Text Book for

INTERMEDIATE

Second Year

COMMERCE

Telugu and Sanskrit Akademi

Andhra Pradesh

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Text Book

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Y.S. JAGAN MOHAN REDDY

CHIEF MINISTER
ANDHRA PRADESH

AMARAVATI

MESSAGE

I congratulate Akademi for starting its activities with printing of textbooks from the academic year 2021 – 22.

Education is a real asset which cannot be stolen by anyone and it is the foundation on which children build their future. As the world has become a global village, children will have to compete with the world as they grow up. For this there is every need for good books and good education.

Our government has brought in many changes in the education system and more are to come. The government has been taking care to provide education to the poor and needy through various measures, like developing infrastructure, upgrading the skills of teachers, providing incentives to the children and parents to pursue education. Nutritious mid-day meal and converting Anganwadis into pre-primary schools with English as medium of instruction are the steps taken to initiate children into education from a young age. Besides introducing CBSE syllabus and Telugu as a compulsory subject, the government has taken up numerous innovative programmes.

The revival of the Akademi also took place during the tenure of our government as it was neglected after the State was bifurcated. The Akademi, which was started on August 6, 1968 in the undivided state of Andhra Pradesh, was printing text books, works of popular writers and books for competitive exams and personality development.

Our government has decided to make available all kinds of books required for students and employees through Akademi, with headquarters at Tirupati.

I extend my best wishes to the Akademi and hope it will regain its past glory.

(Y.S. JAGAN MOHAN REDDY)

Dr. NANDAMURI LAKSHMIPARVATHI
M.A., M.Phil., Ph.D.
Chairperson, (Cabinet Minister Rank)
Telugu and Sanskrit Akademi, A.P.

Message of Chairperson, Telugu and Sanskrit Akademi, A.P.

In accordance with the syllabus developed by the Board of Intermediate, State Council for Higher Education, SCERT etc., we design high quality Text books by recruiting efficient Professors, department heads and faculty members from various Universities and Colleges as writers and editors. We are taking steps to print the required number of these books in a timely manner and distribute through the Akademi's Regional Centers present across the Andhra Pradesh.

In addition to text books, we strive to keep monographs, dictionaries, dialect texts, question banks, contact texts, popular texts, essays, linguistics texts, school level dictionaries, glossaries, etc., updated and printed and made available to students from time to time.

For competitive examinations conducted by the Andhra Pradesh Public Service Commission and for Entrance examinations conducted by various Universities, the contents of the Akademi publications are taken as standard. So, I want all the students and Employees to make use of Akademi books of high standards for their golden future.

Congratulations and best wishes to all of you.

N. Lakshmiparvathi

(NANDAMURI LAKSHMIPARVATHI)

J. SYAMALA RAO, I.A.S.,
Principal Secretary to Government

Higher Education Department
Government of Andhra Pradesh

MESSAGE

I Congratulate Telugu and Sanskrit Akademi for taking up the initiative of printing and distributing textbooks in both Telugu and English media within a short span of establishing Telugu and Sanskrit Akademi.

Number of students of Andhra Pradesh are competing of National Level for admissions into Medicine and Engineering courses. In order to help these students Telugu and Sanskrit Akademi consultation with NCERT redesigned their Textbooks to suit the requirement of National Level Examinations in a lucid language.

As the content in Telugu and Sanskrit Akademi books is highly informative and authentic, printed in multi-color on high quality paper and will be made available to the students in a time bound manner. I hope all the students in Andhra Pradesh will utilize the Akademi textbooks for better understanding of the subjects to compete of state and national levels.

(J. SYAMALA RAO)

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC and to secure to all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

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Foreword

The Government of India vowed to remove the educational disparities and adopt a common core curriculum across the country especially at the Intermediate level. Ever since the Government ofAndhra Pradesh and the Board oflntermediate Education (BIE) swung into action with the task of evolving a revised syllabus in all the Science subjects on par with that of COBSE, approved by NCERT, its chief intention being enabling the students from Andhra Pradesh to prepare for the National Level Common Entrance tests like NEET, ISEET etc., for admission into Institutions of professional courses in our Country.

For the first time BIEAP has decided to prepare the Science textbooks. Accordingly an Academic Review Committee was constituted with the Commissioner oflntermediate Education,AP as Chairman and the Secretary, BIEAP; the Director SCERT and the Director TeluguAcademy as members. The National and State Level Educational luminaries were involved in the textbook preparation, who did it with meticulous care. The textbooks are printed on the lines ofNCERT maintaining National Level Standards.

The Education Depm tment ofGovemment ofAndhra Pradesh has taken a decision to publish and to supply all the text books with free of cost for the students of all Government and Aided Junior Colleges of newly formed state of Andhra Pradesh.

We express our sincere gratitude to the Director, NCERT for according permission to adopt its syllabi and curriculum of Science textbooks. We have been permitted to make use of their textbooks which will be of great advantage to our student community. I also express my gratitude to the Chairman, BIE and the honorable Minister for HRD and Vice Chair man, BIE and Secretary (SE) for their dedicated sincere guidance and help.

I sincerely hope that the assorted methods of innovation that are adopted in the preparation of these textbooks will be of great help and guidance to the students. I wholeheartedly appreciate the sincere endeavors of the Textbook Development Committee which has accomplished this noble task.

Constructive suggestions are solicited for the improvement ofthis textbook from the students, teachers and general public in the subjects concerned so that next edition will be revised duly incorporating these suggestions. It is very much commendable that Intermediate text books are being printed for thefirst time by the Telugu Akademi from the 2021-22 academic year.

Sri. V Ramakrishna, I.R.S
Director, Telugu Akademi
Andhra Pradesh

Preface

This text book is prepared in accordance with the revised syllabus of commerce for second year students at the intermediate level. The demand for commerce stream has been increasing as a response to rapid industrial growth. The growth of service sector in India and globalization also have contributed to the introduction of various subjects falling under the ambit of commerce. The professional bodies like lew AI, leAl and lesl have introduced foundation courses for the students of intermediate. A strong foundation in commerce at intermediate level would help the student to enable himself to be a competent to pursue higher education or professional courses. In present competetive environment, commerce has become a prominent subject and covers various facets of business education. An effort has been made to introduce basic postulates of commerce through this book. Simple and lucid language is used to make the students to understand and acquire the basic knowledge in commerce domain. Due weightage is given to the new concepts and their dimensions in the context of Andhra Pradesh State.

Editors

Preface to Revised Edition

Why the Commerce has great importance in modern life? It is because, Commerce acts as a link between producer and consumer to enhance efficient distribution system of goods and services. Since Commerce needs a lot of processes to be completed, it easily generates various employment opportunities in areas such as domestic and international trades, business services i.e., banking, insurance, warehousing and transportation. A knowledge of financial markets, consumer protection and GST has become inevitable for businessman, students, teachers and society at large. With this background the Government of Andhra Pradesh has changed its syllabi and curriculum for the intermediate commerce students and incorporated latest changes to provide required inputs to them. The lapses and gaps in the earlier edition have been identified and the present edition of the book is brought out keeping in view changed needs of the syllabus and amendments made in the various Acts such as CPA, GST, SEBI etc. Now, the present book is prepared and contemporary changes have been incorporated as per the syllabi prescribed. Inspite of best efforts in preparation of this book ,some deficiencies may crept in. We welcome the suggestions and opinions from the academic fraternity to incorporate them in the next edition. We are highly thankful to the Director, Telugu Akademi, Dr. Koteswaramma and the team of dedicated officials for the cooperation received in revising this commerce textbook.

Prof. Rudra Saibaba
Editor,
Review Edition

Contents

UNIT - 1

ENTREPRENEURSHIP

CHAPTER 1

ENTREPRENEUR

1.1 Entrepreneur - Meaning

Entrepreneurial development today has become very significant in view of its being a key to economic development. The objectives of industrial development, regional growth, and employment generation depend upon entrepreneurial development.

Entrepreneurs are, thus, the seeds of industrial development, and the fruits of such industrial development are greater employment opportunities to unemployed youth, increase in per capita income, higher standard ofliving and increased individual saving, revenue to the government in the form of income tax, goods & services tax, export duties, import duties and balanced regional development.

The word entrepreneur is derived from the French word ***"entrepredre"***, which means ***'to undertake'***. In the earlier 16th century, the Frenchmen who organised and led military expeditions were referred to as 'entrepreneurs' . Later the term was applied to architects and contractors of public works. The entrepreneur is often associated with a person who starts his own, new and small business. An entrepreneur may be referred to such a single person or a group who promote a new enterprise by collecting various factors of production and bearing the risks arising out of such venture.

According to **Peter F Drucker**, an entrepreneur is one who "searches for change, responds to it and exploits opportunities, and the innovation is the specific tool of an entrepreneur".

According to **Cantillon**, an entrepreneur is the agent who buys means of production at certain prices in order to combine them into a product that is going to sell at price that are certain at the moment at which he commits himself to his costs.

Evans expressed that entrepreneurs are persons who initiate, organize, manage and control the affairs of a business unit that combines the factors of production to supply goods and services, whether the business pertains to agriculture, industry, trade or profession.

The American Heritage dictionary defines an entrepreneur as “a person who organise, operate, and assumes the risk for a business venture”.

Thus, an entrepreneur is one who organises the business undertaking, assuming the risk for the sake of profit.

1.2 Characteristics

Entrepreneurs tend to have specific characteristics that distinguish form other people. The following are some characteristics that every successful entrepreneur must possess.

1. Innovation

Innovation is an important characteristic of an entrepreneur in modern business. The entrepreneur makes arrangements for introducing innovations which help in increasing production on the one hand and reducing costs on the other. Innovations may take the form of the introduction of new methods in the process of production or introducing improvements in the existing methods.

It also includes discovery of new markets, raw materials and new techniques of production.

2. Risk Taking

Risk -taking is another characteristic of an entrepreneur. He has to pay to all the factors of production in advance. There are chances that he may be rewarded with a handsome profit or he may suffer a heavy loss. Therefore, the risk-bearing is the final responsibility of an entrepreneur. In this context, Richard Cantillon expressed that an entrepreneur is an agent who buys factors of production at certain prices or combining them into a product with a view to all it at uncertain price.

3. Organisation of Production

An entrepreneur procures various factors of production for manufacturing a product or bringing out a service. He makes arrangements for land, labour, capital, raw materials etc., required for setting up a production process in motion. He assesses the viability of having different production processes and selects one which is most suitable

4. Decision Making

An entrepreneur has to take decisions with regard to the establishment of business, its management and co-ordination of various resources. Every activity of the business requires decision making. The entrepreneur has to take decisions every day which have an impact on the working of his enterprise.

5. Leadership

An entrepreneur has to be a leader because he is such a person who organize, direct, commands and controls the functions of organization. His personality will influence the working of his subordinates because he is taken as role model. An entrepreneur should have the qualities by means of which the employees can praise and appreciate him. An entrepreneur in his role as a leader, not only guide and counsels his persons but he motivates them to achieve goals quickly and efficiently.

6. Planning

An entrepreneur is the person who plans each and everything in the business. He processes opportunities and devices ways and means to take advantage from them. As planning is a process which involves thinking before doing, an entrepreneur decides the following:

What to do? When to do? How to do? Who does a particular task?

The entrepreneur plans not only about the products to be produced and the markets where to sell them, but also decide the duties to be assigned in the organization so that things are done as per planning through industrial policy.

7. Hardwork

Willingness to work hard distinguishes a successful entrepreneur from unsuccessful one. The entrepreneur with his tedious, sweat-filled hours and perseverance revive their business even from on verge of failure. In nutshell, most of the successful entrepreneurs work hard endlessly, especially in the beginning and the same becomes their whole life.

8. Desire for High Achievement

The entrepreneurs have a strong desire to achieve high goals in business. This high achievement motive strengthened them to surmount the obstacles, suppress anxieties, repair misfortunes and devise expedients and only set up and run a successful business.

9. Highly Optimistic

The successful entrepreneurs are not disturbed by the present problems faced by them. They are optimistic for future that the situations will become favourable to business in future. Thus, they can run their enterprises successfully in future.

10. Independence

One of the common characteristics of the successful entrepreneurs has been that they do not like to be guided by others and to follow their routine. They liked to be independent in the matters of their business.

11. Foresight

The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumer attitude, technological developments, etc., and take timely actions accordingly.

12. Self Confidence

Entrepreneurs confidence level is very high. They believe in themselves. They have the confidence that they can carry the business successfully and change the existing position.

1.3 Functions

An entrepreneur does perform all the functions necessary right from the genesis of an idea up to the establishment of an enterprise. Some of these functions are discussed below:

1. Formation of New Producing Organisataion

According to J .B.Say, the function of a producer/entrepreneur is to rationally combine the forces of production in to a new producing organization.

2. Decision Making

An entrepreneur as a decision maker takes various decisions regarding the following: a) Ascertaining the objective of the enterprise, b) Sources of finance, c) Product mix, d) Pricing policies, e) Promotion strategies, f) Appropriate Technology or new equipments to be used etc.,

3. Innovation

Innovation is the main function of an entrepreneur. Innovation means "doing new things or doing of things that are already being done in a new way". An entrepreneur puts science and technology to economic use. Innovati ve entrepreneurs are essential for rapid industrialization and economic development.

4. Management

An entrepreneur performs managerial functions such as procuring and managing functions, formulations of production plans, providing raw materials, physical facilities, production facilities, organizing and managing sales.

5. Risk Bearing

An entrepreneur undertakes the responsibility for loss that may arise due to unforeseen contingencies in future. He guarantees interest to creditors, wages to labour and rent to the land holders.

6. Supervision, Control and Direction

J.S.Mill mentions superintendence, control and direction as entrepreneurial functions. Superintendence involves assembling the means, turning out maximum output at minimum cost and to supervise the work. The entrepreneur has to regulate or control the flow of goods, the use of finance and machinery. He also has to control the activities of the employees. The entrepreneur's function is also to keep the organization constantly on the path of its objectives, thus, provides a direction for smooth running of the organisation.

7. Planning

Planning is the first step in the direction of setting up of an enterprise. The entrepreneur prepares a scheme of proposed project in a formal systematic approach. The authorities in return if satisfied fully with the requirements, grants legal sanction for the venture.

According to Peter Kilby, an entrepreneur perfonns the following four major functions:

(i) Exchange functions

a) Perceiving opportunities in the market; b) Obtaining scarce resources; c) Buying inputs; d) Marketing of products and reacting to competition.

(ii) Administration fllnctions:

a) Dealing with public bureaucracy; b) Employee management; c) Supplier management and d) Customer management.

(iii) Management and control functions:

a) Financial management; b) Production management and c) Factory control.

(iv) Technological functions:

a) Acquiring machinery and equipment; b) Industtial engineering; c) Product and process improvement; d) Introduction of new production techniques and products.

1.4 Types of Entrepreneurs

Clarence Danhof, on the basis of his study of the American Agriculture, classified entrepreneurs in the manner that at the initial stage of economic development, entrepreneurs have less initiative and drive and as economic development proceeds, they become more innovating and enthusiastic.

Basing on this, he classified entrepreneurs into four types. These are discussed in seriatim.

1. **Innovating entrepreneurs :** This type of entrepreneurs introduces new goods, inaugurates new method of production, discovers new market and reorganizes the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved, and people look forward to change and improvement.

2. **Imitative Entrepreneurs:** Imitative entrepreneurs are also called as Adoptive entrepreneurs. These entrepreneurs adopt the methods and techniques already successfully executed by innovating entrepreneurs. Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. Such types of entrepreneurs are particularly suitable for the underdeveloped regions for bringing a mushroom drive of imitation of new combinations of factors of production already available in developed regions.

3. **Fabian Entrepreneurs:** Fabian entrepreneurs are characterized by very great caution and skepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprise.

4. **Drone Entrepreneurs:** These are characterized by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns relative to other like producers. Such entrepreneurs may even suffer from losses but they are not ready to make changes in their existing production methods.

Other category of Entrepreneurs :

1. **Individual Entrepreneurs:** These entrepreneurs are found in small business firms. An individual setting up an enterprise, arrange finance by himself, bear the risk of business with an intention to earn profits is called an Individual entrepreneur.
2. **Institutional Entrepreneurs:** These entrepreneurs are group of entrepreneurs or institutional entrepreneurs arrange finance, bear the risk of business and adopt latest technological changes with an intention to earn profits.
3. **Entrepreneurs by Inherence:** These are the entrepreneurs who inherit the business of the family through succession. They are also called as second generation entrepreneurs.
4. **Forced Entrepreneurs:** The entrepreneurs whose circumstances force them to become entrepreneurs. Rich people from agricultural sector, unemployed youth, nonresident Indians may belong to this group.
5. **Business Entrepreneurs:** These entrepreneurs conceive an idea for a new product or service and then create a business to materialise their ideas into reality.
6. **Trading Entrepreneurs:** These entrepreneurs identify market opportunities and stimulate demand for their products. They do not engage themselves in manufacturing activity but they involve is buying and selling of goods and services.
7. **Industrial Entrepreneurs:** Industrial entrepreneur is a manufacturer who through research estimates customer needs and wants and manufacture goods to cater to their needs.
8. **Corporate Entrepreneurs:** Corporate entrepreneur is one who promotes a corporation or a company. It is formed and registered under a statute which gives a separate legal entity.
9. **Agricultural Entrepreneurs:** These entrepreneurs are engaged in the activity of raising crops and marketing crops, fertilisers and other inputs of agriculture.
10. **Pure Entrepreneurs:** Pure entrepreneur is one who undertakes any activity to satisfy his ago. He is motivated to achieve or prove his excellency. He is status conscious and wants recognition in the society.
11. **Induced Entrepreneurs:** They are also called as motivated entrepreneurs. These entrepreneurs are induced or motivated by Government and non-government

agencies which may provide financial and other assistance, concessions, subsidies, training etc.

12. **Spontaneous Entrepreneurs:** These entrepreneurs are in quite contrast with induced entrepreneurs. They commence the business out of their interest, confidence and talent.

13. **Technical Entrepreneurs:** These entrepreneurs are engaged in the development of new products or improvement to the existing products and services with their specialisation and skills.

14. **Non - Technical Entrepreneurs:** These entrepreneurs are not concerned with the product development, rather, they are engaged in development alternative marketing and channels of distribution.

15. **Professional Entrepreneurs:** These entrepreneurs make their activity as a profession. They develop a business and sell it to somebody and start another business to sell it again to others. They are not engaged in operating and continuing the business established by them.

