great loss of value such a facility did not exist under barter.

(4) Standard of deferred payments: In these days, a number of transactions involving payments in future are conducted. These future payments are made in money and are accepted. This function of money facilitates lending and borrowing. In the absence of lending and borrowing, very many transactions may not be conducted at all. Hence the importance of this function.

The above functions of money are beautifully summed up in the following couplet:

"Money is a matter of functions four,

A medium, a measure, a standard, a store".

In the past, a number of commodities were used as money material'. In fact, rice, cowri shells, meat, pigs, salt, sheep horses, tobacco, leaf, copper and lead were used as money in different places, In course of time silver and gold were selected as the money materials. Commodities were turned into coins with government stamp in circulation. Alongside, coins were made of metals such as copper and brass. Such coins are in use even today. Money is now made of paper. This paper money forms a greater proportion of the total money supply which consists of (1) metallic coins and (2) paper money.

Qualities of a good money material:

(1) General acceptability: The material used in the making of money must be a acceptable to the public in transactions. Gold and silver posses this general acceptability all over the world. Token coins and paper money are acceptable only in the country of issue.

(2) Cognisability: (know ability) The money material must be easily identified. Gold and silver are ideal in the respect.

(3) Durability: Money is used frequently so the money material must be durable. Here again gold and silver are ideal money material, because gold and silver coins last long.

(4) Homogeneity, divisibility and malleability: Coins must be homogenous (uniform) in size, appearance and weight. One coin should not be superior to another in any respect. Besides, the material must be divisible into coins of lower values. The material must be malleable (workable) into any form desired. These qualities (of homogeneity, divisibility and malleability) are possessed by gold and silver.

(5) Portability and transferability : The money material must be easily portable without inconvenience. Gold and silver are not ideal in this respect because they are heavy. But paper notes are ideal here. They can be easily carried from place to place.

(6) Stability of Value: since money functions as a store of value, the money material must keep stale, its value must must neither rise nor fall. Such quality is not possessed by any material.

(7) Economy: It must be economical to print or create money. Gold and silver are costly materials. But paper is cheap and abundant in supply. Naturally, money supply is increased easier and more economically with paper rather than gold or silver used as money.

Paper money

Money may be either in the form of metallic coins (coins made of metal) or in the form of paper. In the metallic form, it is called 'metallic money'. In the known as 'paper money'. These forms of money are legal tender. (In addition, there is bank money which is not legal tender).

Metallic money

Money made of precious metal is described as 'metallic money'. This money is in the form of coins. These coins may be 'standard' (full bodied) coins or 'token' coins.

Standard Coins

(1) In the case of a standard coin, its value as metal as the same as its value as coin (e.g. the gold sovereign in the pre-war England)

(2) The standard coin is unlimited legal tender (i.e. freely accepted in transactions)

Token coins

(1) In the case of a 'token' coin, its value as coin is higher than its value as metal. These coins are only tokens of value.

(2) They are limited legal tender. (Accepted only in limited transactions).

Rupees coin in India

The rupees coin in India is a curious mixture of token and standard coins. Like a standard coin, it is unlimited legal tender. Like a token coin, its face value is higher than its value as metal. Half-rupee coin is legal tender up to Rs.10/-. The other lower value coins are legal tender up to Rs,1/-only.

Paper money-convertible and inconvertible paper money

Paper money falls under two classes. (1) Convertible paper money and (2) inconvertible paper money.

In the case of convertible paper money, the issuing authority promises to pay a specified sum of metallic money or gold on demand or on presentation of paper money.

In the case of inconvertible paper money, the promise to pay on demand is given in the note But it is understood that it will not be presented by the public for conversion into gold. In plain language, the issuing authority has neither the intention nor the ability to keep the promise.

Paper money in India

The issuing authorities in India re two: (1) The Reserve Bank of India and (@) the Ministry of Finance. The Reserve Bank of issues all paper money (e.g. notes of Rs.100/- Rs.2/-) except Rs.1/- notes. The finance Ministry issues the one-rupees notes.

Advantages of paper money

(1) Portability: Paper money is light. So it can be easily carried. Coins are heavy and so not portable.

(2) Economy: Paper money is economical to print Metal coins are expensive.

(3) Homogeneity: Paper money is homogeneous. It is uniform is size and appearance.

(4) It is **divisible** into convenient denominations (Rs.100 notes are divisible into Rs.20 Rs.10, Rs.5 and Rs.2 and Rs.1/0 notes.

(5) Elasticity paper: money can be increased at will. Only additional paper is needed for the purpose Metallic money cannot be increased so easily(Metal supply may be limited)

(6) Cognisability: Paper money is easily identified.

(7) Acceptability: Paper money is generally acceptable to the public in transactions.

Thus paper money possesses great advantages. But it does not possess all the qualifies of a good money material.

Disadvantages

(1) The Paper money is acceptable only in the country in which it is issued. For example, India's ten rupees is not acceptable in the U.S.A.

(2) The Paper money has only limited divisibility. Rs.100 note can be divided into notes of Rs.10, Rs.5, Rs.2 and Rs.1/- But it cannot be further divided because notes of 50p, 25p, etc., are not printed. Coins are required to settle transactions involving small payment.

(3) Over-issue: Paper money is not convertable in these days. So there is a great temptation to over issue notes when the government is unwilling or unable to raise money elsewhere. The result of over-issue is inflation (continuous rise in prices) This is harmful to the people and the economy. As a result of over-issue, Paper money becomes unstable in value.

So Paper money must be managed well. There should be neither over-issue nor under-issue. It must be issued in keeping with the needs of the economy.

This, in brief, is the account of the advantages and disadvantages of Paper money.

Lesson - 11

CLASSIFICATION OF BANKS

What is banking business?