16. **First Generation Entrepreneurs:** These entrepreneurs donot possess any entrepreneurial background. They start an industrial unit by means of their own innovative skills.

17. **Classical Entrepreneurs:** These entrepreneurs are stereotype entrepreneurs whose main aim is to maximise their economic returns at a level consistent with the survival of the unit.

18. **Rural Entrepreneurs:** These entrepreneur undertake their venture in rural areas. These entrepreneurs enable expeditious growth of small scale units at rural areas and provides rural employment.

19. **Tourism Entrepreneurs:** A tourism entrepreneur is a person or a group of persons producing and managing tourism products. These products may be transportation, accommodation, catering, entertainment etc.

20. **Other Entrepreneurs:** On the basic of gender, entrepreneur may be classified as male entrepreneur, woman entrepreneur, young entrepreneur, old age entrepreneur, middle aged entrepreneur etc.

    On the basis of area, he may be classified as urban and rural entrepreneur. On the basis of scale of operations, he may be categorised as micro industry entrepreneur, small scale industry entrepreneur, medium scale industry entrepreneur and large scale industry entrepreneur.

1.5 Opportunities for Entrepreneurs in AP

Andhra Pradesh, with its rich and abundant natural resource base as well as diverse agricultural and forest wealth, provides tremendous investment opportunities for entrepreneurs in the State. It is fast transforming into a dynamic industrial economy. Its large pool of technical manpower, proactive Government policies, excellent infrastructural facilities, diversified cropping pattern, vibrant manufacturing and mining sector makes it one of the most preferred destinations for the investors. Traditional sectors such as textiles, leather, minerals and food processing are also being further developed. In addition, the information technology and the tourism give necessary support for attracting significant investments into the various sectors of the economy. The various opportunities for entrepreneurs in AP are presented in brief below:

1. Information Technology

Government of Andhra Pradesh has declared the Information Technology (IT) industry as an essential service under the 'Essential Services Maintenance Act' and the industry has been exempted from power cuts. It aims to transform the State into a knowledge society and make available the benefits of IT to all citizens, especially those in rural areas. It seeks to make the State a leading destination for investments in Information & Communications Technology (lCT) and a major player in the infonnation economy. The State has numerous advantages in terms of abundant availability of highly skilled IT manpower as well as world class technical and social infrastructure. Also, a number of reputed corporates have made the State their home. Thus, IT in the State offer excellent opportunity for alilacting Global IT companies specifically, the Govrnment of Andhra Pradesh recently announced that Entrepreneurs who are women, scheduled castes or scheduled tribe setting up InfoTech units Ell treprellellrship would get 25 per cent investment subsidy on fixed capital besides other incentives. Further, the people with innovative ideas would be encouraged to set up their own IT or IT Enabled Services (ITES) units in the State.

2. Automobile

A broad base of automotive component manufacturers and a large pool of highly trained, skilled and disciplined manpower make Andhra Pradesh the desired location for automobile industries. There are more than 100 automotive component manufacturing companies in the state, including first-tier suppliers. The companies are specialized in precision aluminum castings, high pressure die castings, forging, machined components, pressed metal components, gears, pistons, leaf springs, front axles, brake liners, cylinder liners, clutch covers, fuel filters, nozzles, delivery valves, starter motors, alternators, grey-iron, oils and lubricants, diesel fuel injection equipment, electronics / electrical, electronic regulators, CAD/CAM design etc. The industry is highly potential and there is a plenty of demand for the automobile components, hence the entrepreneurs in the State may grab the opportunities.

3. Drugs & Pharmaceuticals

The State offer excellent opportunities for the growth of pharmaceutical industry in the country, due to availability of trained and skilled manpower, good infrastructure as well as research and development facilities. H yderabad, in the erstwhile Andhra Pradesh state accounts for around one third of India's total bulk drug production, is considered as the drug capital of the country. However, in order to attract a large number of bulk drug units in and around the Andhra Pradesh state. The Government has taken a decision for the establishment of a 'Pharma City' near Visakhapatnam with private sector participation, which provides a plenty of opportunities for entrepreneurs

4. Mines and Minerals

Andhra Pradesh is the second largest store house of mineral resources in India. It includes vast deposits of coal, limestone, slabs, oil and natural gas, manganese, asbestos, iron ore, ball clay, fIre clay, gold, diamonds, graphite, dolomite, quartz, tungsten, feldspar, silica etc. A wide range of these minerals fInd use in fertilizers, ceramics, abrasi ves, glass, foundry, oil well drilling, fillers and pigments. The State Government has recognized 'mines and minerals sector' as one of the growth engines for the overall development of industry and infrastructure. Besides, the State has immense potential of untapped and under tapped minerals and provides numer ous opportunities for investment and development of minerals and mining projects.

5. Agriculture and Forestry

Agriculture is the main occupation of the people in Andhra Pradesh. Rice is a major food crop and staple food of the State, contributing about 77 per cent of the food grain production. Other important crops are bajra, maize, ragi, small millets, pulses, castor, tobacco, cotton and sugarcane. The State has a strong base in horticulture, producing a variety of condiments, fruits and vegetables such as mangoes, citrus fruits, grapes, custard apples, bananas, pineapple, tomatoes and onions. It is the second largest producer of horticulture produce in India. It is also the leading producer of some of the spices such as chilies, turmeric, tamarind, ginger, coriander, etc. Further, some of the important forest products like teak, eucalyptus, cashew, caesarian, bamboo, softwood, red sandalwood are available in the State. Hence, entrepreneurs have many opportunities to establish units based on these products.

Agro food processing industries in the State are bread, oilseed meals (edible), breakfast foods, biscuits, confectionery, including cocoa processing and chocolate, oil expellers and refining, malt extract, protein isolates, high protein foods, weaning foods, ready to eat food products and other processed foods. As there is a lot of gap in the existing supply and demand in India and scope for foreign trade is expected, the entrepreneurs may make use of the recently announced Industrial Policy of Andhra Pradesh and explore the possibilities of establishing agro based units.

6. Tourism

Andhra Pradesh is truly a land of beauty and opportunity. It represents Indian culture and heritage in all its glory. Beaches, hills, wildlife and forests, forts, historical monuments, Buddhist sites, national parks and bird sanctuaries are the major attractions of the State. It also possesses many holy temples with architectural beauty. The main places of tourist interest are, Buddha Stupa at Nagarjunakonda and Nagarjuna Sagar, Sri Venkateswara Temple at Tirumala, Tirupathi, Sri Mallik:ujunaswamy Temple at Srisailam, Kanaka Durga Temple at Vijayawada, Sri Satyanarayana Swamy Temple atAnnavaram, Sri Varaha Narasimha Swamy Temple at Simhachalam, Araku Valley, Horsley Hillls, Nelapattu, etc., may provide many opportunities to entrepreneurs to start ventures related the tourism services.

7. Fisheries

The State has stretched over the coastal area of Bay of Bengal. A vast coastal area is the main reason for the sea food. The aqua culture around the costal proved to be a rich source of seafood, which occupies a major share in the exports from the State. The entrepreneurs may examine the various opportunities and explore the possibilities of setting units based on the sea foods and exporting the same.

* * * * *

CHAPTER 2

ENTREPRENEURSHIP

2.1 Meaning

Entrepreneurship is the process of identifying opportunities in the market place, organizing the resources required to pursue these opportunities and investing the resources to exploit the opportunities for long term gains. It involves creating wealth by bringing together resources in ways to start and operate an enterprise.

Entrepreneurship is the ability to identify an investment opportunity and to organize an enterprise in order to contribute for the real economic growth. Entrepreneurship combines many qualities such as, 1. Innovation, 2. Risk taking, 3. Combining the factors of production etc. Entrepreneurship lies more in the ability to minimize the use of factors of production and to exploit them to maximum advantage. Entrepreneurship largely depends on personal qualities like accepting the challenges and bearing the risk.

Peter F Drucker stated that entrepreneurship is neither a science nor an art. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, the ends largely define what contributes knowledge in practice.

D.C.McClelland expressed that the entrepreneurship is doing things in a new and better way and decision making under the conditions of uncertainty.

In a Conference on entrepreneurship held in United States, the term 'entrepreneurship' was defined as follows:

"Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk -taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition".

A.H. Cole defined as 'Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services".

According to **Schumpeter**, entrepreneurship is based on purposeful and systematic innovation. It included not only the independent businessman but also company directors and managers who actually carry out innovative functions".

2.2 Relation between Entrepreneur and Entrepreneurship

Entrepreneur is the person (subject), entrepreneurship is the process (verb) and enterprise is the creation of the person and output of the process (object).

Though the term entrepreneur is often used interchangeably with entrepreneurship, yet they are conceptually different. The relationship between the two is just like the two sides of the same coin as depicted in the following table:

Relationship between Entrepreneur and Entrepreneurship

Person	Process
Organiser	Organisation
Innovator	Innovation
Riskbearer	Risk - bearing
Motivator	Motivation
Creator	Creation
Visualiser	Vision
Leader	Leadership
Imitator	Imitation

Thus, entrepreneurship is concerned with the performance and coordination of the entrepreneurial functions. This also means that entrepreneur precedes entrepreneurship.

2.3 Role of Entrepreneurship in Economic Development

The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function. The entrepreneurs contribute more in favourable opportunity conditions than in the economies with relatively less favourable opportunity conditions.

India is developing country aims at decentralized industrial structure to militate the regional imbalances in levels of economic development, small-scale entrepreneurship in such industrial structure plays an important role to achieve balanced regional development. It is clearly believed that small scale industries provide immediate large-scale employment, ensure a more equitable distribution of national income and also facilitate an effective resource mobilization of capital and skill which might otherwise remain unutilized. The important role that entrepreneurship plays in the economic development of an economy can now be put in a more systematic and orderly manner as follows:

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. Entrepreneurship provides immediate large-scale employment. Thus, it helps reduce the unemployment problem in country, i.e., the root of all socio-economic problems.
3. Entrepreneurship promotes balanced regional development.
4. Entrepreneurship helps to reduce the concentration of economic power.
5. Entrepreneurship stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. Entrepreneurship encourages effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. Entrepreneurship also induces backward and forward linkages which stimulate the process of economic development in the country.
8. Entrepreneurship also promotes country's export trade i.e., an important ingredient to economic development.

Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can best be put as "an economy is the effect for which entrepreneurship is the cause".

Unit Summary

Entrepreneur is the person who organises, operates and assumes the risk for a business venture. He possess many characteristics such as innovation, risk taking, organising production, decision making, leadership, planning, hard work, highly optimistic, foresight, self confidence etc. He performs a number of functions such as formatting a new business organisation, makes a decision, undertakes innovations, performs managerial functions, bears the risk, supervise and control the employees and undertakes planning also. Entrepreneurs may be classified as innovative, initiative, fabian and drone entrepreneurs.

Entrepreneur is the person (subject), entrepreneurship is the process (verb) and enterprise is the creation of the person and output of the process (object). Entrepreneurs play important role both in relation to economic development and in relation to the enterprise. In relation to economic development, entrepreneurs contribute to growth in GDP, capital formation and employment generation besides creating business opportunities for others and bringing about an improvement in the quality of life in the community in which they operate. In relation to the enterprise, they perform a number of roles right from the conception of business ideas, examining its feasibility and mobilisation of resources for its eventual realization as a business firm. They bear the uncertainties and risks associated with the business activity, introduce product, market, technological and a host of other innovations. In the developing country context, they also assume the responsibility for the day to day management of the enterprise.

MODEL QUESTIONS

I. Essay Type Questions

1. Explain the characteristics of entrepreneurs.
2. Explain the functions of entrepreneurs.
3. Explain the types of entrepreneurs.

4. Explain the relation between entrepreneur and entrepreneurship.
5. Explain the role of entrepreneurship in economic development.
6. Explain the opportunities for entrepreneurship in Andhra Pradesh.

II. Short Answer Type Questions

I. Who is an entrepreneur.
2. What are Exchange functions of an entrepreneur.
3. What is entrepreneurship ?
4. Write any one characteristic of an entrepreneur.
5. Write any one function of an entrepreneur.
6. How do you classify entrepreneurs ?

III. Very Short Answer Type Questions

I. Innovation
2. Planning
3. Risk bearing
4. Technological Functions
5. Imitative entrepreneur
6. Fabian entrepreneur
7. Drone entrepreneur
8. Forced entrepreneur
9. Trading entrepreneur
10. Institutional entrepreneur
11. Pure entrepreneur
12. Induced entrepreneur
13. Agricultural entrepreneur
14. Professional entrepreneur
15. Rural entrepreneur
16. Tourism entrepreneur

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UNIT - 2

DOMESTIC AND INTERNATIONAL TRADE

CHAPTER 3

DOMESTIC TRADE

3.1 Meaning

Trade means buying and selling of goods or services between two persons or two business organizations or two countries. Trade broadly classified into two types. They are Domestic Trade and International Trade.

A trade which takes place within the country is known as Domestic Trade or Home Trade i.e. it takes place within the geographical boundaries of a nation. Whereas, a trade which takes place with other countries is known as 'International Trade' or 'Foreign Trade' i.e. it is related to buying and selling of goods and services between the countries.

3.2 Features

(a) Buying and selling of goods takes place within the boundaries of the same country.

(b) Trade goods are carried on from one place to another place through railways and roadways.

(c) Payment for goods and services is made in the currency of the home country.

(d) Involves transactions between the producers, consumers and the middlemen.

(e) Wide choices of goods are available.

3.3 Types

There are basically two types of traders involved in the domestic trade. They are

(i) Wholesaler and (ii) Retailer

(i) Wholesaler

Wholesale trade means buying and selling goods in relatively large quantities or in bulk. The traders who are engaged in wholesale trade are called wholesalers. A wholesaler buys goods in bulk directly from manufacturers and sells them in small lots to retailers or industrial users, thus, he serves both manufacturers and retailers. A wholesaler is the first intermediary and serves as a link between producers and retailers. Wholesale trade includes all marketing transactions in which goods are purchased for the purpose of resale.

Services of Wholesaler

There are different services rendered by the Wholesaler. They are;

1. Services to the Manufacturers and 2. Services to the Retailers

1. Services to the Manufacturer

i) Wholesaler helps the manufacturer to concentrate on the manufacturing operations.

ii) The wholesaler buys in large quantities. Thus, he enables the manufacturer to get the benefit of economies of large scale production.

iii) The wholesalers collect orders from a large number of retailers and supply them from the stock of goods supplied in bulk by the manufacturer.

iv) By stocking products of seasonal nature, he makes it possible for the manufacturer of such products to continue production.

v) The wholesaler helps the manufacturer to regulate his production in accordance with the changing requirements of the market.

vi) The wholesaler enables the manufacturer to make better use of his capital for production by relieving him of the necessity of carrying large stocks.

vii) Wholesalers help in price stabilization. They stock goods during the slack season and sell them during the period of peak demand.

2. Services to the Retailers

i) The retailer need not carry stock of large variety of products to meet the demand of his customers.

ii) Wholesalers relieve the retailers of the necessity of placing orders to different manufacturers. Thus, the number of the sources of supply for the variety of goods is reduced to the minimum; hence buying problem is considerably simplified.

iii) Wholesalers enable retailers to obtain supplies more quickly than they could by placing orders directly to different manufacturers.

iv) The wholesaler provides a greater opportunity for a retailer to order a number of products at the same time so that transport and packing costs are incurred in respect of a single consignment in place of a number of consignments. This leads to savings in transport and packing costs.

v) Wholesalers specialize in a particular line of products. Therefore, he has an expert knowledge of the market conditions relating to such products. He passes on his knowledge to the retailer who cannot posses such knowledge as he deals in a large number of products of different varieties.

vi) Wholesalers help retailers to take advantage offavourable fluctuations in prices.

vii) By enabling retailers to replenish then- stocks in smaller quantities, wholesalers enable them to operate their business with lesser amount of capital and derive the benefits of economy in space, and more economical use of capital.

viii) Wholesalers provide financial assistance of material significance to retailers. This is done by allowing credit to the retailers purchasing goods from them. This in effect helps the retailer to manage his business with smaller amount of working capital.

Types of Wholesalers

Wholesalers are generally classified into the following kinds:

1. **Merchant Wholesaler:** Merchant wholesalers are maintaining independently their own businesses and they take little to the merchandise they handle. They are full service and limited service distributors. They sell goods or services to the retailers only but not to the ultimate consumers.

2. **Manufacturer Wholesaler:** These types of wholesalers undertake manufacturing of goods and sell the goods manufactured by other manufacturer that means he acts both a manufacturer and as well as wholesaler. Generally he performs distribution activities through branch offices.

3. **Retail Wholesaler:** These types of wholesalers acts as both a wholesaler and as well as a retailer. Retail wholesaler purchases goods from the giant manufacturers in large quantities and sell them in small quantities to the ultimate consumers or

customers. Simply he may be termed as bridge between manufacturer and ultimate consumer.

ii) Retailer

Trader who is engaged in retail trade is called retailer. A retailer is the last link in the chain of distribution of goods. He is an intermediary between the wholesaler and consumers. He purchases goods from wholesaler and sell them in very small quantities to ultimate consumers. His activities are generally confined to the locality in which his shop is located. Big departmental stores, super bazaar, hawkers and other small shopkeepers are examples of retailers.

Services of Retailers

The following are the services rendered by the Retailer, they are

1. Retailers find the tastes and desires of the customers and the same will be informed to the wholesalers.
2. Retailers buy and stock goods suitable to the consumers.
3. Retail shops are situated in convenient localities, usually very near to the consumers' residence.
4. They sell to consumers in quantities, which suit the pockets of different individuals.
5. Retailers make available to their customers goods of the sizes, styles, types, qualities and prices they prefer.
6. Many retailers offer free home delivery of goods purchased.
7. Many types of retailers sell goods on credit to their customers whom they know personally.
8. Retailers supply information and give expert advice to consumers. Many consumers would not know that new products are available, if retailers do not bring this to their notice.
9. Many retailers visit their customers to collect orders and make enquiries about the goods supplied earlier.

Types of Retailers

Retailers may be broadly classified into two types as, a) Small Scale Retailers; b) Large Scale Retailers

a) Small Scale Retailers

In India, we have millions of Small Scale Retailers in rural as well as urban markets, scattered widely all over the world. Small scale retailers move from one place to others, as they do not possess their own fixed shops. The following are some of the types of small scale retailers:

1. **Unit Store Traders:** Traders who owns unit stores are known as Unit Store Traders, where Unit stores are retail stores which deal with only one variety of product such as drugs, clothes, shoes, books, utensils etc. Single line stores also called as Specialty Shops since they are specialized in only one item.
2. **Street lraders:** Street Traders are also called as footpath traders. These traders display their stock on footpaths of busy cities and towns. The prominent places of business are bus stands, railway stations, parks and other busy centres.
3. **Market lraders :** Market Traders open their shops on fIxed days or dates in the specifIc areas. The time interval may be a week or a fortnight or a month. They join fairs and festivals which are normally organized in the villages or towns on specifIc dates.
4. **Hawkers :** These retailers are very commonly found in all the places. Hawkers don' t have any fixed place of business. They move from one place to another carrying their goods on hand cart or cycle and sell them door-to-door.
5. **Cheap-Jacks :** Cheap-Jack is a retailer who has fixed place of business in a locality and goes on changing his place of business to exploit the market opportunities. Therefore, the place of business is not rigid and they deal in cheap varieties of readymade garments, plastics, shoes etc. The speed of change of place is not as fast as it is in hawkers and peddlers.
6. **Syndicate Stores :** A syndicate store is an extension of the mail order business on a small scale. The important characteristic of syndicate stores is that it offers a wide variety of merchandise to customers but seldom sell known brands. These retailers buy most of the unbranded varieties and sell them under their own brand names.

b) Large Scale Retailers

In the recent years, large scale retailing has been gaining popularity due to its several benefits like advantages i.e., large scale purchase, specialized management practices, risk bearing capacity, scope for innovation, market research and intensive promotion. The large-scale organizations are owned by partnership firms and companies. Some of the large-scale retailers are discussed below:

1. **Super Markets :** According to the dictionary of Business and Finance, Super Market is a large retail store selling a wide variety of consumer goods, particularly food and small articles of household requirements. A supermarket is a novel form of retail organization specialized in necessaries and convenience goods. The supermarket represents the most developed form of self-service retailing. The buyer may be provided with convenience on wheels to carry his purchases from point to point. Thus, it provides individual selection without salesman. Packaging plays an important role in this form of retailing.

2. **Departmental Stores :** A Departmental Store is a large retail establishment divided into a number of small shops or dep31 tments, each dealing with the sale of one particular product. The entire departmental store is situated under one roof. According to James Stephenson "Departmental Stores is a store engaged in the retail trade of the wide variety of articles under the same roof'. Departmental stores act as a universal supplier of a wide variety of goods and are generally situated in the center of the cities.

3. **Multiple Shops :** The Multiple shop system is a network of branches located at different places of the country or city. All these branches are under central ownership, management and control.

4. **Consumer Co-operative Stores :** A Co-operative Store is a voluntary association of consumers under prevalent Co-operative Societies Act. The co-operative store is an organization owned, managed and controlled by consumers in order to eliminate the middlemen and their commission. At least ten members are required to register a society or store. Members of the store make joint purchases and sales among themselves at the current market prices.

5. **Mail Order Business :** Mail order refers to shopping by post. It is distinct form of retail business wherein the orders are accepted and goods are delivered by post. It is a method of non-store, impersonal and direct selling that eliminates the middlemen. Thus, mail order business can be defined as an establishment that receives orders by mail and make its sales by mail, parcel etc.,

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CHAPTER 4

INTERNATIONAL TRADE AND SEZs

4.1 Meaning

The trade that takes place between nations is international trade. The exchange of goods or services between the traders of two nationals is International Trade. International Trade involves the exchange of not only goods but also currencies between nations. International Trade is the process of transferring goods produced in one country to the consumers in another country. Thus, International Trade is the set of commercial transactions or operations between two or more countries where there is exchange of goods and services and / or capital.

4.2 Importance

International trade becomes necessary to every country because no country is capable of producing everything for the consumption of its people and the development of its economy. Hence, International Trade becomes necessary on the following grounds:

1. Different countries of the world have different amount of natural resources. But some countries may not possess such mineral wealth. Therefore, one country has to depend on some other country for natural resources which results in need for International Trade.
2. Some countries are more suitably placed to produce some goods more economically due to the availability of raw material, labour, technical knowhow etc., than other countries. In such case, International Trade is needed to import

goods from those countries where they can be produced cheaply instead of producing goods at higher cost.

3. It is not possible for any country to produce all her needs. Production of different commodities requires different climatic conditions. For example, Cuba can produce sugar, Egypt can produce cotton etc. International Trade among countries helps to get all their requirements.
4. International trade has reduced inequalities and facilitated growth in the economy of different countries.
5. International trade promotes increased international understating, exchange of ideas and culture and world peace.
6. International trade lowers the prices of goods and services all over the world.
7. In the era of globalization, no economy in the world can remain cut off from rest of the world. Therefore every country has to depend upon some other for one or other.

4.3 Types of International Trade

The international trade transactions can be divided into 3 types, such as, Import Trade, Export Trade and Entrepot Trade.

a) Import Trade

The term import is derived from the conceptual measuring as to bring in the goods and services into the port of the country. When purchases are made from another country, goods are said to be imported from that country to the buyer's country.

For Example: China has the most modern technology for producing electronic products cheaply so we import those products to our country.

b) Export Trade

The term export is derived from the conceptual meaning as to ship the goods and services out of the port of a country. When goods are sold to a trader in another country, goods are said to be exported to that country by the seller's country.

For Example: India is a major exporter of diamonds to another country.

c) Entrepot Trade

When goods are imported into a country, not for consumption in that country, but for exporting them to a third country, it is known as "Entrepot Trade". For example: India importing Oil seeds from America and exporting the same to Malaysia.

4.4 Distinction between Domestic and International Trade

	Domestic Trade	International Trade
1. Trade	Trade takes place within the country	Trade takes place with other countries
2. Currency	It does not involve any exchange of currency	It involves exchange of currencies
3. Restrictions	It is not subject to any restrictions	It is subject to many restrictions
4. Risk	Transport cost and risks are less	Transport costs and risks are high
5. Nature	It consists of sale, transfer or exchange of goods within a country	It involves imports and exports of goods
6. Movement of goods	The movement of goods depends upon internal transport system e.g. Roadways, Railways etc.	The movement of goods takes place usually by sea wherever possible
7. Specialization	It helps to derive benefits of specialization within the country	It helps all trading countries to derive the benefits of specialization
8. Volume of Trade	The volume of trade depends upon the size of population, volume of production, and development banking facilities	Trade depends on restrictions imposed on free entry of goods, duties and taxes levied.
9. Suitability	It facilitates movement of goods from point of production to areas where they are consumed	It facilitates countries to specialize in the production of goods for which they have maximum relative advantage

4.5 Limitations

1. International trade leads to economic interdependence. It creates a crisis in the war period.

2. International trade may lead to neglect of certain sectors of the economy.
3. Unrestricted imports may adversely affect the industrialization of developing countries.
4. It leads to unhealthy competition and rivalry among the countries.
5. Rigid specialization in few industries on the basis of comparative cost principle may create difficulties.

4.6 Problems

1. **Currency problem :** As every country has its own currency, the payments between nations creates complications.
2. **Legal problem :** Every country has its own laws and customs. These problems are affecting import and export trade.
3. **Credit problem :** When there is no direct contact between exporters and importers, the exporter has to rely on credit worthiness of the importer.
4. **Greater Risks :** When goods are transported over a long distance, they may face greater risk in the transportation.
5. **Time gap :** There is a wide gap of time between dispatch of goods and the goods received and delivery.

4.7 Special Economic Zones (SEZs)

Special Economic Zone (SEZ) is a geographical region that has economic laws which are more liberal than a country's economic laws. The main aim of the SEZ is to attract larger foreign investments. It is intended to make SEZs as engines for economic growth. The SEZ Act was passed by parliament in May 2005. A SEZ is a specifically described duty free enclave deemed to be a foreign territory for the purpose of trade operations.

Objectives

:i) Generation of additional economic activity,
ii) Promotion of exports of goods and services,
iii) Promotion of investment from domestic and foreign sources,
iv) Creation of employment opportunities,
v) Development of infrastructure facilities.

Advantages

The following major benefits can be attributed to Special Economic Zones (SEZs):

i) **Employment Generation:** SEZs are considered as highly effective tools for job creation.

ii) **Economic Development:** SEZs act as the engines for economic development.

iii) **Growth of Labour Intensive Manufacturing Industry:** Establishment of SEZs would lead to fast growth of labour intensive manufacturing and service industries in the country.

iv) **Balanced Regional Development:** SEZs are beautifully crafted initiatives for achieving the balanced regional development.

v) **Capacity Building :** SEZs are important for stronger capacity building.

vi) **Export Performance :** SEZs create dynamism in the export performance of a country by eliminating misuse of tariffs and other trade barriers. The corporate tax system and excessive bureaucracy should also be considered for enhancing export performance.

Disadvantages

i) The major criticism against SEZs is the acquisition of large area of agricultural land. This displaces many people from their traditional Iivelihood and employment sources such as farming, fishing etc., SEZs are encouraging real estate speculation. Small and marginal farmers, weaving and livestock rearing communities are away from their professions due to SEZs.

ii) There has been a criticism regarding the governance model of SEZs and their accountability. There could be no democratic local governance institutions in SEZs. These SEZs are not only keeping away from resources but also from democracy and governance.

iii) There are several environmental and health problems in the establishment of SEZs. There is a strong criticism for payment of meager and inadequate compensation and rehabilitation measures to the displaced people.

iv) SEZs are established with an objective of bringing balanced regional development in backward areas, but it has not happened. Majority of the units are located nearer to larger cities.

4.8 Special Economic Zones in Andhra Pradesh

Andhra Pradesh Special Economic Zone (APSEZ), a Multi-Product SEZ is a designated Duty Free Enclave and treated as foreign territory for trade operations, duties and tariff. It serves as a global gateway for industrial growth and offers world class infrastructure to global manufacturing and service industry. Equipped with its own social infrastructure and support services, it also offers attractive financial and tax incentives and procedural ease for facilitating foreign direct investment.

APSEZ is one of the largest notified Multi-Product SEZ in the country. Taking advantage of the SEZ policy of the Government of India, APIIC has taken concrete steps to develop this Special Economic Zone. The State initiatives such as, State SEZ Policy, Land acquisition, a good rehabilitation and resettlement policy, and external infrastructure development form a comprehensive framework would ensure the overall development of Andhra Pradesh State. Presently, APIIC is developing the world class Multi-Product Special Economic Zone (APSEZ) spread over 5595 acres (2265 hectares) at Atchyutapuram Mandal, approximately 50 kms from Visakhapatnam, which may promote the entrepreneurship in Andhra Pradesh State.

Recently, the State Government of Andhra Pradesh has taken various measures to provide and strengthen the infrastructure in Andhra Pradesh. Some of the important measures are as follows;

AP Industrial Infrastructure

1. Common Effluent Treatment Plant
2. Water supply distribution network
3. CC storm water Drainage system
4. Sewerage treatment with water recycling facility
5. Lush Green Landscaping
6. Provision of dedicated gas connectivity
7. Four lane internal road network
8. Power supply
9. Skill Development Centre.

Further, the Government of Andhra Pradesh is encouraging new entrepreneurs by offering various incentives which are detailed below.

4.9 Incentives for SEZ Units

1. Exemption from duties and excise
2. 50% of new capital i.e. invested in last 5 years
3. Avail international funds and interest rates

4. Reimbursement of duty paid on furnance oil, procured from domestic oil companies to SEZ units as per the rate of drawback notified by the Directorate General of Foreign Trade
5. Commodity hedging by SEZ Units permitted
6. Full freedom for subcontracting abroad
7. Job work on behalf of domestic exporters for direct export allowed
8. In house customs clearance
9. 100% FDI
10. Benefits from the AP Industry Policy 2010-2015
11. Stamp duty waiver
12. VAT, Sales Tax, Octroil etc., exemptions
13. Electricity subsidy
14. Single window clearance system at State level
15. Lowest industrial power tariff amongst the industrially progressed States in the country.

Unit Summary

Trade refers to buying and selling of goods and services between two persons, business organisations or countries. The trade is classified as domestic and international trades. Domestic trade takes place within the boundaries of a country whereas international trade takes place with other countries. In domestic trade wholesalers and retailers are involved in moving the goods from manufacturing point to consumer point. The wholesaler may be merchant wholesaler, manufacturer wholesaler and retail wholesaler. We also find different types of retailers in the market such as unit store traders, street traders, market traders, hawkers, cheap-jack, syndicate stores, super markets, departmental stores, multiple stores, consumer cooperative stores, mail order business etc.

International trade may classified as import trade, export trade and entrepot trade. SEZ is a geographical region that has economic laws which are more liberal than a country's economic laws. The AP government is offering a number of incentives to SEZs to attract the new entrepreneurs to set up their ventures

MODEL QUESTIONS

I. Essay Answer Questions.

1. What is Trade? Explain different types of Trade.
2. What is International Trade? Explain the various types of International Trade.
3. What is an International Trade? Explain its importance.
4. Distinguish between Domestic Trade and International Trade.
5. Explain the limitations and problems of International trade.
6. What is SEZ? Explain its objectives.
7. Explain the main advantages of SEZs.
8. Describe the criticism labelled against SEZs.
9. What are the incentives provided by APSEZs to the entrepreneurs?
10. Explain the services offered by wholesaler to manufacturer and retailer.
11. Discuss the services offered by Retailers.

II. Short Answer Questions.

1. Define wholesaler.
2. Who is a Retailer?
3. What is meant by International Trade?
4. What is import trade?
5. What is meant by SEZ?
6. What are the features of Domestic Trade?
7. What is the Super Market?
8. What is the Consumer Co-operative?

III. Very Short Answer Questions.

1. Merchant wholesaler
2. Manufacturer wholesaler
3. Retail wholesaler
4. Hawkers
5. Cheep Jacks
6. Syndicate store
7. Unit store trader
8. Departmental store
9. Multiple shops
10. Mail order Business
11. Export Trade
12. Entrepot Trade

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UNIT - 3

BUSINESS SERVICES

Chapter 5: Banking Services

Chapter 6: Insurance, Warehousing and Transport

CHAPTER 5

BANKING SERVICES

5.1 Meaning of Services

You must all have, at some time or the other experienced the effect of the business activities on your lives. Let us examine few examples of business activity i.e., purchasing an ice cream from a store and eating ice cream in a restaurant, watching a movie in a cinema hall or purchasing a video cassette/DVD, purchasing a school bus and leasing it from a transporter. If you analyze all these activities, you will observe that there is a difference between purchasing and eating, purchasing and watching and purchasing and leasing. What is common in all of them is that one purchasing an item and the other is experiencing a service but there is a definitely a difference between the item or good and service performed.

For a layperson, services are essentially intangibles and their purchase does not result in the ownership of anything physical. For example, you can only seek advice from the doctor, you cannot purchase him. Services are all those economic activities that are intangible and imply an interaction to be realized between the service provider and the consumer.

Services are those separately identifiable, essentially intangible activities that provide satisfaction of wants, and are not necessarily linked to the sale of a product or another service.

5.2 Characteristics

The five basic characteristics of services are discussed below:

1. **Intangibility :** Services are intangible, i.e., they cannot be touched or they are experiential in nature e.g. treatment by a doctor, one cannot taste a doctor's treatment or touch it, one can only experience it.
2. **Inconsistency :** Service is inconsistency, since there is no standard tangible product. Services have to be performed exclusively each time. Different customers have different demands and expectations, service providers need to alter their offer to meet the requirements of the customer e.g. mobile services.
3. **Inseparability :** As the Service is the simultaneous activity of production and consumption, the services seem to be inseparable e.g. doctor's treatment.
4. **Perishability :** Services have little or no tangible components and therefore, cannot be stored for a future use i.e. services are perishable and providers can, at best, store some associated goods but not the service itself e.g. a railway ticket can be stored but if it is not used on right day at right time it will loss its validity.
5. **Involvement :** Service is the participation of the customer in the service delivery process. A customer has the opportunity to get the services modified according to specific requirements.

5.3 Distinction between Services and Goods

Some of the important differences between services and goods are presented in brief below:

Distinction between services and goods

Basis	Services	Goods
Nature	An activity or process e.g. watching a movie in a cinema hall.	A physical object e.g. video cassette of movie.
Type	Heterogeneous	Homogeneous
Intangibility	Intangible e.g. doctor treatment.	Tangible e.g. medicine.
Inconsistency	Different customers having different demands e.g. mobile services.	Different customers getting standardized demands fulfilled e.g. mobile phones.
Inseparability	Simultaneous production and consumption e.g. eating ice cream in a restaurant.	Separation of production and consumption e.g. purchasing ice cream from a store.
Inventory	Cannot be kept in stock e.g. experience of a train journey.	Can be kept in a stock e.g. train journey ticket.
Involvement	Participation of customers at the time of service delivery e.g. self service in a fast food centre.	Involvement at the time of delivery not possible e.g. manufacturing a vehicle.

5.4 Types of Business Services

Business services are those services which are used by business enterprise for the conduct of their activities, such as, 1) Banking, 2) Insurance, 3) Warehousing and 4) Transportation.

A brief description of the same is presented hereunder:

5.4.1 Banking

A Bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another.

According to Crowther, a bank is a financial institution that *"collects moneyfrom those who have it to spare or who are saving it out of their incomes, and lends this money to those who require it."*

According to Indian Banking Regulation Act, 1949, 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 or otherwise."*

5.4.2 Functions of Banks

Banks playa useful and important role in the economic life of every nation. They have control over a large part of the supply of money in circulation. The basic functions of banks are classified as primary and secondary functions as explained below:

Functions of Commercial Banks

- **A) Primary**
  - Accepting Deposits
  - Advancing Loans
  - Provision of a Payment System
  - Credit Creation
- **B) Secondary**
  - Agency Services
  - General Utility Services
  - New Services

The above stated functions are briefly narrated as below:

A. Primary Functions

1. **Accepting Deposits:** Banks accept the various types of deposits, such as,

   (i) **Fixed Deposit Account :** Money in these accounts is deposited for a fixed period of time (say one, two or five years) and cannot be withdrawn before the expiry of that period. The rate of interest on this account is higher than that on other types of deposits. Fixed deposits are also called 'time deposits / term deposits'.

(ii) **Current Deposit Account :** These accounts are generally maintained by traders and businessmen who have to make a number of payments every day. Money from these accounts can be withdrawn any number or many times. Normally, no interest is paid on these accounts. Current deposits are also called Demand Deposits or Demand Liabilities.

(iii) **Saving DepositAccount :** The aim of these accounts is to encourage small savings of the public. Certain restrictions are imposed on the depositors regarding the number of withdrawals and the amount to be withdrawn in a given period of time.