Dr.L. Hart states in his book "Law of Banking" that "A banker is one who in the ordinary course of his business honours cheques drawn upon him by persons from and for whom he receives money on current account".

Banking has been defined as "Accepting for the purpose of lending and investment, of deposits of money from public, repayable on demand, order or otherwise and withdrawable by cheque, draft order or otherwise".

Today banks have become a part and parcel of our life. There was a time when the dewellers of city alone could enjoy their services. Now banks offer access to even a common man and their activities extended to areas hither to untouched.

Commercial banks play a dynamic role in the economic development of a nation.

Classification of Banks

1. Commercial Banks
2. Investment Banks
3. Exim Banks
4. Mixed Banks
5. Central Bank

6. State Bank

7. Co- operative Banks

8. Indigenous Bankers

9. Post Office Saving Bank.

1. Commercial Bank

Commercial banks have been existence from the beginning of 19th century. They have come to play a significant role in the development of Countries. They can contribute to a Country's economic development. They mobilize savings and lend them to industries and trade towards Working Capital. They have introduced a number of innovative schemes for mobilising deposits.

At present, there are twenty nationalised Commercial banks. These banks were nationlaised in two stages. On 19th July 1969, 14 major Commercial banks with deposits of over 50 crores. 6 more banks with deposits not less than 200 crores were nationalised.

2) Industrial Banks or Investment Banks

Development banks are established mainly to provide long term loans for industry and agriculture. The Commercial banks are providing only short and medium term credit. So the need for setting up the development bank arose.

In India these banks can be classified into two Categories, i.e,

I. National Level development Banks.

a) Industrial Finance Corporation of India (IFCI)

b) Industrial Credit and Investment Corporation of India (ICICI)

c) Industrial Development Bank of India (IDBI) and

d) National Bank for Agriculture and Rural Development (NABARD)

State Level development

a) State finance Corporations and

b) State Industrial Development Corporations

3. Exchange Banks

Exchange banks are engaged in the foreign exchange transactions. They act as businessmen in buying and selling foreign currencies. The exchange bank grants direct loans to the exporters and importer. The bank may also open letter of credit in favour of the importer which enables the importer to meet his financial needs in the foreign currency.

Exchange banks deals with medium and long term credit. These banks co-ordinates with the institutions, financing exports and imports of goods and services with a view to promoting the country's foreign trade.

Mixed Banks

The banking system which combines deposit banking with investment banking is known as Mixed Banking. The Mixed bank receives deposits from public and provides short term, medium and longterm loans to industries. With the recent developments in the banking system the Commercial banks in India have started financing longterm requirements of Industries.

5. Indigenous Bank

Indigeneous bankers are the earliest bankers in India. They are still occupying an important place. Some Communities have taken up the indegeneous banking as a profession. For example the chettiars in Tamilnadu, marwaris in Bombay. They are functioning in rural areas and business centres. They mainly provide finance to traders, artisans and small industrialists

6) Post Office Savings Banks

The Commercial banks and Co-operative banks do not have branches in all villages., but there is a network of Post offices throughout the country. Post-offices have an intimate contact with people in rural areas. The post offices allow the public to open savings book account with them and transact business like Commercial banks. The people if rural areas do not hesitate to deposit their savings with post offices in their region.

7) Co-operative Banks

In olden days, short term and medium term loans required by the farmers were given by the money lenders. They were charging high rates of interest and many of them were dishonest and fraudulent.

Then the Co-operative banks were formed it provide financial assistance to agriculturists at lesser rate of interest for agricultural purposes.

In India these banks can be classified into two categories, i.e,

a) Agricultural credit Co-operative Banks.

b) Non- Agricultural credit Co-operative Banks.

A) **Agricultural credit Co-operative Banks**

i) Primary Co-operative Banks

The Primary Co-operative banks are functioning at the village level. They attract deposits from members and non-members and promote thrift and self help. They are making short term loans to needy members mainly out of these deposits.

(ii) Central Co-operative Banks

The central co-operative banks are the federations of the primary co-operative banks. All types of primary co-operative societies if the district concerned are member of the central Co-operative bank.

They have been functioning as intermediary between primary co-operative banks and state Co-operative bank. They are giving financial assistance, technical advice and administrative support to the primary Co-operative Societies.

(iii) State Co-operative Banks

Every state has a state Co-operative bank. It acts as the apex bank of the Co-operative Credit structure in the state. The main function of the State Co-operative Bank is to finance, Co-ordinate and control the central Co-operative banks. They also serve as a clearing house for the cheque if Co-operative Banks.

7. Land Development Banks

The Land Development Banks were established to cater to the longterm requirement of the farmers. These banks were previously known as "Land Mortage Banks". The Land development banks are classified as:

a) Primary Land Development Banks

b) Central Land Development Banks

8) Central Banks

The bank to the Government and commercial banks and which has the authority to issue the Currency notes of a country is the "Central Bank" of that country. It also acting as financial adviser to the Government. It keeps the commercial banks and other financial institutions under its control. A Central bank is functioning in every country.

The Reserve Bank of India, the Central bank of our country, was established on 1st April 1935. Under the Reserve Bank of India Act, 1934. It was established with a view to secure monetary stability and to operate the currency and credit system of the country. It has the power to supervise and control the affairs of Commercial banks in India.

9) State Bank

The State Bank of India was established on 1st July 1955, Under the State Bank of India Act, to take over the business of the Imperial Bank of India. Now there are seven subsidary banks to State Bank of India, called as associate banks. The associate banks and the State Bank of India are collectively known as the 'State Bank Group'. Besides extending the banking facilities to the rural areas, the State Bank of India provides liberal financial assistance to Co-operative societies and small scale industries.

LESSON - 12

FUNCTIONS OF COMMERCIAL BANKS

COMMERCIAL BANK

A Commercial bank is a financial institution, Provides credit to trade, industry and commerce. It mobilizes the savings of the people by accepting various types of deposits. The bank lends money to industry or business.

Functions of Commercial Bank

The various functions of a Commercial bank can be classified Under the following categories.

I. Primary functions

II. Secondary functions

I. PRIMARY FUNCTIONS

The primary functions of a Commercial bank are receiving deposits and lending money

A) Receiving of Deposits

Deposits received from the public are broadly of two types.

1) Time Deposits and

2) Demand Deposits

1) Time Deposits

The deposits are made by the customers for a specific period. Time deposits consists of Fixed Deposits and Recurring Deposits.

a) Fixed Deposits

The deposits accepted by the banks for fixed periods specified in advance are known as fixed deposits. Deposit period ranging from 15days to five years. The rate of interest ranges from 6 to 10% however this rate is subject to change.

Fixed Deposits Receipt

Fixed Deposit Receipt is a receipt issue by a banker, acknowledging the receipt of money on fixed deposits.

Contents of FDR

(i) Name of the Depositor

(ii) Amount of Deposit

(iii) Period of Deposit

(iv) Rate of Internet

(v) Receipt Number

(vi) Date on which the deposit will be repaid.

Special Features

(i) Fixed deposit receipt is not a negotiable instrument

(ii) No cheque on fixed deposit

(iii) Exemption from stamp duty

(iv) Higher rate of Interest than other deposits.

(b) Recurring Deposits.

Any person who can save certain amount if money regularly (every month) can open a recurring deposit account. In this scheme the customer deposits for a period ranging from 12 to 120 months. This is useful to low and middle income group. This encourage regular saving habits.

2) Demand Deposits

Demand Deposits may be classified into two, namely

a) Saving Bank Account

b) Current Account.

a) Savings Bank Account

It is meant for small savers. Its main object is to encourage the habit of savings among the public.

Special Features:

1) For opening this account a minimum if Rs.500/- is to be deposited, however this amount is subject to change.

2) The number of withdrawals over a period of one year is limited to 100.

3) The rate of interest of such deposit in 5% P.A.

4) Overdraft facility is not available.

b) Current Account

Current Account is normally opened by a businessman for his business. It is a running account, Which may to operated upon any number of times during a working day.

Special Features

1) It will be opened and operated with the minimum balance of Rs.500/-

(ii) No interest is allowed to these account holders.

(iii) Overdraft facilities are available to customer

(iv) Third parties cheques may be deposited in the current account for collection.

I -(B)- Lending Funds

Lending is one of the primary functions of Commercial banks. Some of the methods of lending are as follows:-

1) Loans

2) Overdraft

3) Cash credit

4) Discount of Bill of Exchange.

1) Loans

Loan means a lumpsum advance made for a fixed period at an agreed rate of interest. It may be made with or without security.

(i) Secured loans

Loan is granted against the security of tangible assets of the borrower. It is known as Secured loans.

(ii) Unsecured loans

An unsecured loans means a loan not so secured.

While making this type of loan, the banker should make careful enquires about the Character, Capacity and Capital of the borrower.

2) Over draft

Under this arrangement, a customer is allowed to withdraw over and above the credit balance in his current account upto certain limit. It is useful for a customer who is in need of temporary financial accommodation. It may be granted with or without security.

3) Cash credit

A Cash credit is an arrangement by which a customer is allowed by a banker to barrow money upto a certain limit. Such an arrangement is made against the Security of tangible assets or guarantees.

4) Discounting of Bill of Exchange

This is one of the familiar methods of granting short term loans to businessmen. In case of credit sale, the buyer or his banker may accept the bill. The holder may discount the bill before the due date.

Banks grant advances to their customer, by discounting of bill, the amount after deducting the interest from the instrument, is credited in the account of customer. The banker will present bill to the accepter on the due date and collect the amount.

(II) SECONDARY FUNCTIONS

Secondary functions refer to the various ancillary services rendered by a bank. They are classified as

(A) Agency Services

(B) General Utility services.

(A) Agency Services

The relationship between the customer and the banker is that of Principal and Agent. The customer directs the banker as to what he should do. The banker acts according to the customer direction. The banker will charge the customer for doing such services. Some of the agency services are as follows:

1) Collection of drafts, bills, cheques, dividends etc on behalf of the customers.

2) Execution of standing orders of the customers, viz payment of subscription, rent, bills, insurance premium etc.

3) Purchasing and selling of securities for and on behalf of the customers.

4) Functioning as an executors, trustees, adminstrator of an estate of a customer.

5) Preparation of Income Tax return, claiming of refunds and checking of assessment on behalf of customers.

B) General Utility Services

1) Safe custody facility

Under this facility the valuable are handedover to the banker. The banker gives an acknowledgement stating the description of the items and their values. The charges, depend on the period of custody or the value of the items kept under custody.

2) Safety locker Facility

Under this facility the customer is allowed to keep any kind of valuable in the locker kept by the banker. The customer should pay rent for it periodically.

3) Transfer of money

Money may be transferred from place to another place in the following ways.

a) Bank Draft

b) Mail Transfer

c) Telegraphic transfer

d) Traveller's cheque

e) Letter of credit.

Lesson 13

FUNCTIONS OF CENTRAL BANK

Introduction

The Central bank of a country that act as a top controlling bank for all other banks of the country. It acts us the leader of the money market by supervising, controlling and regulating the activities of all commercial banks and other financial institutions.

In our country the Reserve Bank of India acts as the Central Bank.

Central Banking Functions

They are following as:

1. Issue of Bank Notes
2. Banker to Government
3. Banker's Bank
4. Advisor of Government
5. Clearing and remittances
6. Custodian of cash reserves of Commercial banks
7. Control of Credit
8. Lender of Last Resort
9. Foreign exchange control.