(iv) **Recurring Deposit Account :** The purpose of these accounts is to encourage regular savings particularly by the fixed income group. Generally money in these accounts is deposited in monthly installments for a fixed period. It is repaid to the depositors along with interest on maturity. The rate of interest on these deposits is nearly the same as on fixed deposits.

2. **Advancing of Loans :** The second important function of a bank is advancing of loans to the public. After keeping certain cash reserves, the banks lend their deposits to the needy borrowers. Various types of loans granted by the banks are discussed below:

(i) **Money-at-Call and Short Notice :** These loans are very short period loans and called as money at call and very short notice loans, say one day to fourteen days. These loans are inter-bank loans. Banks with surplus lend to the needy bank for a day or a week, and are repaid next day or at a short notice.

(ii) **Cash Credit :** It is short period loan granted to a customer for a period of one year or less. It may be renewed after the expiry of the period. It is made generally against hypothecation or pledge of goods with the bank. The advantage of the system is that the borrower need not withdraw the whole of the sanctioned amount at a time. He may withdraw in installments as per his needs. Interest is charged only on the amount utilized. Banks may impose commitment charges on the unutilized portion.

(iii) **Overdraft :** Sometimes, the bank provides overdraft facilities to its customers through which they are allowed to withdraw more than their deposits. Interest is charged to the customers on the overdrawn amount.

(iv) **Discounting of Bill of Exchange :** A holder of a bill of exchange can get it discounted at the bank. A debtor accepts the bill drawn upon him by the creditor (i.e., drawer of the bill) and agrees to pay the amount mentioned on maturity. After making some marginal deductions (in the form of commission), the bank pays the value of bill to the holder before the bill of exchange matures, the bank gets its payments from the debtor on maturity.

(v) **Loans :** Loan is given for a fixed period (term loan or demand loan) at an agreed rate of interest. It is made normally against security.

3. **Provision of a Payment System :** Banks create very useful medium of exchange in the form of cheques. Through a cheque, the depositor directs the bankers to make payment to the payee. Cheque is the most developed credit instrument in the money market.

4. **Credit Creation :** Credit creation is the natural outcome of the process of advancing loan as adopted by the banks. Banks have the ability to create credit many times more than the deposits.

B. Secondary Functions

In addition to the main functions, banks provide a variety of banking services. These services are explained as,

1. **Agency Services:** These services are as follows

   (i) Banks help their customers in transferring funds from one place to another through cheques, draft etc.

   (ii) Banks collect and pay various credit instruments like cheques, bills of exchange, promissory notes etc.

   (iii) Banks undertake to purchase and sale of various securities like shares, bonds, debentures etc., on behalf of their customers.

   (iv) Banks preserve the Wills of their customers and execute them after death.

2. **General Utility Services:** These services are as follows:

   (i) Letters of the credit are issued by the banks to their customers certifying their creditworthiness.

   (ii) Banks issue traveler cheques to help to travel without fear of theft or loss of money.

   (iii) Banks provide safe deposit lockers facilities to the public at selected branches.

   (iv) Acceptance or collecting foreign bills of exchange.

3. **New services:** These services are as follows:

   (i) Free cheque book.

   (ii) Anywhere banking includes cash withdrawals and cash deposit across the counter of any branch of the bank up Rs. 50,000 per day.

   (iii) Free internet banking to check the status of account, download the statement of account any time and also transfer funds online.

5.4.3 Types of Banks

Banks can be classified into the following:

1. Commercial banks,
2. Co-operative banks,
3 Specialized banks,
4. Central Bank.

1. **Commercial Banks:** Commercial banks are institutions dealing in money. These are governed by Indian Banking Regulation Act 1949. According to the Act., banking means accepting deposits of money from the public for the purpose of lending or investment. There are two types of commercial banks. Public sector and private sector banks.

   Public sectors banks are those in which the government has a major stake and they usually need to emphasise on social objectives than on profitability. Private sector banks are owned, managed and controlled by private promoters and they are free to operate as per market forces. There are number of public sector banks like SB!, PNB, Canara Bank etc., and other private sector banks represented by HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Jammu and Kashmir bank.

2. **Co-operative Banks :** Cooperative banks are governed by the provisions of State Cooperative Societies Act and meant essentially for providing cheap credit to their members. It is an important source of rural credit i.e., Agricultural Financing in India, e.g. Mahesh Co-operative Bank, District Co-operative Banks etc.

3. **Specialised Banks :** Specialized banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities. These banks provide financial aid to industries, heavy turn key projects and foreign trade, e.g. EXIM Bank, IDBI, SIDBI etc.

4. **Central Bank :** The Central Bank of any country supervises, controls and regulates the activities of all the commercial banks of that country. It also acts as a Government banker. It controls and coordinates currency and credit policies of any country. The Reserve Bank of India is the Central Bank of our country.

5.4.4 Electronic Banking

Concept

The delivery of banks service to a customer at his office or home by using electronic delivery channels may be called electronic banking. It is the application of electronic technology for transfer of funds. Through an electronic terminal, computer or magnetic tape, various transactions like cash receipts, payments, transfer of funds etc., are done. It is any where, any time banking (24 hrs in a day and 7 days in a week).

It started with the introduction of computers, ATM (in 1970s), tele-banking and e-mail banking (in 1980s) and now Net Banking and mobile banking. The introduction of new instruments such as credit cards, ATM, Retail Electronic Funds Transfer (EFT) and Electronic Clearing System (ECS) have all helped in developing the effective, efficient and speedy payment and settlement systems. All these constitute electronic banking.

5.4.5 Facets

The different facets of e-banking are explained briefly below:

1. **ATM :** The introduction of Automated Teller Machines (ATMs) imparted flexibility to bank customers. ATM is popularly known as Any Time Money Machine. The customer get fast cash, withdrawal, transfer payment of bills or cash deposit, through ATM. The ATMs located at different spots are linked to the host computer in the bank. The transactions are in real time; that is instantaneousl y booked to customers account. Each customer is given anATM card with the help of which he draws cash from ATM. The card is also a debit card. It enables the customer to buy goods subject to the availability of balance in his account.
2. **Tele Banking (Home Banking) :** Customers can perform a number of transactions from their telephone, such as customers can check balances and statement information, transfer funds from one account to another, pay certain bills and order statements or cheque books, etc.
3. **E-mail Banking :** Customers may communicate with bank by electronic mail or e-mail. The most frequently used service is sending account statement periodically to the client's mail box. E-mail is not used for more complex operations.

4. **Network Banking or Online Banking :** Internet or online Banking is a facility provided by banks that enable the user to execute bank related transaction through Internet. The greatest advantage of Internet banking is the people sitting at home can transact business. The account holder need not personally visit bank.

5. **Mobile Banking :** The delivery of banks services to a customer through mobile (cell) phone is called mobile banking. When compared with telephone banking the scope of mobile banking is more and effecti ve also. Mobile banking can take the form of SMS Banking, GSM SIM Tool Kit and WAP.

   (a) **SMS Banking :** Short messages are sent to the customer's mobile phones. SMS Messages can be used for both passive and active banking operations. A client automatically receives information about his account balance after a certain operation is performed.

   (b) **GSM SIM Toolkit :** The GSM SIM Toolkit service can only be used from a mobile phone supporting this technology. GSM SIM Toolkit is software that evolves arbitrary changes to the mobile phone menu. Mobile phones now on the market support the GSM SIM Toolkit after buying a special SIM card and acti vating it the permanent bank branch. The client can use this service.

   (c) **WAP(WirelessApplication Protocol) :** WAP is often compared to web pages although it is simplified. Unlike pages appearing on the computer monitor, W AP presents its output on a small mobile phone display. WAP Banking is not that popular only few banks are providing this service.

5.4.6 Advantages

E-Banking brings certain advantages which are detailed below:

1. **Reduces Costs :** The cost of banking transactions is considerably reduced. It thus increases the profitability of banks.
2. **Prompt in Service :** E-Banking provides prompt service.
3. **Anywhere and Anytime Banking :** It is 24 hours in a day and 7 days in a week banking service. The customer can obtain information on his account conduct transactions etc from his home or office.
4. **Cashless Banking :** Handling of cash is not necessary in E-Banking.
5. **Global Coverage :** It provides global network coverage of bank services.
6. **Central Data Base :** The data base of each branch is centralized. Customer can deposit, withdraw or remit money from any branch of his bank.

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CHAPTER 6

INSURANCE, WAREHOUSING AND TRANSPORT

6.1 Insurance

It is a form of contract or agreement which one party agrees in return of a consideration to pay an agreed amount of money to another party to make good for a loss, damage, injury to something of value in which the insured has a pecuniary interest as a result of same uncertain event.

Thus, insurance is a method of securing protection against future calamities and uncertainties.

Terms used in insurance:

Certain terms are very often used in insurance business as discussed below:

(a) **Insurer :** The party who agrees to pay money on the happening of an event is known as insurer. Insurers are risk bearers i.e., insurance companies, who undertake the protection against the loss of insured.

(b) **Insured or Assured :** The party who seeks protection against the risk by paying premium is called insured. It claims and receives money as compensation in the event of the happening of the stated contingency.

(c) **Premium:** It is the money which is paid periodically by the insured to the insurer, in consideration for which the insurer gives protection to the insured.

(d) **Policy :** It is the official document issued by the insurer to insured which contains the terms and conditions of the insurance contract.

(e) **Sum Assured :** It is also called as insured amount, policy money and face value of the policy. It refers to the money value of risk. It is the maximum value that is payable by insurer to insured in case of occurrence of the event.

(f) **Insurance Contract :** It is the contract between two parties i.e., insured and insurer, wherein insurer takes over the risk and insured pays certain money for such risk.

6.2 Functions of Insurance

The functions of Insurance are given below;

(i) **Providing Certainty :** Insurance provides certainty of payment for the risk of loss. There are uncertainties of happening of time and amount of loss. Insurance removes these uncertainties and the assured receives payment of loss. The insurer charges premium for providing the certainty.

(ii) **Protection :** The second main function of Insurance is to provide protection from probable chances of loss. Insurance cannot stop the happening of a risk or event but can compensate for losses arising out of it.

(iii) **Risk Sharing :** On the happening of a risk event, the loss is shared by all the persons exposed to it. The share is obtained from every insured member by way of premiums.

(iv) **Assist in Capital Formation :** The accumulated funds of the insurer received by way of premium payments made by the insured are invested in various income generating schemes.

6.3 Principles of Insurance

In a contract of Insurance, addition to fulfilling the basic requirements of a valid contract i.e., proposal acceptance, free consent, competency of the parties, consideration lawful objects etc., must also fulfil some of the fundamental principles of insurance which are detailed below:

(a) **Insurable Interest :** The principles of insurable interest are a precondition for a valid contract of insurance. If insurable interest is not present, the insurance contract becomes wagering contract which is not valid and cannot be enforced in the court of law. Hence, the person getting an insurance policy must have an insurable interest in the property or life insured. For example, the banker has insurable interest in the properties mortgaged by the lenders or the husband may have insurable interest in his own life or in the wife's life.

(b) **Utmost Good Faith :** The insurance contract requires absolute and utmost good faith on the part of all the parties concerned with the contract. If the utmost good faith is lacking, the contracts made by the parties becomes invalidated. Good faith refers to absence of fraud on the part of the parties to the contract. The party proposing to take the insurance policy has to disclose all the material facts relevant to the contract to the insurer; otherwise it lacks good faith and leads to invalidation of contract.

(c) **Indemnity :** Indemnity refers to make good the loss and nothing more than the actual loss. The Insurers' actual loss is indemnified on the occurrence of certain event. The principle of indemnity is applied to all the insurance contracts where the loss suffered by the insured can be measured and mode of putting the insured after the mitigation of loss in the same position in which he was placed just before the occurrence of loss. Hence, all the contracts of insurance, except life insurance, are the contracts of indemnity.

(d) **Proximate Cause :** It is also called principle of 'causa proxima'. Causa proxima is a Latin term which means nearest or proximate or immediate cause. This principle is useful in deciding the actual cause of loss when a number of causes have contributed for the occurrence or loss. In determining the liability of the insurer, the proximate cause for the loss is considered and not the remote cause of loss incurred. This clause is very much used in the marine insurance, where in the loss or damage to ship or cargo results on account of number of reasons and the loss suffered may not be attributed to any single reason.

(e) **Subrogation :** It is also known as 'Doctrine of Rights Substitution. It is defined as the insurer's right to receive the benefits of all the rights of the assured against third parties which, it satisfied will extinguish or diminish the ultimate loss sustained. It is the transfer of rights and remedies of the insured in the subject matter to the insurer after the indemnification. The right of ownership of affected property passes on to the insurer.

(f) **Contribution :** It is the right of an insurer who has paid under a policy, to cover a proportionate amount from other insurers who are liable for the loss. The principle of contribution ensures equitable distribution of losses among the insurers. The insured cannot be restored to a better position than before the loss.

(g) **Mitigation of Loss :** This principle is related to minimizing or decreasing the severity of the loss. It says that duty of the insured is to take all such steps to minimize the loss as would have been taken by any person who is not insured.

6.4 Advantages of Insurance

Insurance provides variety of advantages to the common people trade, government and other agencies. The advantages of insurance are detailed below.

(a) **Provides Certainty :** Insurance helps the insured to convert his uncertainties into certainties by entering into contract with insurer. The payment of premium by insured enables to reduce the risk.

(b) **Distribution of Losses:** Insurance helps to distribute the losses of any uncertain events among the large number of insurers. It enables to transfer the risks and spreads the fmancial loss of insured members over the whole insurers.

(c) **Provides Security :** It provides security to the insured against the risk of uncertain events. The insurance company guarantees the insured to compensate or indemnify the losses on the occurrence of an event, in consideration for payment of premium.

d) **Generates Capital :** Insurance reduces the financial risks and losses by providing facilities of capital in vestments in various organizations.

e) **Increases Efficiency :** Insurance reduces the risk and increases the efficiency in business. It provides security for business community which in turn paves the way for growth and diversification of the industry.

f) **Earns Foreign Exchange :** Insurance provides security to the international traders, shippers and banking institutions, thus paves the way for expansion of foreign trade. The increased foreign trade activities leads to securing foreign exchange which makes the country to become economically strong.

g) **Social Security :** Insurance acts as an instrument to fight against evils of poverty, unemployment, disease, old age, sickness, disability, accidents, fire and similar other calamities of nature.

h) **Promotes Thrift :** Insurance encourages the people to go for savings. It alters the people in their spending habits and makes them to save a certain sum of money regularly.

6.5 Disadvantages

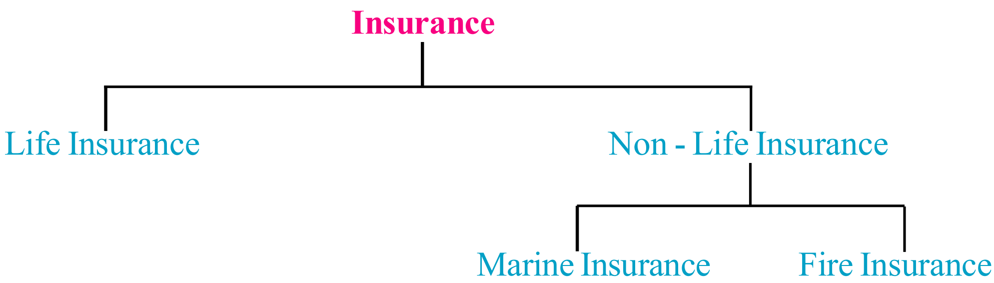
Although insurance provides number of advantages to different people and organizations, it suffers from following limitations:

a) **Sharing of Loss:** The loss of one person should be shared by all other policy holders. But the sharing of loss is opposed by many people as their return on investment is reduced.

b) **Real Value of Money :** The maturity value of policy after the specific period may be more but the real value of money is going to be less.

c) **Lack of Confidence :** Many of the investors, who propose to save their money, prefer banks and other financial institutions. It is due to lack of confidence in the insurance companies and its policies.

6.6 Types of Insurance



A) Life Insurance

Since life itself is uncertain, all individuals try to assure themselves of a certain sum of money in the future to take care of unforeseen events or happenings. Individuals in the course of their life are always exposed to some kind of risks. A Life Insurance policy was introduced as a protection against the uncertainty of life.

Life Insurance, usually referred to as "life assurance" insures the insured against the happenings of certain event i.e., death through the time when it may happen is uncertain.

According to R.S. Sharma, "Life Insurance refers to a contract whereby the insurer, in consideration of a premium paid either in lump sum or in periodical instalments, undertakes to pay an annuity of a certain sum of money either on the death of the insured or on the expiry of a certain number of years."

The definitions of learned persons, judges and insurance legislation reveal that life insurance is :

(i) a contract between insured and insurer.

(ii) the insured pays money in the form of premium.

(iii) in consideration of premium received.

The insurer pays certain sum of money to the insured on the expiry of specific period or on his death to the nominee whichever is earlier.

Advantages of Life Insurance

a) **Encourages Savings Habit :** Life insurance encourages the saving habits of the people, since they have to pay premiums at regular intervals.

b) **Policy can be Assigned or Mortgaged :** Life insurance policy can be used to raise loans by assignment and it can be mortgaged to avail housing loans and other loans from insurance companies and other financial institutions.

c) **Tax Benefits :** The Ministry of Finance extends income tax benefits on the amount of premium paid by the insured.

d) **Protection to Family Members :** Life insurance provides economic protection to family members of the insured in case of his untimely death. It ensures economic support to family members.

e) **Best Source of Investment :** Life insurance is considered as best source of investment, since it ensures better return on investment, as well covers protection for the sum invested.

f) **Provides Social Security :** Life insurance provides social security to the insurers in the form of old age pensions, health insurance, accidents, disablement, children's marriage and education etc.

Types of Life Insurance Policies

Some of the popular types of Life Insurance Policies are as follows:

i) **Whole life policy :** It runs throughout the life time of the policy holder. Premium is low and covers high risk. The premium will be payable for a fixed period (20 to 30 years) or for the whole life of the assured.

(ii) **Endowment life assurance policy :** The policy is taken up for a specific period. The policy will mature at the expiry of a specific period or attainment of particular age or on the death of the insured whichever is earlier.

(iii) **Joint life policy :** A policy may be taken up jointly on the lives of two or more persons. On the death of anyone person, the policy amount is paid to other surviving policy holder as the case maybe.