1. Issue of bank Notes

In all countries, Central banks enjoy the exclusive monopoly of issuing currency notes. In India, the Reserve Bank has the sole right to issue currency notes except one rupee notes, coins and other subsidary coins which are issued by the Govt of India. The notes issued by the Reserve Bank are called as the bank notes.

The RBI was established on Ist April, 1935. Under the RBI Act, 1934. For note issue purpose, the RBI has a separate Issue Department which is entrusted with the issue of currency notes

2. Banker to Government

The Central Banks are acting as Government banks in all countries. it is the duty of there banks to undertake the banking transactions of the Government. They are following as.

i. Receiving and maintaining money for Government account.

ii. Making payments on behalf of Government

iii. Granting advances as per the requirements of the Government

iv. Management of the public debt.

3) Banker's Bank

Central Bank is the banker to all the other banks in the country. It acts as a leader. It controls the other banks and regulate the credit facilities in the country.

4) Adviser to Government

Central banker may acts as an advisor to the Government. The advising functions are following as

i. Advising the Government on all financial matters.

ii. Advising the Government on world financial matters

iii. Advising the Government for planning of economic development.

5. Clearing and Remittance

The Central Bank acts as the clearing house for settlement of outstanding balances between the commercial banks.

6. Custodian of Cash Reserves of the Commercial Banks

The Commercial banks are keeping a portion of their cash balances with the central banks as deposits due to the statutory control over them. Therefore, these banks are called as Reserve Bank.

7. Control of Credit

Control Over creation of credit by Commercial banks is one of the primary functions of the Central Bank. Excessive Credit may lead to inflation. Deficiency of Credit may result in deflation. This has to be regulated.

The Central Bank Controls the quantity and quality of credit by using different measures such as: -

a) Bank Rate Policy

b) Open market operations

a) Bank Rate Policy

It is the rate at which the central bank grants loans to commercial banks or rediscounts the bills. Any change in this rate will have a similar impact on the lending rates of the Commercial Banks.

b) Open market operations

It means the direct purchases and sale of securities or bills in the money market by the Central Bank.

It will affect the volume of money supply in the country.

When it sells the securities, it will reduce the money supply. On the other hand, when it purchase the securities, it will increase the money supply.

8. Lender of Last Resorts

The Commercial banks can borrow from the Central bank on the basis of eligible securities or get financial accommodation in times of need or stringency by rediscounting of bills of exchange.

Since Commercial Banks can always expect the Central bank to come to their help in times of banking crisis the Central Bank becomes not only the bankers bank but also the lender of the last resort.

9. Foreign Exchange Control

The Central Banks of most of the countries are keeping gold and foreign currencies as reserve against the issue of currency notes.

Controlling functions are following as

a) Keeps and manages the foreign exchange reserves of the countries

b) To control the buying and selling of foreign exchange.

c) It also fixes the exchange rate of domestic currency in terms of foreign currencies and maintain stability in exchange rates.

MODEL QUESTIONS

PART - A

1) What is Bank?

2) Define the term " Central Bank".

3) Explain the meaning of Mixed Bank

4) What is bank rate?

PART - B

1. Briefly explain the Commercial Bank

2. Briefly explain the Co-operative Bank

PART - C

1. Explain the functions of Commercial Banks

2. Explain the different classifications of Banks

3. Explain the functions of the Central bank of a Country.

LESSON - 14

TRANSPORT

Transport is the physical means whereby goods are moved from the point to production to the place where they are required for consumption. It provides growth and distribution of wealth, develops distinct market of the worls, encourages specialisation and division of labour and helps in making better use of labour and capital.

Economic Benefits of Transport

They are following as :

1) The primary importance of transport is to enable to the physical distribution of goods at global level.

2) Transport helps specialisation of labour

3) Transport helps to mass production and it receive and it reduces the cost of production.

4) Transport increases the mobility of labour from one region to another region and one country to another country.

5) It also helps in the similar flow of capital and technical know-how.

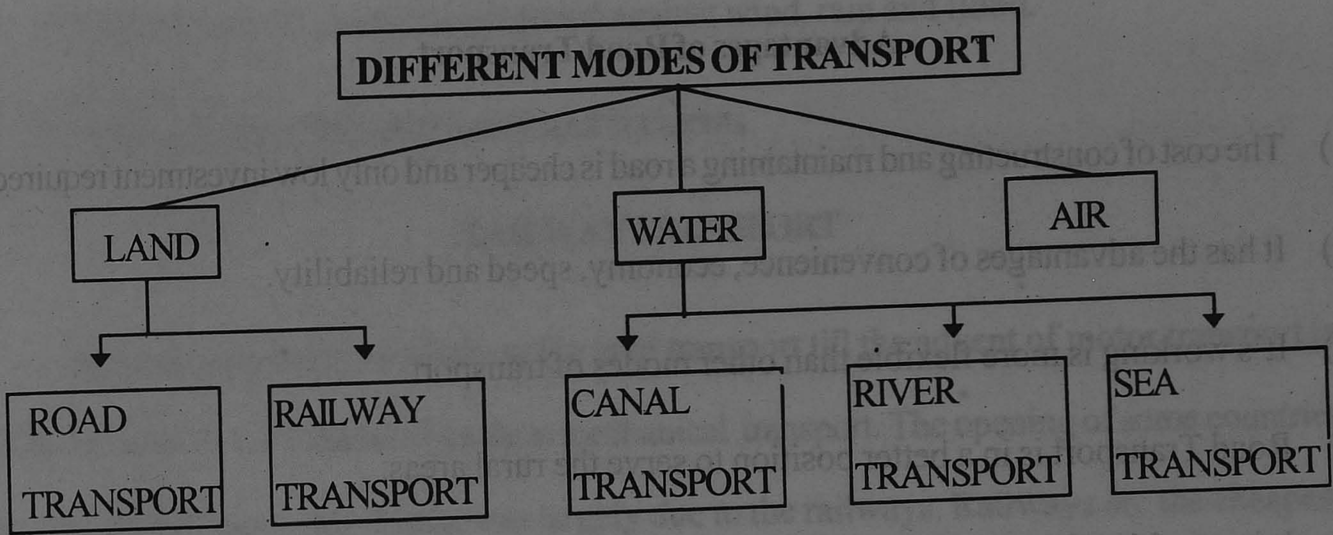
6) It is playing remarkable role in the growth of all industries, from agriculture to manufacturing.

Different Kinds of Transports

1) Land Transport

2 Water Transport

3) Air Transport



Road Transport

Transport by roads is the oldest branch of transport system. Roads are of vital importance for trade. All the movements of goods and passengers begin and ultimately end by taking resort to roads with the coming of motor cars and trucks, road transport has been revolutionised. It is becoming more and more popular.

The following means of road transport is used in nowadays.

a) Bullock -carts

b) Auto rickshaws

c) Motor Cars.

d) Motor Bus

e) Trucks and Tractors.

Road Maintenance

Type of Roads	-	**Maintaining Department**
Village Roads	-	Village Panchayats
Urban Roads	-	Municipality or corporations
State Highways	-	State Highways Dept., State Government
National Highways	-	Highways Dept., Central Government

Advantages of Road Transport

1) The cost of constructing and maintaining a road is cheaper and only low investment required.

2) It has the advantages of convenience, economy, speed and reliability.

3) It's working is more flexible than other modes of transport.

4) Road Transport is in a better position to serve the rural areas.

5) It is capable of door to door deliver as well as clearance.

6) It is very suitable and efficient for promoting the exchange of commodities between large towns and the sorrounding rural areas.

7) It is most suitable means where delivery is to be given immediately (as is the case with the perisable goods) and to meet sudden demand.

8) The Users of road pay to meet little for the maintenance and improvement of the track.

9) For an Under developed and developing nation roads can open the floodgates to prosperity.

10) A well- integrated programme for development of roads would bring the integration of rural and urban economies and it will broaden the market economy.

Disadvantages of Road Transport

Road Transport has its own limitations. They are following as:

1) For the movement of bulky and low grade material on longer routes road transport is unsuitable and costlier than other transport.

2) The speed of the road vehicles is limited.

3) It is Unsuitable and Uneconomical when delays are frequent and where loading and Unloading cause loss of time.

4) Goods in transport cannot be protected against wind, rain and flood.

5) It is prone to frequent breakdowns and accidents.

RAILWAY TRANSPORT

Railway enjoyed monopoly as the land transport till the advent of motor transport in 1930s. It has been the pioneer of modern mechanical transport. The opening of some countries like the United States and Russia was largely due to the railways. Railways are the cheapest and quickest means of transport for carrying heavy loads over long distance.

Railways need a huge capital outlay for laying of tracks, construction of bridges, purchase of disel and electric engines. They render an essential public service. Railways are among the biggest public utilities of a country. Railways touch upon the safety of millions of human lives. Hence they are subject to Government control and regulation, and in many countries they are nationalised. Their monopolistic position also calls for Government central in order to prevent exploitation of the public.

Advantages of Railway Transport

1) It is more suitable for the carriage of heavy and bulky goods over a long distance.

2) Because of greater speed, railways require lesstime than motor transport for carrying goods over long distance.

3) Railway offer better protection and safety to the goods than motor transport.

4) This method of transport is regular and dependable.

5) It is cheaper for the transport of bulky and heavy goods over long distance.

Disadvantages of Railway Transport

1) It is costlier for short distance and small traffic.

2) It is inconvenient for the rural areas.

3) As it is tied to the particular track, its services are available only between certain finite points. Therefore, goods have it be brought to the railway station.

4) In railway transport, the possibility of theft, breakage or damage is much greater on account of intermediate loading and handling.

5) It railways are not fully utilized and if wagons and coaches are to go half-empty, a heavy financial burden will be cast on the country.