(iv) **Annuity policy :** Under this policy an insured would deposit a lump sum amount with the insurance company. The amount of the policy would be paid to the insured for a specified number of years, or until the death of the assured.

(v) **Children's endowment policy :** This policy is taken by a person for his/her children to meet the expenses of their education or marriage. The agreement states that a certain sum will be paid by the insurer when the children attains a particular age.

B) Fire Insurance

Fire insurance is an agreement between the insurers and the insured whereby the insurers having received premium undertake to make good the financial loss to the extent of specified amount, suffered by the insured as a result of damage or destruction of the insured property by fire or other specified perils during a stated period. The contract of fire insurance does not help in controlling or preventing fire but it is a promise made by a insurer to compensate the loss caused by fire.

Section 2(6A) of Insurance Act, 1938 defines fire insurance as the business of effecting, otherwise than incidental to some other class of insurance business, contracts of insurance against loss by or incidental or fire or other occurrence customarily included among the risks insured against in fire insurance policies.

Features of Fire Insurance

The important features of Fire Insurance are given below:

a) **Contract of Indemnity :** The fire insurance contract is a contract of indemnity and insured cannot claim more than the value of goods lost or damaged by fire or the amount of policy whichever is less.

b) **Lawful Consideration :** There must be consideration in fire insurance contract. The consideration in the contract is paid by insured, which is called as premium. Thus, the essential element of fire insurance contract is premium received from the insured.

c) **Insurable Interest :** The insured must have insurable interest in the property or goods insured against fire. He must have insurable interest at the time of taking the policy and also at the time when the loss occurs and claim is filed for compensation.

d) **Claim Over Residue :** The scrap or the damaged goods after the fire automatically pass on to the insurer after the payment of claim under fire insurance.

e) **Cause of Accident :** The loss must be the outcome of fire or ignition. No other reason for loss of property is accepted for settlement of claim.

f) **Utmost Good Faith :** In fire insurance contract, both insured and insurer must have utmost good faith on each other.

C) Marine Insurance

Marine insurance is the oldest form of insurance. It is concerned with overseas trade conducted through sea routes. It covers a large number of risks pertaining to the ship or cargo such as sinking of ship, burning of ship, standing or going astray of the ship, accident, collision of ships, jettison, barratry, piracy, explosion, sea dacoits, stormy winds causing losses to the ship and cargo and many other perils of the sea. Thus, Marine Insurance is an arrangement by which the insurance company or the underwriter agrees to indemnify the owner of the ship or cargo against the risks involved in marine cargo and ship.

Arnold defines Marine Insurance as a "Contract whereby one party for an agreed consideration, under takes to indemnify the other against loss arising from certain perils and sea risks to which a shipment and other interest in a marine adventure may be exposed during a certain age or a certain time."

Marine Insurance is slightly different from other types of Insurance. There are three things involved which are as follows:

a) **Ship or Hull Insurance :** Since the ship is exposed to many dangers at sea, the insurance policy is for indemnifying the insured for losses caused by damage to the ship.

b) **Cargo Insurance :** The cargo while being transported by ship is subject to many risks. These may be at port i.e., risk or theft, lost goods or on voyage etc. Thus, an insurance policy can be issued to cover against such risk to cargo.

c) **Freight Insurance :** If the cargo does not reach the destination due to damage or loss in transit, the shipping company is not paid freight charges. Freight insurance is for reimbursing the loss of freight to the shipping company i.e., the insured.

Features of Marine Insurance

The following are the characteristics of Marine Insurance:

a) **Fundamentals of General Contract :** Marine Insurance must have the fundamentals of general contract i.e., insurable interest, utmost good faith, indemnity, subrogation, contribution, warranties, causa proxima etc.

b) **Consideration :** Marine Insurance is a contract between the insured and insurer. Hence, insured is under an obligation to pay certain amount periodically to the insurer in consideration for accepting the risk.

c) **Coverage for Insurance :** In Marine Insurance, cargo ship and freight can be insured. It covers a large number of risks such as sinking of the ship, burning of the ship, standing of the ship, collision of ships, sea decoities etc.

d) **Mode of Insurance :** In Marine Insurance, the insurance may be for a single journey or number of journeys or for a specific period of time. Insurance must be renewed once the specific condition is lapsed.

e) **Indemnify the Losses :** In Marine Insurance, the insurers guarantee to indemnify the losses caused by sea perils only.

f) **Condition for Compensation :** In Marine Insurance, the affected person i.e., insured is compensated only when the loss is occurred to the ship or cargo. It also includes third party insurance.

6.7 Re-insurance and Double Insurance

Re-insurance refers to an insurance contract between two or more insurance companies. According to the Federation of Insurance Institute, Bombay, Re-insurance is an arrangement whereby an insurer has accepted an insurance transfer as a part of the risk to another insurer so that his liability on any risk is limited to a figure, proportionate to his financial capacity.

Double insurance means purchasing more than one policy for the same subject. A person may get two or more policies on his life. He can claim the amount on all these policies. The implications of double insurance are different in case of fire and marine insurance. When a person purchases two are more policies for his property, he cannot claim the same amount as that of loss from different companies.

Distinction between Reinsurance and Double Insurance

Reinsurance	Double Insurance
1. It is a contract between two or more insurers.	It is a contract between the insured and the insurer.
2. It is a device of redistribution of risks.	There is no transfer of risks which is already insured.

6.8 Insurance and Assurance

Generally the words Insurance and Assurance are considered to be synonyms but their meaning is different. The word assurance is used for life assurance policies, whereas, the word insurance is used for fire and marine insurance. Under the contract of insurance, the risk is uncertain and the liability mayor may not occur. On the other hand, life assurance the payment is made either on maturity or on the death of the insured, whichever is earlier. So the company will have to make the payment of the policy, it is only a question of time. In case of insurance contracts, the sum insured will be payable only when there is a loss. Therefore, the liability under insurance contract mayor may not arise.

6.9 Warehousing

A warehouse is a commercial building used for storage of goods while warehousing is the process of proper storage and handling of goods and cargo using scientific methods in the warehouse and making them available conveniently when needed. In today's scenario, warehousing is considered as one of the most important aspects of trade.

Significance

The importance of warehousing is given below :

1. Some commodities are produced in a particular season only. To ensure their off-season availability, warehousing is needed.
2. Some products are produced throughout the year but their demand is seasonal. Warehousing is important in such cases to store the excess production.
3. For the companies which opt for large scale production and bulk supply, warehousing is an unavoidable factor.
4. Warehousing help companies ensure quick supply of goods in demand.
5. Production of goods and their movement of goods are important for the companies for continuous production of goods.
6. Warehousing is also important for price stabilization. For necessary goods, the government store them is the warehouses and control its supply in the market as per the price fluctuations.
7. Another important need of warehousing is for bulk breaking.

Types of warehouses

(i) **Private Warehouses :** Private warehouses are operated, owned or leased by a company handling their own goods, such as retail chain stores or multi-brand multi product companies. The benefit of private warehousing includes control flexibility and other benefits like improved dealer relations.

(ii) **Public Warehouses :** Public warehouses can be used for storage of goods by traders, manufacturers or any member of the public after the payment of a storage fee or charges. The government regulates the operations of these warehouses by issuing licenses to private parties.

(iii) **Bonded Warehouses :** Bonded warehouses are licensed by the government to accept imported goods prior to payment of tax and customs duty. These goods are imported from other countries. Importers are not permitted to remove goods from the docks or the airport till customs duty is paid. At times, importers are not in a position to pay the duty in full or does not require all the goods immediately. The goods are kept in bonded warehouses by the customs authorities till the customs duty is paid. These goods are said to be in bond.

(iv) **Government Warehouses :** These Warehouses are fully owned and managed by the Government. The Government manages them through organizations set up in the public sector. For example, Food Corporation of India, State Trading Corporation and Central Warehousing Corporation.

(v) **Cooperative Warehouses :** Some marketing cooperative societies or agricultural cooperative societies have set up their own warehouses for members of their cooperative society.

6.10 Transportation

It is one of the activities of Physical Distribution. The physical distribution is one of the ingredients of marketing mix. Transport is the means of moving goods and persons from one place to another. Transport creates place utility of goods by moving them from different centres of production to the places of consumption. Goods are now produced thousands of miles away from places where the consumer resides. It is only the transportation that would help the businessmen to reach consumers. Not only does it give place utility but it also renders time utility in various ways.

Here, transportation in simple language can be defined as *'a means through which goods* are transferred from one place to another'.

Functions / Benefits of Transport

1. **Movement of Goods :** The first important function of transport is the movement of goods. The raw materials have to move from their sources to the factory. The manufactured goods have to move from the factory to the consuming areas.
2. **Mobility of Labour and Capital :** An efficient network of transport services encourages the movement of people from one place to another. Labour can migrate to the place where they can get better job opportunities, which reduces exploitation of labour.

3. **Creation of Place Utility :** It moves goods from those places where they are abundant to those where they are scarce.

4. **Specialization and Division of Labour :** Transportation facilitates optimum utilization of national resources of a country. For example, petroleum resources of Arab countries, watches of Switzerland etc.

5. **Creation of Time Utility :** With the advancement of technology, transportation time is being shortened. This helps in lesser inventory costs.

6. **Stability in Prices :** Goods can be transported from the place where the goods are abundant to the places where scarcity exists. In this way, prices are equalized throughout the country.

7. **Contribution to National Income :** The transportation also contributes towards national income of a nation. For example, our railways contributes much for GDP.

8. **Economies of Large Scale Production :** Transport has helped the development of large scale industries. Transport, facilitates procuring raw material, labour and sale of finished goods.

9. **Improves Standard of Living :** Availability of wide variety of goods at reasonable prices improves standard of living of people.

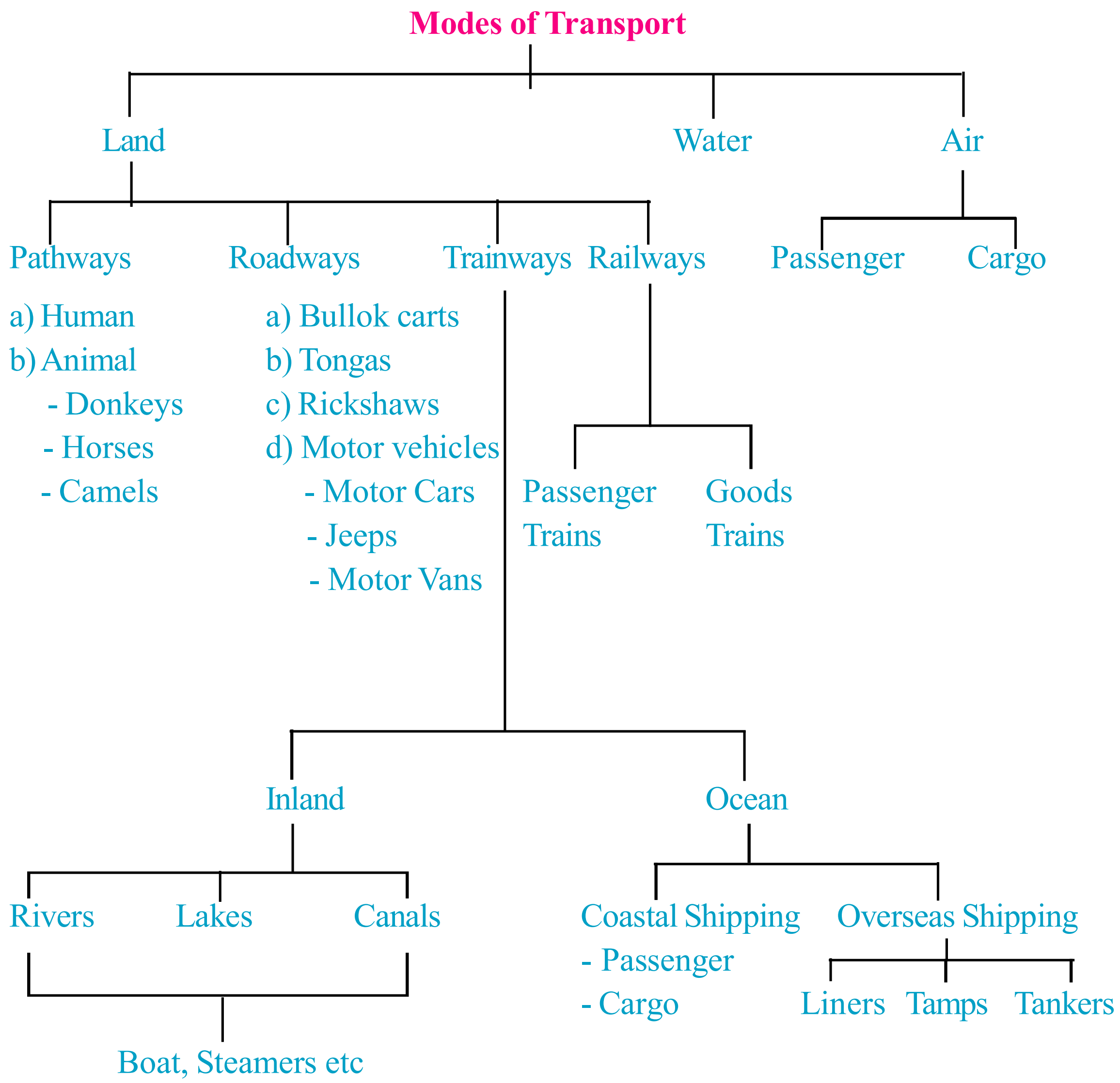
10. **National Defence :** Transport strengthens national defence transport system. During war period, all the personnel, material and equipment can be moved rapidly to the border areas.

Limitations of Transport

1. **Cottage and Small Scale Industries Lost their glory :** With the development of transport, labour is showing interest to work in big factories. This has led to shortage of workers in tiny and small scale industries.

2. **Accidents :** Improvement of transport facility, has given rise to a new problem, viz., accidents.

3. **High Urbanization :** Improved means of transport has helped in creating big cities, which have further resulted into concentration of population in these cities. This has given rise to many new problems such as housing, pollution and health.



A) Road Transport

Road Transport is the oldest form of transport. It is particularly good for short distance. Door-to-door collection and delivery are possible in the case of road transport. It is most suitable for perishable goods. In this type of transport, both men and animals are used to carry goods and people. Modes of Road Transport are Bullock carts, Tonga, rickshaws and motor vehicles such as jeeps, buses, motor vans, trucks and other vehicles. Road transport is suitable for the goods, such as goods, clothing, computers, livestock, cement etc.

The Indian road network is one of the largest in the world. Indian roads are classified into three types-National highway, State highway, District and rural roads.

Kinds of Roads in India

a) **National Highway :** These roads are meant for inter-state transport and movement of defence men. These roads also connect the state capitals, major cities, etc. The National Highway Authority of India (NHAJ) has the responsibility of development, maintenance and operation of National Highways.

b) **State Highways :** These are constructed and maintained by State governments. They join the State capital with district headquarters and other important towns. These constitute 4 per cent of total road length in the country.

c) **District Roads :** These roads are the connecting link between district headquarters and the other important roads of the district. They account for 14 per cent of the total road length of the country.

d) **Rural Roads :** These roads provide links to the rural areas. These are about 80 per cent of total length in India and categorized as rural roads.

e) **Border Roads :** These roads are in the northern and north-eastern boundary of the country. The Border Road Organisation constructs and maintains Border roads, constructs roads in high altitude areas and undertakes snow clearance.

f) **International Highways:** These are meant to promote the harmonious relationship with the neighbouring countries by providing effective links with India.

Advantages

1. **Less Capital :** It requires lesser capital for constructing the roads compared to Railways and Airways. Roads are maintained by the Government and local authorities.

2. **Door-to-Door Service :** Road transport provides door delivery facilities for industrial concerns. It can drop the goods and passengers at any point of the road to their advantage. It reduces the terminal transshipment costs.

3. **Service to Rural Areas :** Exchange of goods between villages and towns are made possible by road transport.

4. **Low Maintenance :** The maintenance charges of the road carriers are much less than that of railways.

5. **Flexible Service :** Road vehicles are very flexible. The routes and timings can be adjusted to the individual requirements.

6. **Suitable for Short Distance :** It is more economical and quicker for carrying goods and people over short distances.

7. **Feeder to Other Modes of Transport :** All the movements of goods begin and ultimately end by making use of roads.

8. **Less Cost :** Road transport not only requires less initial capital investment, the cost of operation and maintenance is also comparatively less.

9. **Rapid Speed :** Road transport reduces the effective duration of the transit in comparison with water transport. Roadways is much faster than waterways.

Disadvantages

1. **Less Reliable:** Road transport cannot be relied upon for long distance travel. During rainy or flood season, roads become unfit and unsafe for use.

2. **Accidents and Breakdown:** There are more chances of accident and breakdowns in case of motor transport. Thus, motor transport is not as safe as rail transport.

3. **Lesser Speed:** The speed of motor transport is comparatively slow.

4. **Limited Carrying Capacity:** Load carrying capacity of road transport is limited. In case, bulky goods are to be transported road transport is not effective.

5. **More Expensive:** The roadway is more expensive than railway transport for long distance travel.

B) Rail Transport

Railway transport occupies a significant role in the transport system of a country. The development of trade, industry and commerce of a country largely depends on the development of railways.

Rail network is connecting almost all cities and towns, hence railways act as a major player and handle high tonnage and provides good revenue to the Government treasury. It has a capability of transferring large goods over long distances economically. The goods such as mineral ores, farm products, heavy and bulky machinery, petroleum, autos etc., can be transported full wagonloads at lower rates and require less handling.

Advantages

1. **Easy Transportation:** It facilitate long distance travel and transport of bulky goods which are not easily transported though motor vehicles.

2. **High Speed and Certainity:** It is a quick and more regular form of transport because it helps in the transportation of goods with speed and certainty.

3. **Leads to Industrialisation:** It helps in the industrialization process of a country by easy transportation of coal and raw materials at a cheaper rate.
4. **Quick Movement:** It helps in the quick movement of goods from one place to another at the time of emergencies like famines and scarcity.
5. **Mobility of Labour:** It encourages mobility of labour and thereby provides a great scope for employment.
6. **Safety:** Railway is the safest form of transport. The chances of accident and breakdown of railways are less as compared to other modes of transport.
7. **Carrying Capacity:** The carrying capacity of the railways is extremely large. Moreover, its capacity is elastic which can easily be increased by adding more wagons.