LESSON - 15

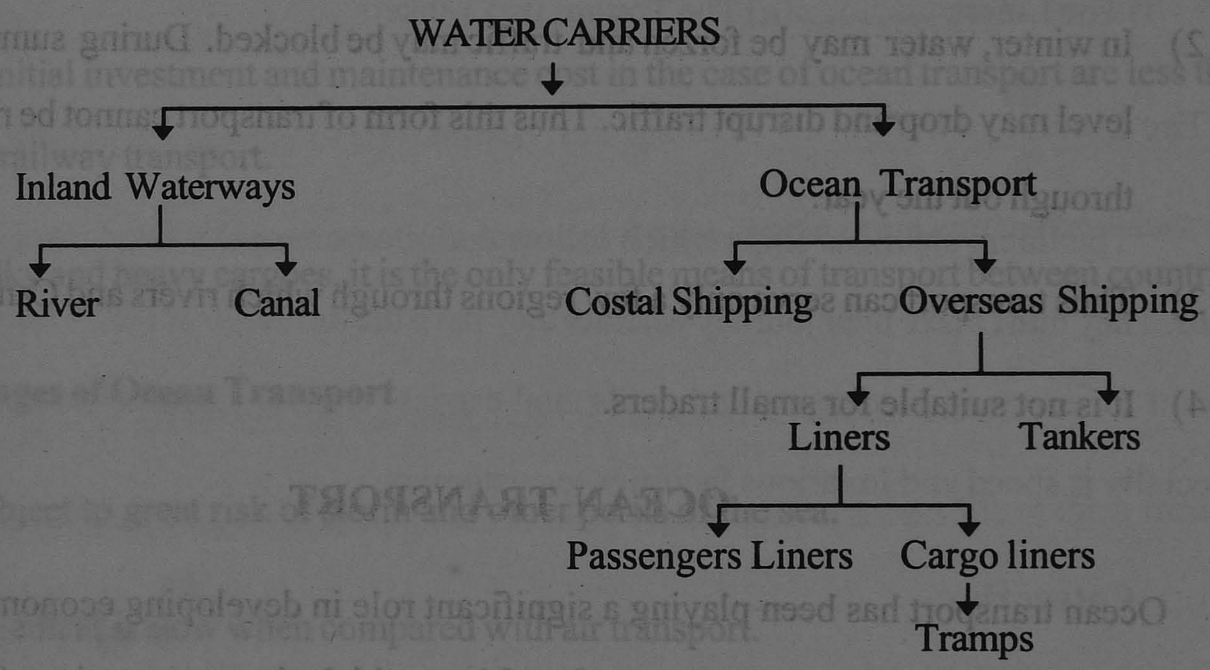
WATER TRANSPORT

Water carriers are cheaper than various modes of land transport. Water carrier is the cheapest form of transport for heavy goods and bulky cargoes not requiring quick delivering.

Water carries may be studied under the following heads:-

1) Inland Waterways and

2) Ocean Transport



River Transport

Rivers are suitable for small boats and steamers. It has a great part to play in the transport system of our country.

Canal Transport

Canals are the artificial waterways constructor for the purpose of navigation or for

Uses of the Inland Transport System

1) For bulky and heavy goods, transport by river or canal is the cheapest

2) Building materials, coal etc. can be carried in larger quantity than by road or railways.

3) It offers the advantages of easy loading and Unloading at the wharves of businessmen.

4) There is not of shaking and jolting.

Limitations of Inland Transport System

1) This form of transport is generally slower than motor or rail transport. This mode of transport is not suitable for goods requiring quick delivery.

2) In winter, water may be forzen and traffic may be blocked. During summer, water level may drop and disrupt traffic. Thus this form of transport cannot be relied upon through out the year.

3) Thus transport can serve only a few regions through which rivers and Canals pass.

4) It is not suitable for small traders.

OCEAN TRANSPORT

Ocean transport has been playing a significant role in developing economic, social, business and cultural relations among countries of the world. In the transporation of low grade bulky goods between countries, its role is commendable.

Ocean transport may be divided into two broad categories.

1) Costal shipping

2) Overseas shipping

Advantages of Ocean Transport

It offers the following advantages.

1) Ships ply on high seas which are the gift of nature. Their routes need not be constructed and maintained on like in the case of motor or rail transport.

2) The carrying capacity of ships is individually much greater than that of any other single unit of transport

3) Water transport required relatively a little tractive power. Even the manpower used for the operation of ships is relatively less.

4) Both initial investment and maintenance cost in the case of ocean transport are less than that of railway transport.

5) For bulky and heavy cargoes, it is the only feasible means of transport between countries.

Disadvantages of Ocean Transport

1) It is subject to great risk of storm and other perils of the sea.

2) Its movement is slow when compared with air transport.

Branches of Ocean Transport

Ocean transport or shipping may be studied under different heads. Usually it is divided into two broad categories.

1) Coastal Shipping and 2) Overseas Shipping

Coastal Shipping

Coastal shipping constitutes an important means of transport in all countries having long costal line. It is a cheap means of transport for movement of bulky cargoes. Usually, coastal shipping trade of a country is reserved for National shipping. In India too, costal shipping trade is now exclusively reserved for Indian ships.

Overseas Shipping

According to the way of their working, overseas shipping may generally be divided into three classes.

i) The Liners (ii) The Tramps (iii) Tankers

i) The Liners

The liners are those ships which follow definite routes with fixed places and time of calls. They must make their journey whether they have the full cargo or not. A liner is primarily meant for carrying passengers and mails, and carries relatively small amount of cargo. Its specially is speed and luxarious facilities to customers.

Categories:-

a) The passenger liner

b) The cargo liner

ii) The tramps

Tramps are essentially Cargo vessels. They have no set routes They do not follow any time -table. They sail only when they get sufficient load. They sail at any time and carry any type of Cargoes for almost any port.

(iii) Tankers

Tankers are those ships which are specially designed to carry crude oil, petrol and other petrolium products.

AIR TRANSPORT

Aeroplane emerged as a means transport for the carriage of passengers and mail after the first World War. Air transport is now operated between all the important commercial cities of the world. In recent years freight services for carriages of all kinds of goods have come to operate between countries.

Advantages it Air transport

1) Air transport provides a regular, comfortable, efficient and rapid service.

2) The outstanding advantages of air transport is its speed.

3) Air transport does not require a huge investment for the construction and maintenance of its track.

4) Neither the high mountain nor the deep oceans can obstruct the air transport

5) Air transport can be used to move goods to areas which are not accessible to other means of transport.

6) It is most suitable for goods of high value in relation to bulk or goods of perishable nature requring rapid delivery.

7) It provides Unbroken journey over land and sea.

Limitations of Airlines

1) The cost of operation of the air transport is the highest as compared to ocean, road or rail transport.

2) The fare for the passenger traffic is much higher than the railway fare for the first class.

3) It is suitable only for high grade costly goods.

4) It is Uncertain and Unreliable because of Unfavourable weather.

5) Due to greater degree of possibility of accident it is considered to be dangerous.

6) Very high degree of training, intelligence and carefulness is required for operating air services.

7) Construction and maintenance of the aerodrame requires large amount.

MODEL QUESTIONS

PART-A

Answer should not exceed five lines

1) Define Transport

2) What is road transport

3) Explain the term 'Ocean Transport''.

4) What is canal transport

5) "Tramps" - Explain.

Part B

Answer should not exceed 15 lines

1) Write about the advantages of river transport

2) Write short notes on "AirTransport"

Part-C

Answer in about two-pages.

1) Describe the merits and demerits of railway transport

2) Describe the merits and demerits of road transport

3) Describe the merits and demerits of water transport

LESSON - 16

INSURANCE

Insurance is the provision of financial protection against the happening of any Unfavourable event. Insurance guarantees certainly of payment at the uncertainly of loss. It is a Co-operative device to spread the loss of some Unfortunates over a large number of persons, who are also exposed to the same type of risk.

Insurance is a contract between one person who agrees to pay premium to an organization which in turn undertakes to pay a certain sum of money on the happening of a risk.

Here, the person paying premium is given a document called 'Policy' by the organization and he or she is known as "Policy Holder" or Insured.

The organization is called 'Insurer". Premium is the sum of money specified by the Insurer and the same is payable by the Policy holder in single instalment (or) many instalments.

Importance and Uses of Insurance

Uses of Insurance

To an Individual | To Business | To society

I. Uses to an Individual

1) It encourages systematic savings by regular premium remittance. It is the best medium of saving.

2) It provides financial security against premature death and old age sufferings.

3) It removes fear and Uncertainty and affords peace of mind.

II Uses to Business

1. Insurance reduces the uncertainty of business losses.
2. Economic sufferings caused by the death of owners./ partners will not affect the continuation of business.
3. By offering group insurance to employees an employer discharge his duty to provide them welfare.

III Uses to the society

1) It increases the employment opportunity to the Society.
2) It protects the welfare of the society from economic losses and degradation.

Essentials of Insurance

In an insurance contract the following requirements must be satisfied.

1) There must be two parties namely insured and insurer.
2) There must be a valid agreement
3) There must be certain consideration
4) There must be an insurable interest
5) There must be a happening of a risky event
6) There must be free consent
7) There must be a subject matter for the contract of insurance.

Principles of Insurance

1) Contract of Utmost Good Faith

An insurance contract is a contract of absolute good faith where both parties must disclose all the material facts honesty and fully. A material fact is one which affects the decision of both parties entering into contract.

The insured must be truthful in his dealings with the insurance company. The amount of premium is fixed on the basis of information furnished by the insured. If a false picture is given by the insured, the insure is deceived .

Lack of utmost good faith on the part of the insured renders the insurance contract void and the policy is not binding on the insurer.

2. Insurable Interest

One cannot enter into a contract of insurance without insurable interest in the property. Insurable interest is a primary interest by which the policy holder is benefited by the existence of the subject - matter of Insurance conversely, the policy holder is prejudiced by the death or damage of the subject matter.

Essential of Insurable Interest

a. Existence of a subject - matter is a must

b. There must be a monetary relationship to the policyholder

c. There must be a legal relationship between the proposer and the insured.

d. The policy holder must be benefited by the existence of the subject matter.

3. Principle of Indemnity

The word indemnity assures to restores someone to the position he was in before the unfavourable event took place. In marine and fire insurance only the actual loss is compensated.

In life Insurance and personal accident it is not possible to restore the insured to the condition before the unfavourable event.

Thus, the principle of indemnity does not apply to life insurance and personal accident insurance policies.

4. Subrogation

Subrogation means transfer of rights and remedies of the insured to the insurer after indemnity has been effected. If the insured has any right of action against third party and can claim damages from that party, the benefit of that recovery compensation shall be transferred to insurer. So, that the insured may execute a "letter of subrogation" infavour of the insurer. In the strength of this letter, the insurer will require all these right and remedies which could be availed by the insured and proceed against the third party after indemnifying the insured.

5. Contribution

Where a property is over insured by dobule insurance, each insurer is bound as between himself and other insurer, to contribute rateably to the loss, in proportion to the amount for which he is liable under his contract with the insured.

6. Proximate Cause

Proximate means nearest. The maxim "Course a proxima non remota spectatur" means that the proximate and not the remote cause is the factor to be taken into account. The insurer is liable only if the nearest cause comes with in the meaning of risk of insured. It must be cause for the actual loss.

7. Double Insurance

When the same property is insured with more than one insurer, it is known as Double Insurance. Sometimes the sums assured may exceed the indemnity allowed and assured is said to be over insured by double insurance.

Re-Insurance

Re- Insurance is a contract of insurance between one insurance company and another., It is the arrangement by which an original insurer who has insured a risk insures part of the risk again with another insurer. Reinsurance takes place in life, fire and marine insurance corporations.

INSURANCE CONTRACT

Insurance is a contract under which the whole loss is spread over a large number of persons who are exposed to the loss caused by a particular risk.

Hence, insurance is a Contract under which insurance company agrees to pay a certain sum of money to compensate loss caused by the occurance of certain event in consideration of certain periodical payment i.e., premium.

Classification of Insurance

1. Life Insurance

2) Fire Insurance

3) Marine Insurance

1) Life Insurance

Under the Life assurance contract the assurer agrees to pay an agreed sum on the death of the assured or on the completion of the stated period.

Kinds of Life Policies

i. Endowment Policy

ii. Whole Life Policy

iii. With Profit Policy

iv. Without Profit policy

i) Endowment Policy

This policy matures on the assured's death or on his attainment of a particular age whichever occurs earlier. The premium is payable till its maturity or for a limited number of years. The assured sum will be paid to the Policy holder if he survives the particular age., otherwise it will be paid it his nominee. The period for which the Policy is taken is called the endowment period.

ii) Whole life Policy

In whole life policy the sum assured is payable to the legal heir only on the death of the assured. It is to protect and support the family of the assured after his death. In this scheme premium may be payable throughout the life of the assured or for a limited number of years.

iii) With Profit Policy

In case of with profit policy, the assured not only get the policy amount on maturity but also get a share in the profits of the insurer called bones.

iv) Without Profit Policy

In case of without Profit Policy, the Policyholder gets only the policy amount on maturity The premium rate is lower for this policy compared "With -Profit Policy" .