Disadvantages

1. **Huge Capital:** The railway requires a large investment of capital. The cost of construction, maintenance and overhead expenses are very high as compared to other modes of transport.
2. **Inflexibility:** Another disadvantage of railway transport is its inflexibility. It routes and timings cannot be adjusted to individual requirements.
3. **Rigidity:** Rail transport cannot provide door to door service as it is tied to a particular track.
4. **Uneconomical:** Railway transport is unsuitable and uneconomical for short distances and small traffic of goods.
5. **Time Consuming:** It involves much time in booking and taking delivery of goods though railways as compared to motor transport.

C) Water Transport

Water transport is the cheapest and the oldest mode of transport. It operates on a natural track and requires less capital in the construction and maintenance. The cost of operation of water transport is also very less. It has the largest carrying capacity and is most suitable for carrying bulky goods over long distances. It has given a boost to world trade and commerce. Petroleum, iron ore, chemicals, grain and bauxite etc., are the goods most suitable for Water Transport.

Advantages

1. **Less Maintenance Cost:** Maintenance cost in rail and road transport is quite high but maintenance cost of water transport is very less.
2. **Cheap:** This transport channel is quite cheap as compared rail and road transport.
3. **Useful for Bulky Goods:** Heavy and bulky goods can be transported easily at little cost through water transport.
4. **Useful During Natural Calamities:** During natural calamities like flood and rains, when rail and road transport is disrupted, relief operations can be operated through water transport.
5. **Helpful in Defence:** Development of shipping is essential for the defence of the country also. It is also called as second line of defence.
6. **Importance of Foreign Trade:** Water transport plays an important role in foreign trade. India's foreign trade is mainly dependent on water transport.

Disadvantages

1. **Slow Speed:** It is a slow means of transport. Failure of monsoon results into fall in the water level of river making navigation difficult.
2. **More Risky:** Water transport is more risky as compared to other means because there is always danger of sinking ships or boats.
3. **Costly:** Efficient shipping requires adequate port facilities which are generally costly to organize and to operate.

D) Air Transport

Air transport is the most recent mode of transport. It is the gift of the 20^{th} century to the world. The two world wars gave a great impetus to the development of air transport in almost all the countries of the world. The peculiar characteristic of air transport is that it does not need specific surface track for its operations.

It has no physical barriers as in the case of other modes of transport. The supreme advantage of air transport lies in its quickness. It is the fastest mode of Transport. But the cost of its operation is very high, hence is suitable for only rich passengers, mails and light and costly cargo.

Advantages

1. **High speed:** The supreme advantage of air transport is its high speed. It is the fastest mode of transport and thus it is the most suitable mean where time is an important factor.
2. **Comfortable and Quick Services:** It provides regular, comfortable, efficient and quick services.
3. **No Investment in Construction of Track:** It does not require huge capital investment in the construction and maintenance of surface track.
4. **No Physical Barriers:** It follows the shortest and direct route as seas, mountains or forests do not come in the way of air transport.
5. **Easy Access:** Air transport can be used to carry goods and people to the areas which are not accessible by other means of transport.
6. **Suitability:** It is most suitable for carrying goods of perishable nature which require quick delivery and light goods of high value such as diamonds, bullion etc., over long distances.
7. **National Defence:** Air transport plays a very important role in the defence of a country. Modern wars have been fought mainly by aeroplanes.

Disadvantages

1. **Very Costly:** It is the costliest means of transport. The fares of air transport are so high that is the beyond the reach of the common man.
2. **Small Carrying Capacity:** Its carrying capacity is very small and hence it is not suitable to carry cheap and bulky goods.
3. **Uncertain and Unreliable:** Air transport is uncertain and unreliable as it is controlled to a great extent by weather conditions. Unfavourable weather such as fog, snow or heavy rain etc.
4. **Breakdowns and Accidents:** The changes of breakdowns and accidents are high as compared to other modes of transport.
5. **Large Investment:** It requires a large amount of capital investment in the construction and maintenance of aeroplanes. Further, very trained and skilled persons are required for operating air services.

6. **Specialized Skill:** Air transport requires a specialized skill and high degree of training for its operation.

E) Pipelines

It is a significant means of transport for the movement of liquid commodities, particularly, crude oil natural gas and other petroleum products are transported through pipelines. Pipelines offer uninterrupted movement at a relatively low-cost. They are dependable, fuel-efficient, and involves less losses and damages. It can be operated for 24 hours basis, seven days per week and are limited only by commodity change over and maintenance. Pipelines are used for transporting petroleum products from wells to refineries and from refineries to consuming areas. The pipelines are much economical for carrying oil from one place to another.

Advantages

1. **Economical:** Crude oil or coal and gas transported through the pipelines costs almost 1/4 of railways and roadways.
2. **Uninterrupted Service:** Pipeline transportation presents **all** weather system to move the products. Absolutely there is no wastage of time as it works round the clock.
3. **No Danger of Wastage:** As there are no occasion of loading and unloading, there is any scope for spilling, evaporation, pilferage and so on.
4. **Underground:** The pipeline is usually underground and, hence, takes no additional space. It can travel through difficult terrain.

Disadvantages

1. **Initial Heavy Investment:** Though operational and maintenance costs are minimal, the capital cost of pipeline is rather much higher and that is why a country like India has minimum length.
2. **Danger of Enemy Attacks:** During the periods of war and political upheaval, pipelines are likely be targeted.

Unit Summary

Business Service would facilitate flow of goods from producers to consumers, by eliminating hindrances of place, time exchange and persons. Some of the business services are banks, insurance, warehousing and transport.

Bank refers to financial institution which accepts deposits from public for the purpose of lending and repayable on demand. It performs primary and secondary functions. The banks can be classified as commercial banks, co-operative banks, specialized banks and central banks. The different facets of electronic banking are ATM, Telebanking, email banking, online banking, mobile banking etc.

Insurance is a form of contract in which one party agrees in return of a consideration to pay an agreed amount to another party to make good for loss suffered. The important principles of Insurance are insurable interest, utmost good faith, indemnity, proximate cause, subrogation, contribution and mitigation of loss. The insurance may be classified as life insurance, non-life insurance. Non life insurance includes Fire Insurance and Marine Insurance.

Warehousing is the process of proper storage and handling of goods while kept in warehouses. Various types of warehouses are private warehouses, public warehouses, bonded warehouses, government warehouses and co-operative warehouses. Transportation is a means through which goods are transferred from one place to another. The various modes of transport are Roadways, Railways, Waterways, Airways and pipe lines.

MODEL QUESTIONS

I. Essay Answer Questions

1. Define Banking. Explain the functions of the banking
2. Discuss the Principles of Insurance.
3. Define life Assurance Policy. What are the kinds of Life Assurance policies?
4. What do you understand by Transport? Discuss the benefits and limitations of Transport.
5. Describe the Road Transportation. Explain the kinds of roads in India.
6. Explain the warehouse concept and its significance.
7. Explain the various types of Banks in India.
8. Define Electronic Banking and explain the various facets.

9. Explain the advantages and disadvantages of Insurance.
10. Define Warehouse and explain the various types of Warehouses.
11. Explain the advantages and disadvantages of Air transport.
12. What are the advantages and disadvantages of pipelines? Explain.

II. Short Answer Questions

1. Define services and goods.
2. What are the advantages of E-Banking?
3. What is Mobile Banking? What services can be obtained through mobile banking?
4. What are the advantages of electronic Banking?
5. Explain the term Insurance? Explain the functions of Insurance.
6. Differentiate Re Insurance and Double Insurance.
7. What are the advantages of Life insurance Policies?
8. Explain the characteristics of a Marine Insurance.
9. Define Fire Insurance. Explain its characteristics.
10. Briefly state the advantages and disadvantages of Road Transportation.
11. State various advantages and disadvantages of Railway Transportation.
12. What are the functions of Insurance?
13. What are the advantages and disadvantages of water transport?

III. Very Short Answer Questions

1. AIM
2. Online Banking.
3. Tele Banking.
4. Mobile Banking.
5. Electronic Banking.
6. Differentiate Insurer and Insured.
7. Premium.
8. Insurance.

9. Re-Insurance.
10. Double Insurance.
11. Subrogation.
12. Proximate cause.
13. Insurable Interest.
14. Endowment policy
15. Whole life policy
16. Name the subject matters of Marine Insurance
17. Cargo Insurance
18. Freight Insurance
19. Essential of Fire Insurance
20. National Highway
21. Pipelines
22. Bonded warehouse
23. Public warehouse
24. Cash Credit
25. Bill discounting
26. Recurring Deposit
27. Insurance and Assurance
28. Utmost good faith
29. Contract of Indeminity
30. Hull Insurance
31. Air Transport
32. Business Services

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UNIT - 4

FINANCIAL MARKETS

Chapter 7: Fundamentals of Financial Markets

Chapter 8: Stock Exchange and SEBI

CHAPTER 7

FUNDAMENTALS OF FINANCIAL MARKETS

7.1 Financial Markets Meaning

The financial system is the life line of the economy and a well-developed financial system greatly facilitates economic development of a country. The financial system mobilises savings and make them available for productive investment. It consists of fmancial institutions, financial markets, financial instruments and financial services.

Business is a part of an economic system that consists of two main sectors, households which save funds and business firms which invest these funds. Afmancial market helps to link the savers and the investors by mobilizing funds between them, by which it performs an allocate function i.e. it allocates or directs funds available for investment into their most productive investment opportunities.

Households	→	Banks/	←	Business Firms
Savers	→	Financial Markets	←	Investors

As presented above, there are two major alternative mechanisms through which allocation of funds can be done, such as banks or fmancial markets. Households can deposit their surplus funds with banks, who in tum could lend these funds to business firms. Alternately, households can buy the shares and debentures offered by a business using financial markets. The process by which allocation of funds is done is called financial intermediation. Banks and financial markets are competing intermediaries in the financial system, and gi ve households a choice of where they wantto place their savings.

A financial market is a broad term describing any marketplace where buyers and sellers participate in the trade offmancial assets such as equities, bonds, currencies and derivatives. Investors have access to a large number of financial markets and exchanges representing a vast range of financial products. Some of these markets have always been open to private investors; others remained the exclusive domain of major international banks and fmancial professionals until the very end of the twentieth century.

7.2 Functions of Financial Markets

Specifically, financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions:

1. **Mobilisation of Savings :** A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelise surplus funds into the most productive use.

2. **Facilitating Price Discovery:** It is known that the forces of demand and supply help to establish a price for a commodity or service in the market. In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.

3. **Providing Liquidity to Financial Assets:** Financial markets facilitate easy purchase and sale of fmancial assets. In doing so, they provide liquidity to financial assets, so that they can be easily converted into cash whenever required. Holders of assets can readily sell their financial assets through the mechanism of the financial market.

4. **Reducing the Cost of Transactions:** Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other. The financial market is thus, a common platform where buyers and sellers can meet for fulfilment of their individual needs.

7.3 Classification of Financial Markets

Financial markets are basically classified, on the basis of the maturity of financial instruments traded in them, into money market and capital market. The financial instruments with a maturity of less than one year are traded in the money market and with longer maturity are traded in the capital market. Further, money market is classified primarily into call money market, acceptance market, bill market, collateral loan market, whereas, capital market may include both primary market and secondary markets.

Financial Market

Money Market

a) Call Money Market

b) Acceptance Market

c) Bill Market

d) Collateral Loan Market

Capital Market

a) Primary Market

b) Secondary Market

7.4 Money Market

The money market is a market for short term funds which deals in monetary assets whose period of maturity is up to one year. These assets are close substitutes for money. This market facilitates the raising of short -term funds for meeting the temporary shortages of cash and obligations and the temporary deployment of excess funds for earning returns. The major participants in the money market are the Reserve Bank of India (RBI), Commercial Banks, Non-Banking Finance Companies, State and Central Governments, Large Corporate Houses and Mutual Funds.

7.4.1 Components

The basic components of Money Market are:

i) Call Money Market, ii) Acceptance Market, iii) Bill Market, iv) Collateral Loan Market.

i) **Call Money Market:** It is an important sub - market of the Indian money market. It is also known as money at call and money at short notice. It is also called inter bank loan market. In this market, money is demanded for extremely short period. The duration of such transactions is from few hours to 15 days. It is basically located in the industrial and commercial locations such as Mumbai, Delhi, Kolkata etc. These transactions help stock brokers and dealers to fulfil their financial requirements. The rate at which money is made available is called as a call rate. Thus, rate is fixed by the market forces such as the demand for and supply of money.

ii) **Acceptance Market:** A market consisting primarily of short term instruments of credit typically used by exporters in getting paid more quickly for their exported goods.

iii) **Bill Market:** Bill market is meant for short-term bills, where, buying and selling of short dated papers, bills etc., take place. It includes commercial bill market and Treasury bill market. It helps the government by marketing of treasury bills and helps the other sectors as well.

iv) **Collateral Loan Market:** It is an important section of the money market, which takes the form of loans, overdrafts, cash credits. The loans and advances are covered by collaborates like government securities, gold, silver, stocks of corporations, merchandise etc.

7.4.2 Instruments of Money Market

Some of the important instruments of money market are as follows:

1. **Treasury Bill:** A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. The purchase price is less than the face value. At maturity the government will pay full of face value.

2. **Commercial Paper:** Commercial paper is a short-term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short-term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year. It is sold at a discount and redeemed at par. The original purpose of commercial paper was to provide short-terms funds for seasonal and working capital needs. Companies use this instrument for purposes such as bridge financing.

   For Example: Suppose a company needs long-term finance to buy some machinery. In order to raise the long term funds in the capital market, the company will have to incur floatation costs (costs associated with floating of an issue are brokerage, commission, printing of applications, advertising etc.). Funds raised through commercial paper are used to meet the floatation costs. This is known as Bridge Financing.

3. **Call Money:** Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial banks have to maintain a minimum cash balance known as cash reserve ratio. Call money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio. The interest rate paid on call money loans is known as the call rate. It is a highly volatile rate that varies from day-to-day and sometimes even from hour-to-hour also.

4. **Certificate of Deposit:** Certificates of deposit (CD) are unsecured, negotiable, shortterm instruments in bearer fonn, issued by commercial banks and developed financial institutions. They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high. They help to mobilise a large amount of money for short periods. The return on the certificate of deposit is higher than the Treasury Bills because it assumes a higher level of risk.

5. **Commercial Bill:** A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms. The credit seller (drawer) of the goods draws the bill and the buyer (drawee) accepts it. On being accepted, the bill becomes a marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill matures. When a trade bill is accepted by a commercial bank it is known as a commercial bill.

6. **Collateral Loan:** Commercial banks provide loans against the Government securities and bonds.

7.5 Capital Market

The telm capital market refers to facilities and institutional arrangements through which longterm funds; both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises. The capital market consists of development banks, commercial banks and stock exchanges. The process of economic development is facilitated by the existence of a well-functioning capital market. In fact, development of the financial system is seen as a necessary condition for economic growth. It is essential that financial institutions are sufficiently developed and that market operations are free, fair, competitive and transparent.

7.5.1 Importance of Capital Market

The importance of capital market is as follows:

1. **Link between Savers and Investors:** Capital market plays an important role in mobilising the savings and diverting them into productive investment. In this way it is transferring financial resources from surplus and wasteful areas to deficit and productive areas.

2. **Encouragement of Savings:** In the undeveloped countries, there are very less savings and those who save often invest their savings in unproductive areas and conspicuous consumption in the absence of a capital market. With the development of capital market, the financial institutions provide vast range of instruments which encourage people to save them.
3. **Encouragement of Investments:** Various financial assets like shares, bonds, etc., encourage savers to lend to the govemment or to invest in industry. Thus, the capital market facilitates lending to the businessmen and the government.
4. **Stability in Prices:** The capital market tends to stabilise the values of stocks and securities. In the process of stabilisation it is facilitated by providing capital to the borrowers at a lower interest rate and reducing the speculative and unproductive areas.
5. **Promotes Economic Growth:** The balanced economic growth is possible in any country with the proper allocation of resources among the industries. The capital market not only reflects the general conditions of the economy, but also smoothens and accelerate the process of economic growth.

7.5.2 Types

Capital markets of Capital Markets are basically two types ie., primary market and secondary markets.

(i) **Primary Market:** It is also known as the new issue market. It deals with new securities being issued for the first time. The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs. A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans and deposits. Funds raised may be for setting up new projects, expansion, diversification, modernisation of existing projects, mergers, takeovers, etc. The investors in this market are banks, fmancial institutions, insurance companies, mutual funds and individuals.

ii) **Secondary Market:** It is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelizing funds towards the most productive investments through the process of disinvestment and reinvestment. Securities are traded, cleared and settled within the regulatory framework prescribed by SEBI. Advances in information technology have made trading through stock exchanges accessible from anywhere in the country through trading terminals. Along with the growth of the primary market in the country, the secondary market has also grown significantly during the last ten years.

7.5.3 Distinction between Primary Market and Secondary Market

Primary Market (New Issue Market)	Secondary Market (Stock Exchange)
(i) There is sale of securities to investors by new companies or new issues by existing comparues.	(i) There is trading of existing shares only.
(ii) Securities are sold by the company to the investor directly or through an intermediary.	(ii) Ownership of existing securities is exchanged between investors. The company is not involved at all.
(iii) The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation.	(iii) Enhances encashment (liquidity) of shares, i.e., the secondary market indirectly promotes capital formation.
(iv) Only buying of securities takes place in the primary market. Securities cannot be sold there.	(iv) Both the buying and the selling of securities can take place on the Stock Exchange.
(v) Prices of securities are determined and decided by the management of the company.	(v) Prices are determined by demand and supply of the security.
(vi) There is no fIxed geographical location.	(vi) Located at specified places.

7.5.4 Instruments of Capital Market

The following instruments are dealt in capital market:

1. **Secured Premium Notes (SPN):** It is a secured debenture redeemable at premium issued along with a detachable warrant, redeemable after a notice period, say four to seven years. The warrants attached to SPN gives the holder a right to apply and get allotted equity shares; provided the SPN is fully paid.
2. **Deep Discount Bonds:** A bond that sells at a significant discount and redeemable at par value at the time of maturity. They are designed to meet the

long term funds requirements of the issuer and investors who are not looking for illllIlediate return and can be sold with a long maturity of 25-30 years.

3. **Equity Shares with Detachable Warrants:** A warrant is issued by company entitling the holder to buy a given number of shares at a stipulated price during a specified period. These warrants are separately registered with the Stock Exchanges and traded separately.

4. **Fully Convertible Debentures witb Interest:** This is a debt instrument that is fully converted over a specified period into equity shares. The conversion can be in one or several phases. When the instrument is a pure debt instrument, interest is paid to the investor. After conversion, interest payments cease on the portion that is converted.