Procedure for taking a Life Policy

A Life Insurance Policy can be taken by any individual through an agent of Insurance Corporation. The agent is trained person to help people to take policies on their lives. Agents are given certain commission on the policies taken. The following procedure is adopted in taking up a Life Insurance Policy.

1) Filling up Proposal forms

2) Submission of Agent's Report

3) Submission of Medical Examination Report

4) Submission of Personal Information Statement

5) Remittance of first Premium.

Assignment

Assignment is the transfer of a Life Insurance Policy by the policyholder to the Corporation or any other person. The assignment form should be filled up, defined by the insured and witnessed by any one person and then submitted to the insurer. All the rights, privileges and liabilities will be transferred to the assigness.

Nomination

The Life Assured can nominated a person or person by name, to whom the policy amount be paid in the event of his death. A nomination can be incorporated in the text of a policy or can be made by an endorsement on the back of the policy.

The life assured has a right to cancel the nomination or effect change of nomination during the currency of the policy and without the consent of the nominee.

FIRE INSURANCE

Fire Insurance is a contract to indemnify the insured for loss or damage to property caused by a fire during an agreed period of time and a specified amount. The insured pays premium as consideration to the insurer for the risk undertaken by him. As this is only a contract of indemnity, only the actual loss sufferred by the insured is paid by the Company.

Fire Insurance can be taken in respect of movable and immovable property like Goods, Ships, Buildings and Ornaments etc., The insured must have insurable interest in the property at the time the contract was entered into and also at the time of loss.

Different types of Fire Policies

i) Specific Policy

ii) Floating Policy

iii) Average Policy

i) Specific Policy

It is a case of under insurance. It covers the loss of the property insured subject matter to specific limit which is less than the real value of the property.

ii) Floating Policy

Where a person has got properties at different places he can obtain one policy to cover all such policies. Such a policy is called as Floating Policy.

iii) Average Policy

If the average clause is applicable to a Policy, it is called Average Policy. Average clause is added to penalise the insured in case of under - insurance. The compensation payable is proportionately reduced if the value of the policy is less than the value of the property.

The insured will suffer a loss due to average clause in the policy. If the insured would have taken up the full value of the policy, he would have been paid all the financial losses.

Average Policy Formula for calculation of insurance amount.

$$= \frac{\text{Actual Loss}}{\text{Total Value of Property}} \times \text{Value of Policy}$$

MARINE INSURANCE

Marine Insurance is a contract between the insurer and the insured where in the insurer undertakes to indemnify the insured against marine losses.

Marine Insurance is concerned with overseas trade. There are many dangers during the trans-shipment. So Marine insurance covers all types of risks which can occur during the transit. The insurer in marine insurance is called "underwriter".

Types of Marine Insurance Policies

1. Valued Policy
2. Unvalued policy
3. Time Policy
4. Voyage Policy
5. Mixed Policy
6. Floating Policy

<u>1) Valued Policy</u>

It is a Policy which specifies the value of the subject matter insured. In the absence of fraud, this value is conclusive as between the insurer and the assured whether the loss be partial or total.

2) Unvalued Policies

An Unvalued Policy specified the limit of the sum insured and doesnot specify the value of the subject matter insured. Therefore the insurable value is to be ascertained subsequenty in the manner prescribed in the Act. These are not common in practice.

3) Time Policy

Policies which indicate a definite period of time are called time policies. A maximum time limit of twelve months is provided for a time policy under the Marine Insurance Act.

In a time policy the risk is covered irrespective of the place where risk is located and the numbers of voyage it make.

4) Voyage Policy

This Policy is issued to cover a particular voyage from one port to another and from one place to another. It mentions the port of departure and the port of the destination, between which the risks are generally underwritten. The Policy is used in case of cargo insurance.

5) Fixed Policy

In this type of Policy the insurer insures the risk both for a certain time as well as certain voyage. This mixed Policy is suitable to ship insurance and Cargo insurance.

6) Floating Policy

It is a policy that described the insurance in general terms. The name or names of the ships and other particulars are defined by subsequent declaration by endorsement on the Policy. It is made in the Order of Shipment.

Marine Insurance Policy generally contains the following

1) The name of insured or his agent

2) The name of the insurer or insurers

3) The subject - matter insured

4) The Sum insured

5) Risks insured against

6) Description of voyage or period of insurance

7) Name of the Vessel and officers

8) The terms of insurance

9) Premium payable by the insured.

Model Questions

Part - A

Answer in about 5 lines

1) What is Insurance?

2) What is Subrogation?

3) What is Floating Policy?

4) What do you mean by insurable interest?

5) Endowment life Policy - Explain.

Part - B

Answer in about a page

1) What are the uses of Insurance?

2) Explain the essentials of Insurance?

Part - C

Answer in about two pages

1) Explain fully the main principles of Insurance

2) Write the various types of Fire Insurance Policies

3) Write the various types of Marine Insurance Policies

MODEL QUESTION PAPER

Time : 3 Hours

Marks : 100

Part - A

Answer All Questions

(4Q x 5marks = 20marks)

Answer in about 5 lines

1) What do you mean by "Canal Transport"?

2) What do you understand by "Air Transport"?

3) Explain the term - "Marine Insurance"

4) What is an indemnity

Part - B

Answer All Questions

Answer in about a page

(3Q x10 marks = 30 marks)

1) What are the uses of Insurance

2) Explain the uses of Road Transport?

3) List out the advantages of Air Transport?

Part - C

Answer All Questions

Answer in about Two pages

(4Q x 12½ marks = 50marks)

1. Explain the merits and demerits of Rail Transport

2. Write the Various types of Marine Insurance Policies

3. Explain the Basic Principle of Insurance

4) Differentiate between Road Transport and Rail Transport