5. **Sweat Equity Sbares:** 'Sweat equity shares' able equity shares issued by the company to employees or directors on favourable terms in recognition of their work. Sweat equity usually takes the form of giving options to employees to buy shares of the company, so they become part owners and participate in the profits, apart from earning salary.

6. **Disaster Bonds:** Also known as Catastrophe or CAT Bonds. Disaster Bond is a highyield debt instrument that is usually insurance linked and meant to raise money in case of a catastrophe. It has a special condition that states that if the issuer (Insurance or Reinsurance Company) suffers a loss from a particular pre-defined catastrophe, then the issuer's obligation to pay interest and/or repay the principal is either deferred or completely forgiven.

7. **Foreign Currency Convertible Bonds:** A convertible bond is a mix between a debt and equity instrument. It is a bond having regular coupon and principal payments and also able to take advantage of any large price appreciation in the company's stock, due to the equity side of the bond.

8. **Derivatives:** A derivative is a financial instrument whose characteristics and value depend upon the characteristics and value of some underlying asset typically commodity, bond, equity, currency, index, etc.

7.6 Distinction Between Capital Market And Money Market

Item	Capital Market	Money Market
(i) Participants:	The participants in the capital market are Development banks and Investment Companies. These play a major role.	(i) The Central Bank and Commercial Banks are the major participants.
(ii) Instruments:	The main instruments traded in the capital market are; equity shares, preference shares, debentures, bonds, etc.	(ii) The main instruments are short term debt instruments such as T-bills, trade bills, commercial paper and certificates of diposit.
(iii) Investment Qutlay :	Investment in the capital market does not necessaruly require a huge financial outlay. The value of units of securities is generally low.	(iii) In the money market, transactions entail huge sums of money as the instruments are quite expensive.
(iv) Period:	It is a market for long term funds for more than one year.	(iv) It is a market for short term funds for period not exceeding one year.
(v) Liquidity:	Capital market securities are considered liquid investments because they are marketable on the stock exchanges.	(v) Money market instruments on the other hand, enjoy a higher degree of liquidity as there is formal arrangement for this.
(vi) Safety:	Capital market instruments are riskier both with respect to returns and principal repayment.	(vi) But the money market is generally much safer with a minimum risk of default. This is due to the shorter duration of investing and financial soundness of the issuers.
(vii) Expected Return:	The investment in capital markets generally yield a higher return for investors than the money markets.	(vii) The returns in the money market investments low when compared with capital markets.
(viii) Regulator:	SEBI regulates the institutions and procedures.	(viii) Reserve Bank of India regulates the money market.

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CHAPTER 8

STOCK EXCHANGE AND SEBI

8.1 Meaning Stock Exchange

Stock exchange is a financial barometer of the country, which deals in long term finance. A stock exchange is an institution which provides a platform for buying and selling of existing securities. It provides a connecting link between people who wants to dispose of their investment because they need cash and people who wish to invest because they have surplus cash. As a market, the stock exchange facilitates the exchange of a security (share, debenture etc.) into money and vice versa. Stock exchanges help companies raise finance, provide liquidity and safety of investment to the investors and enhance the creditworthiness of individual companies. Thus, the stock exchange provides an opportunity for the utilisation of the savings of the individuals.

According to Securities Contracts (Regulation) Act 1956, Stock Exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

8.2 Evolution of Stock Exchange

The first stock exchange in India was established as 'Native Share and Stock Brokers Association' at Bombay in 1875, the predecessor of the present day Bombay Stock Exchange (BSE). BSE is located in Dalal Street, Mumbai, which is Asia's first Stock Exchange and one of India's leading exchange groups. Over the past 148 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital raising platform. In 1956, the BSE became the first stock exchange to be recognized by the Indian Government under the Securities Contracts Regulation Act, 1956. It is the 4^{th} largest stock exchange in Asia and the 9th largest in the world. More than 5000 companies are listed on BSE making it world's No.1 exchange in terms of listed members.

As per the Securities Contracts (Regulation) Act, 1956, it is mandatory on the part of a stock exchanges recognised by the Central Government. As of April 2023 there were 23 stock exchanges recognised by the Central Government, but the most important and prominent stock exchanges are National Stock Exchange (NSE) and Over The Counter Exchange of India (OTCEI). Among the recognised 23 stock exchanges two are national level stock exchanges namely Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The rest 21 are Regional Stock Exchanges (RSEs).

A brief description of the NSE and OTCEI is given below:

(a) NSE : The most important development in the Indian stock market was the establishment of the National Stock Exchange (NSE). It is the latest and most modern technology driven exchange. It was incorporated on 27th November 1992 and was recognised as a stock exchange in April 1993. It started operations in 1994, with trading on the wholesale debt market segment. Subsequently, it launched the capital market segment in November 1994 as a trading platform for equities and the futures and options segment in June 2000 for various derivative instruments. NSE has set up a nationwide fully automated screen based trading system. NSE has been able to take the stock market to the door step of the investors. It has provided a nation-wide screen based automated trading system with a high degree of transparency and equal access to investors irrespective of geographical location.

(b) OTCEI : The Over The Counter Exchange of India (OTCEI) is a company incorporated under the Companies Act 1956. It was set-up to provide small and medium companies an access to the capital market for raising finance in a cost effective manner. It was also meant to provide investors with a convenient, transparent and efficient avenue for capital market investment. It is fully computerised, transparent, single window exchange 'which commenced trading in 1992. This exchange is established on the lines of NASDAQ (National Association of Securities Dealers Automated Quotations) the OTC exchange in USA. It has been promoted by UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI Capital markets and Can Bank Financial Services.

8.3 Functions of a Stock Exchange

The stock exchanges provide many useful services to the corporate sector and the investors. The following are some of the important functions of a stock exchange.

1. **Provides Liquidity and Marketability:** The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market.
2. **Pricing of Securities:** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.
3. **Safety of Transaction:** The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.
4. **Contributes to Economic Growth:** A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.
5. **Spreading of Equity Cult:** The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.
6. **Provides Scope for Speculation:** The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

8.4 Term used in Stock Market

Some of the important terms used in stock market are explained in brief ;

8.4.1 Stock Market Index

A stock market index is a barometer of market behaviour. It measures overall market sentiment through a set of stocks that are representative of the market. It reflects market direction and indicates day-to-day fluctuations in stock prices. An ideal index must represent changes in the prices of securities and reflect price movements of typical shares for better market representation. If the index rises, it indicates the market is doing well and vice-versa. In the Indian markets the ESESENSEX and NSE - NIFTY are important indices.

a) **SENSEX (Sensitive Index):** SENSEX is the benchmark index of the ESE. The ESESENSEX (Sensitive Index) is also called the "ESE - 30". Since the ESE has been the leading exchange of the Indian secondary market, the SENSEX has been an important indicator of the Indian stock market. It is the most frequently used indicator while reporting on the state of the market. The SENSEX, launched in 1986 is made up of 30 of the most actively traded stocks in the market. They represent 13 sectors of the economy and are leaders in their respective industries. The index with a base year of 1978-79, the value of base year is 100.

b) **NIFTY:** NIFTY is an index of NSE, which computed from performance of top stocks from different sectors listed on NSE. Nifty stands for National Stock Exchange's fifty. NIFTY consists of 50 companies from 24 different sectors. The companies which form index of nifty may vary from time to time based on many factors considered by NSE. The base year for the index is 1995-96, with the base value as 1000.

8.4.2 Dematerialisation and Depositories

All trading in securities is now done through computer terminals. Since all systems are computerised, buying and selling of securities are settled through an electronic book entry form. This is mainly done to eliminate problems like theft, fake/forged transfers, transfer delays and paperwork associated with share certificates or debentures held in physical form.

This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that he can hold it as an electronic balance in an account. This process of holding securities in an electronic form is called dematerialisation. For this, the investor has to open a Demat Account (Dematerialised Account) with an organisation called a depository. In fact, now all Initial Public Offers (IPOs) are issued in dematerialisation form and more than 99% of the turnover is settled by delivery in the demat form.

The Securities and Exchange Board of India (SEBI) has made it mandatory for the settlement procedures to take place in demat form for trading above 500 shares. Holding shares in demat form is very convenient as it is just like a bank account. Physical shares can be converted into electronic form or electronic holdings can be reconverted into physical certificates (rematerialisation).

Dematerialisation enables shares to be transferred to some other account just like cash and ensures settlement of all trades through a single account in shares. These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates.

It is the broker's responsibility to credit the investor 's account with the correct number of shares.

Depository: Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/sold at any time and instruction to deliver or receive shares on behalf of the investor can be given. It is a technology driven electronic storage system. It has no paper work relating to share certificates, transfer forms, etc. All transactions of the investors are settled with greater speed, efficiency and all securities are entered in a book entry mode.

In India, there are two depositories. **National Securities Depositories Limited (NSDL)** is the first and largest depository presently operational in India. It was promoted as a joint venture of the IDBI, UTI, and the National Stock Exchange. The Central Depository Services Limited (CDSL) is the second depository to commence operations and was promoted by the Bombay Stock Exchange and the Bank of India.

8.5 Securities And Exchange Board Of India (SEBI)

The Securities and Exchange Board of India (SEBI) was established by the Government of India in April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was to function under the overall administrative control of the Ministry of Finance of the Government of India. The SEBI was given a statutory status in January 1992 through an ordinance. The ordinance was later replaced by an Act of Parliament known as the Securities and Exchange Board of India Act, 1992.

SEBI is regulator to control Indian capital market. Since its establishment in 1992, it is doing hard work for protecting the Indian investors. SEBI gets education from past cheating with innocent investors of India. Now, SEB! is strict with those who commit frauds in capital market. The role of SEBI in regulating Indian capital market is very important because government of India can only take decision to open new stock exchange in India after getting advice from SEB!. If SEBI thinks that it is against its rules and regulations, SEEI can ban on any stock exchange to trade in shares and stocks.

8.6 Objectives of SEBI

The overall objective of SEEI is to protect the interests of investors and to promote the development and regulate the securities market. This may be elaborated as follows:

1. To regulate stock exchanges and the securities industry to promote their orderly functioning.
2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
3. To prevent trading malpractices and achieve a balance between self-regulation by the securities industry and its statutory regulation.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

8.7 Functions of SEBI

SEEI was entrusted with the twin task of both regulation and development of the securities market. It also has certain protective functions.

A) Regulatory Functions

1. Registration of brokers, sub-brokers and other players in the market.
2. Registration of collective investment schemes and Mutual Funds.
3. Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
4. Regulation of takeover bids by companies.
5. Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.

6. Levying fee or other charges for carrying out the purposes of the Act.
7. Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

B) Development Functions

1) Training for intermediaries of the securities market.

2) Conducting research and publishing information useful to all market participants.

3) Undertaking measures to develop the capital markets by adapting a flexible approach.

C) Protective Functions

1. Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
2. Controlling insider trading and imposing penalties for such practices.

Unit Summary

A financial market is a term used to describe any market place where buyers and sellers participate in trade of financial assets. Financial Market helps in mobilising savings, facilitates price discovery, provides liquidity to financial assets and reduces the cost of transactions.

Financial markets are classified as money market and capital market. Money market includes call money market, acceptance market, bill market and collateral loan market, whereas capital market refers to primary and secondary markets of financial assets. The instruments of money market are treasury bill, commercial paper, call money, certificate of deposit, commercial bill and collateral loan. The various instruments of capital market are secured premium notes, deep discount bonds, equity shares, convertible debentures, sweat equity shares, disaster bonds, derivates etc.

Stock exchange is an institution which provides a platform for buying and selling of existing securities. Among 23 stock exchanges in India, the NSE and OTCEI are prominent exchanges. In the Indian markets the SENSEX and NIFTY are important indices.

SEBI is established in the year 1988 with an objective to protect the interest of investors and to promote the development and regulate the securities market. The SEBI undertakes regulatory, development and protective functions.

MODEL QUESTIONS

I. Essay Type Questions

1. What is meant by financial market? Briefly explain its functions and classification.
2. What is capital market? What is its importance?
3. Distinguish between capital and money market.
4. Define the stock exchanges and explain its functions.
5. Explain the objectives and functions of SEBI
6. What is Money Market? Explain its Components.
7. Explain the important instruments used in money market.

II. Short Answer Questions

1. How do you classify Capital Market?
2. Explain the evolution of Stock Exchanges in India.
3. Explain the capital market instruments.
4. Distinction between primary and secondary market.
5. What do you know about BSE & NSE?
6. Briefly explain about depository and dematerialisation.
7. What is Stock Market index? Explain any two popular indices in our country.

III. Very short answer questions

1. Financial market
2. Classification of financial market
3. Money market
4. Capital market
5. Primary market
6. Secondary market
7. Treasury Bill
8. Commercial papers

9. Certificate of Deposit
10. OTCEI
11. Dematerialisation
12. Depository
13. SENSEX
14. NIFTY
15. Call Money Market
16. Bill Market
17. Collateral Loan Market
18. Call Money
19. Commercial Bill
20. Sweat Equity Shares
21. Derivatives
22. Foreign Currency Convertible Bonds.
23. NSE
24. SEBI
25. NSDL

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UNIT - 5

CONSUMER PROTECTION AND GST

Chapter 9: Consumer Protection

Chapter 10: Goods and Services Tax

CHAPTER 9

CONSUMER PROTECTION

9.1 Introduction

Every human being is a potential consumer of goods and services. The needs of a consumer throughout the world are similar, while the social, environmental and other forces that vary from place to place lead to differences in buying and consumption patterns. In fact, every human being is a consumer. One may sell something but at the same time one has to buy something for his living.

We buy a variety of goods and services in our day-to-day life. Whatever we buy we pay for it and derive satisfaction from its consumption and use. But sometimes we do not feel satisfied with the product we buy. This may be on account of poor quality of the product, overcharging by the shopkeeper, lower quantity of contents, misleading advertisement, and so on. Should we allow these practices to continue? Obviously not; then is there any remedy for such malpractices? The answer lies in the concept and practice of consumer protection, the rights and responsibilities of consumers, legal provisions and mechanism for settlement of consumer grievances.

Meaning of Consumer

A consumer is a person who consumes or uses any goods or services. Goods may be consumables like wheat flour, salt, sugar, fruit etc., or durable items like television, refrigerator, toaster, mixer, bicycle etc. Services refer to items like electricity, cooking gas, telephone, transportation, film show etc. Normally, it is the consumption or use of goods and services that makes the person to be called as 'consumer'. But in the eyes of law, both the person who buys any goods or hires any service for consideration (price) and the one who uses such goods and services with the approval of the buyer are termed as consumers.

Consumerism

Consumerism is concerned with protecting consumers from all organizations with which there is exchanged relationship. It encompasses the set of activities of government, business, independent organizations and concerned consumers that are designed to protect the rights of consumers.

In the good olden days, the principle of 'Caveat emptor', which meant 'buyer beware' governed the relationship between seller and the buyer. In the era of open markets buyer and seller interact face to face, seller exhibits his goods and buyer thoroughly examine them and then purchase them. It was assumed that he would use all care and skill while entering into transaction. The maxim relieved the seller of the obligation to make disclosure about the quality of the product. In addition, the personal relationship between the buyer and the seller was one of the major factors in their relations.

But with the growth of trade and its globalization, the rule no more holds true. It is now impossible for the buyer to examine the goods before hand and most of the transactions are concluded by correspondence. Further on account of complex structure of the modern goods, it is only the producer / seller who can assure the quality of goods. With manufacturing activity becoming more organized, the producers / sellers are becoming stronger and organised whereas the buyers are still weak and unorganised.

In the age of revolutionized information technology and with the emergence of e-commerce related innovations, the consumers are further deprived to a great extent. As a result buyer is being misled, duped and deceived day in and day out.

Mahatma Gandhi, the father of nation, attached great importance to what he described as the *"Poor Consumer",* who according to him should be the principal beneficiary of the consumer movement. He said: "A Consumer is the most important visitor on our premises. He is not dependent on us, we are dependent on him. He is not an interruption to our work; he is the purpose of it. He is not an outsider to our business; he is a part of it. We are not doing him a favour by serving him; he is doing us a favour by giving us an opportunity to do so."

Definition

Under the Consumer Protection Act 2019, the word **Consumer** has been defined separately for the purpose of goods and services.

(a) For the purpose of goods, a consumer means,

One who buys any goods for consideration; and any user of such goods other than the person who actually buys it, provided such use is made with the approval of the buyer.

(b) For the purpose of services, a consumer means,

One who hires any service or services for consideration; and any beneficiary of such service(s) provided the service is availed with the approval of such person who had hired the service for a consideration.

Moreover, the consideration for either the goods or services may be either paid or promised, or partly paid or promised, or provided under a system of deferred payment.

9.2 Concept of Consumer Protection

Consumer protection means safeguarding the interest and rights of consumers. In other words, it refers to the measures adopted for the protection of consumers from redressal of their grievances.

In this regard the consumer protection Act, 2019 was introduced in Lok Sabha as a replacement of CPA, 1986 on 8 July 2019 by the Ministry of Consumer Affairs. The Act was passed by Lok Sabha on 30 July 2019 and it came into effect by 20 July 2020. The Act features on giving customer more power by taking transparency to another high level. The Act indicates the most common malpractices of businessmen which leads to exploitation of consumers and they are given below.

(a) Sale of adulterated goods i.e., adding something inferior to the product being sold.

(b) Sale of spurious goods i.e., selling something of little value instead of the real product.

(c) Sale of sub-standard goods i.e., sale of goods which do not confirm to prescribed quality standards.

(d) Sale of duplicate goods.

(e) Use of false weights and measures leading to underweight.

(f) Hoarding and black-marketing leading to scarcity and rise in price.

(g) Charging more than the Maximum Retail Price (MRP) fixed for the product.

(h) Supply of defective goods.

(i) Misleading advertisements i.e., advertisements falsely claiming a product or service to be of superior quality, grade or standard.

g) Supply of inferior services i.e., quality of service lower than the quality agreed upon.

The above instances show the exploitation of consumers in the context of goods and services.

9.3 Importance of Consumer Protection

Commercial organizations are well organized, better informed and have a better dominating position, because of this, they easily exploit consumers. The worst affected victims of these commercial organizations need to be protected and the consumer is protected through consumer protection as it ensures generally the following:

1. **To Organize Consumers**: Indian consumers are scattered over a wide geographical area. They are not well organized. They have a low power and businessmen exploit consumers. Here we need consumer protection.

2. **To Provide Market Information:** Majority of the consumers has no information about quality, type, price and other marketing facilities. Many customers buy without product knowledge and this make them suffer losses.

3. **To Ensure Physical Safety:** Indian markets are over flooded with products. The products may be adulterated and may be health hazards. This may endanger their life and due to this a consumer needs to be protected.

4. **To Avoid Monopoly:** Consumer Protection is very important in terms of avoiding monopoly. Monopoly is the crown of modern market. Most of the organizations, irrespective of various restrictions follow monopoly practice. Due to this consumers get affected and needs to be protected.

5. **To Prevent from Malpractices:** Business malpractices are rapidly growing in modem market. Businessmen follow unfair trade practices, restrictive trade

practices and monopolistic trade practice and consumer protection plays a vital role.

6. **To Avoid Pollution:** Pollution is a very serious issue taken by every country. Pollution affects the mind and health of not only consumers but also citizens. It is important to avoid pollution to save society at large from pollution.

7. **To Avoid Misleading Advertisements:** Many organizations deliberately cheat consumers through wrong or misleading advertisements. This will protect consumers from getting exploited.

8. **To Inform Basic Rights:** Majority of the consumers are ignorant. They do not know about consumer rights. Consumer movements inform consumers about their rights and protect their interest and rights.

9.4 Consumer Rights

Although businessman is aware of his social responsibilities even then we come across many cases of consumer exploitation. Hence, Government of India provided following six rights to all the consumers under the Consumer Protection Act, 2019;

1. **Right to Safety:** According to this right, the consumers have right to be protected against the marketing of goods and services which are hazardous to life and property. This right is important for safe and secured life.

2. **Right to Information:** According to this right, the consumer has right to get information about the quality, quantity, purity standard and piece of goods or services. The producer must supply all the relevant information at a suitable place.

3. **Right to Choice:** According to this right, every consumer has right to choose the goods or services of his or her likings. The suppliers should not force the customer to buy a particular brand only. Consumer should be free to choose the most suitable product from his point of view.

4. **Right to Consumer Education:** According to this right, it is the right of consumer to acquire knowledge and skill to be informed to customer. **It** is easier for literate consumers to know their rights and take actions.

5. **Right to Seek Redressal:** According to this right, the consumer has the right to get compensation or seek redressal against unfair trade practices or any other exploitation. This right assures justice to consumer against exploitation.

6. **Right to be Heard/Right to Representation:** According to this right, the consumer has the right to represents himself or to be heard or right to advocate his interest. In case a consumer has been exploited or has any complaint against the product or service, then he has the right to be heard.

9.5 Consumer Responsibilities

Various efforts have been made by government or non - government organisations to protect the interest of consumer, but exploitation of consumer will stop only when consumer will come forward to safeguard his own interest. Consumer has to bear some responsibilities which are given below:

1. **Be quality conscious:** To put a stop to adulteration and corrupt practices of the manufacturers and traders, it is the duty of every consumer to be conscious of the quality of product they buy. They should look for the standard quality certification marks like lSI, Agmark, FPO, Wool mark, Eco-mark, Hallmark etc., while making the purchases.

2. **Beware of misleading advertisements:** The advertisement often exaggerates the quality of products. Hence, the consumers should not rely on the advertisement and carefully check the product or ask the users before making a purchase.

3. **Responsibility to inspect a variety of goods before making selection:** The consumer should inspect a variety of goods before buying the goods and service. For this purpose, he/she should compare quality, price, durability, after sales service etc., of goods and services.

4. **Collect proof of transaction:** The consumer should insist on a valid documentary evidence (cash memo / invoice) relating to purchase of goods or availing of any services and preserve it carefully. Such proof of purchase is required for filing a complaint. In case of durable goods, the manufacturer generally provide the warrantee / guarantee card along with the product. It is the duty of consumers to obtain these documents and ensure that these are duly signed, stamped and dated. The consumer must preserve them till the warrantee / guarantee period is over.

5. **Consumers must be aware of their rights:** The consumers must be aware of their rights as stated above and exercise them while buying goods and services. For example, it is the responsibility of a consumer to insist on getting all

information about the quality of the product and ensure himself / herself that it is free from any kind of defects.

6. **Complaint for genuine grievances:** As a consumer, if you are dissatisfied with the product / services, you can ask for redressal of your grievances. In this regard, you must file a proper claim with the company first. If the manufacturer / company do not respond, then you can approach the forums. But your claim must state actual loss and the compensation claim must be reasonable. At no cost fictitious complaints should be filed otherwise the forum may penalise you.

7. **Proper use of product/services:** It is expected from the consumers that they use and handle the product / services properly. It has been noticed that during guarantee period, people tend to reckless use of the product, thinking that it will be replaced during the guarantee period. This practice should be avoided.

Apart from the responsibility enumerated above, the consumers should be conscious of their duty towards other consumers, society and ecology and make responsible choice. Consumer purchases and consumption should not lead to waste of natural resources and energy and environmental pollution.

9.6 Ways And Means Of Consumer Protection

There are various ways in which the objective of consumer protection can be achieved.

1. **Lok Adalat:** Lok Adalats are the effective and economical system for quick redressal of the public grievances. The aggrieved party can directly approach the adalats with his grievance, and his issues are discussed on the spot and decisions are taken immediately.

2. **Public Interest Litigation:** Public Interest Litigation (PIL) is a scheme under which any person can move to the court of law in the interest of the society. It involves efforts to provide legal remedy to un-represented groups and interests. Such groups may consist of consumers, minorities, poor persons, environmentalists and others.

3. **Self Regulations by Business:** Large business houses have realised that they can prosper and grow for a long period of time only by giving due importance to

consumers. Socially responsible firms follow quality standards and have started customer grievances cell to attend the complaints of consumers.

4. **Business Associations:** Various business associations, such as, Federation of Indian Chamber of Commerce and Industry (FICCI) and Confederation of Indian Industry (CII) have framed a set of code of conducts which lay down guidelines for dealing with customers.

5. **Consumer Awareness:** It is not easy to exploit an educated and well aware consumer. Consumer must be well aware about his rights, responsibilities and relief available to him under Consumer Protection Act.

6. **Consumer Organisations:** Consumer organisations play an important role in educating consumers regarding their rights and duties. These organisations also help consumer to get relief in case of exploitation.

7. **Government:** Government of India has framed a set of laws and legislation to protect the interests of consumers and the most important act framed by Government is Consumer Protection Act 1986 (Now replaced with CPA 2019). This Act has provided three tier redressal agencies i.e., District Forum, National Commission and State Commission.

9.7 Legal Protection to Consumer

Various Acts have been passed by Government of India from time to time to safeguard the consumers from exploitation. The Acts are given below.

1. **The Sale of Goods Act 1930:** This act provides safeguard and relief to consumers in case goods are not complying with the expressed conditions and warranty.

2. **The Agricultural Produce (Grading and Marking) Act 1937:** The Act prescribes grade standards for agricultural commodities and livestock products. The Act stipulates the conditions which govern the use of standards and lays down the procedure for grading, marking and packing of agricultural produce. The quality mark provided under the Act is known as AGMARK, an acronym for Agricultural Marketing.

3. **The Prevention of Food Adulteration Act 1954:** This act is formed to check adulteration of food articles and ensure their purity so that health of general public can be maintained.

4. **The Essential Commodities Act 1955:** The Act aims at controlling production, supply and distribution of essential commodities, checking inflationary trend in their prices and ensuring equal distribution of essential commodities. The Act also provides for action against anti-social activities of profiteers, hoarders and black-marketeers.
5. **The Standard of Weight and Measures Act 1976:** This Act provides the protection to consumers against malpractices of underweight and under measure. The provision of this Act is applicable to those goods which are sold by the weight and measures.
6. **The Contract Act 1982:** This act is formed to bind people on their promises made in a contract. The act also provides remedies available to parties in case of breach of contract.
7. **The Bureau of Indian Standards Act, 1986:** The Bureau of Indian Standards (BIS) has been set up under the Act. The Bureau has two major activities ie., formulation of quality standards for goods and their certification through the BIS certification scheme. Manufacturers are permitted to use the lSI mark on their products only after ensuring that the goods conform to the prescribed quality standards. The Bureau has also setup a grievance cell where consumers can make a complaint about the quality of products carrying the lSI mark.
8. **The Trade Mark Act 1999:** This Act prevents the use of fraudulent marks on products. This Act is introduced in place of Trade and Merchandise Mark Act 1958.
9. **The Competition Act 2002:** This Act is related to Monopolies and Restrictive Trade Practices Act 1969 which is formed to encourage healthy competition.
10. **The Consumer Protection Act 2019:** Enactment of Consumer Protection Act 2019 was one of the most important steps taken to protect the interest of consumers. The provisions of Act came into force from July 20, 2020. The main features of this Act are,

    a. It has provided various rights and responsibilities to consumers,

    b. It Safeguards consumers against the defective goods, deficient services etc.

9.8 Filing of Complaints

For redressal of consumer grievances a complaint must be filed with the appropriate forum. In this section let us know, who can file a complaint, what complaints can be filed, where to file the complaint, how to file the complaints etc.

Who can file a complaint?

The following persons can file a complaint under Consumer Protection Act 2019:

a) A consumer;

b) Any recognised voluntary consumer association whether the consumer is a member of that association or not;

c) The Central or any State Government; and

d) One or more consumers where these are numerous consumers having same interest.

e) Legal heir or representative in case of death of a consumer.

What complaints can be filed?

A consumer can file a complaint relating to anyone or more of the following:

a) an unfair trade practice or a restrictive trade practice adopted by any trader or service provider;

b) goods bought by him or agreed to be bought by him suffer from one or more defects;

c) services hired or availed of, or agreed to be hired or availed of, suffer from deficiency in any respect;

d) price charged in excess of the price (i) fixed by or under the law for the time being in force, (ii) displayed on the goods or the package, (iii) displayed in the price list, or (iv) agreed between the parties; and (e) goods or services which are hazardous or likely to be hazardous to life and safety when used.

Where to file a complaint?

If the value of goods and services and the compensation claimed does not exceed Rs. one crore, the complaint can be filed in the District Forum; if it exceeds Rs. one crore but does not exceed Rs. 10 crore, the complaint can be filed before the State Commission; and if it exceeds Rs. 10 crore, the complaint can be filed before the National Commission.

How to file a complaint?

A complaint can be made in person or by any authorised agent or by post. The complaint can be written on a plain paper duly supported by documentary evidence in support of the allegation contained in the complaint. The complaint should clearly specify the relief sought. It should also contain the nature, description and address of the complainant as well as the opposite party, and so also the facts relating to the complaint and when and where it arose.

9.9 Redressel Agencies Under the Consumer Protection Act, 2019

The judicial machinery set up under the Consumer Protection Act (CPA), 2019 consists of Consumer Courts (forums) at the district, State and National levels. These are known as District forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission) separately. Let us have a brief idea about their composition and roles.

1. District Forum

This is established by the State governments in each of its districts.

a. **Composition:** The district forums consist of a President and two other members one of whom shall be a woman. The district forums are headed by the person of the rank of a District Judge.

b. **Jurisdiction:** A written complaint can be filed before the District Consumer Forum where the value of goods or services and the compensation claimed does not exceed Rs. One crore

c. **Appeal:** If a consumer is not satisfied by the decision of the District forum, he can challenge the same before the State Commission, within 45 days of the order.

2. State Commission

This is established by the State governments in their respective states.

a. **Composition:** The State Commission consists of a President and not less than two and not more than such number of members as may be prescribed, one of whom shall be a woman. The Commission is headed by a person of the level of High Court judge.

b. **Jurisdiction:** A written complaint can be filed before the State Commission where the value of goods or services and the compensation claimed exceeds Rs. One crore but does not exceed Rs. 10 crore.

c. **Appeal:** In case the aggrieved party is not satisfied with the order of the State Commission he can appeal to the National Commission within 30 days of passing of the order.

3. National Commission

The National Commission is the apex body in the three tier judicial machinery set up by the government for redressal of consumer grievances. Its office is situated at Janpath Bhawan (Old Indian Oil Bhawan), A Wing, 5th Floor, Janpath, New Delhi.

a. **Composition:** It consists of a President and not less than four and not more than such members as may be prescribed, one of whom shall be a woman. The National Commission is headed by a sitting or retired judge of the Supreme Court.

b. **Jurisdiction:** All complaints pertaining to those goods or services and compensation whose value is more than Rs. 10 crore can be filed directly before the National Commission.

c. **Appeal:** An appeal can be filed against the order of the National Commission to the Supreme Court within 30 days from the date of order passed.

It may be noted that in order to attain the objects of the Consumers Protection Act, the National Commission has also been conferred with the powers of administrative control over all the State Commissions by calling for periodical returns regarding the institution, disposal and pending of cases and issuing instructions for adoption of uniform procedures etc.

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CHAPTER 10

GOODS AND SERVICE TAX

10.1 GST

GST (Goods and Services Tax) as the biggest indirect tax reform of India GST is a single tax on the supply of goods and services. **It** is a destination based tax. GST comprises 23 Tax and 17 cases which have been included in GST i.e. Central Excise Law, Service Tax Law, VAT Entry Tax, Octroi, etc.

Goods and services Tax is an Indirect Tax which has replaced many indirect taxes in India. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into force 1" July 2017. France was the First country to introduce GST in the world and at present 174 Nations have adopted GST as on 1st January 2023.

10.2 Objectives of GST

1. One Nation - One Tax.
2. Integration of all Indirect taxes at present in India.
3. Transparency in tax policies.
4. Prevention of tax erosion and corruption.
5. Liberalization of taxes
6. Single Tax from Producer to Ultimate consumer.

10.3 Features of GST

1) No scope for multiple levy of tax on goods and services, such as sales tax, entry tax, octroi, entertainment tax, luxury tax, etc.,
2) Zero Rating of Exports and Inter State Sales of Goods and Supply of services.
3) Taxing of capital goods and inputs whether goods or services related to manufacture at lower rate, so as to reduce inventory carrying cost and cost of production.
4) A common law and procedure throughout the country under a single administration.
5) The Administration of the Central GST would be with the centre and for state GST it would be with the states.
6) The Central GST and the State GST would be applicable to all transactions of goods and to all kinds of services.
7) The Central GST and State GST are to be paid to accounts of the central and the state separately.
8) The tax payers would need to submit periodical returns to both the Central GST Authority and to the State GST Authorities concerned.
9) Each tax payer would be allotted a pan linked Tax Payer Identification Number (T PIN) with a total of 13/15 digits .
10) GST is based on the principle of Value Added Tax and either "Input Tax method" or Subtraction" method with emphasis on voluntary compliance and accounts based system.

10.4 Contents

The Laws of Goods and Service Tax in India is comprehensive, Multi State, destination based tax that is levied on every value addition.

In simple terms, GST is an Indirect Tax levied on the supply of goods and service GST is one indirect tax for the entire country. Then Tax process before the implementation of

GST was as follows :-

Purchase of raw materials
VAT
Manufacturing
VAT
Sale of wholesaler
VAT
Sale to Retailer
VAT
Final Sale to the Consumer
VAT

Goods and Services Tax (GST) is a comprehensive, multistage destination based tax that will be levied an every value addition.

10.5 Multi-stage

There are Multiple change of hands an item goes through such as Manufacturing to Final sale to the consumer.

Let us Consider the following case

Purchase of Raw Materials

Production of goods

Storage upto demand

Sale to wholesalers

Sale to Retailers

Sale to ultimate consumers.

Goods and Service Tax will be levied at every stage, which makes it a multi-stage Tax value addition.

10.6 Destination - Based

Consider the goods manufactured in Maharashtra and they are sold to the final consumer in Andhra Pradesh. Since Goods and Service Tax (GST) is levied at the point of consumption, in this case, Andhra Pradesh (the final consumer) the entire tax revenue will go to Andhra Pradesh but not Maharashtra.

10.7 Value Addition

The manufacturer who makes Biscuits buys flour sugar and other materials. The value of inputs increases when the sugar and flour are mixed and baked into biscuits.

The manufacturer then sells the biscuits to the warehousing agent who packs large quantities of biscuits and labels it. Here another addition of value is added after which the warehousing agent sells it to the retailers.

The Retailer packages the biscuits in smaller quantities and invest in the marketing of the biscuits thus increasing its value again.

Goods and Service Tax (GST) will be levied on these value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer.

10.8 How Does It Works?

GST is a tax on goods and services with comprehensive and continuous chain of set off benefits from the producer's point and service provider's point up to the retailers level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism. The GST paid on the purchase of goods and services as available for set-off on the GST to be paid on the supply of goods and services. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The illustration shown below indicates, how GST works in terms of a hypothetical example with a manufacturer, one wholesaler and one retailer.

Let us suppose that GST rate is 10%, with the manufacturer making value addition of Rs .300 on his purchases worth Rs.1000 of input of goods and services used in the manufacturing process. The manufacturer will then pay net GST of Rs. 30 after setting of Rs.100 top as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs.130.

The manufacturer sells the goods to the wholesaler. When the wholesaler sells the same goods after making value addition of Rs.200, he pays net GST of only Rs.20, after setting-off of Input Tax Credit of Rs.130 from the gross GST of Rs.150 to the manufacturer. Similarly, when a retailer sells the same goods after a value addition of Rs.100, he pays net GST of only Rs.10, after setting-off Rs.1S0 from his gross GST of Rs.160 paid to wholesaler. Thus, the manufacturer, wholesaler and retailer have to pay only Rs.60 (= Rs.30 + 20+ 10) as GST on the value addition along the entire value chain from the producer to the retailer, after setting off GST paid at the earlier stages. The overall burden of GST on the goods is thus much less. This is shown in the table below. The same illustration will hold in the case of final service provider as well.

Stage of Supply chain	Purchase value of input	Value addition	Value at	Rate of GST which supply of goods and services made to next stage	GSTon output	Input tax credit	Net GST= (GST on output - input tax credit.
Manufacturer	1000	300	1300	10%	130	100	130-100-30
Whole seller	1300	200	1500	10%	150	130	150-130-20
Retailer	1500	100	1600	10%	160	150	160-150-10

10.9 Indirect Tax Structure Before GST

In the Pre-GST regime, there were many indirect taxes levied by both State and Central governments. States mainly collected taxes in the form of Value Added Tax. Every State had a different set of rules and regulations.

Taxes in the pre GST era

The following is the list of indirect taxes in the pre- GST era.

- Central Excise Duty
- Duties of Excise
- Additional Duties & Excise
- Additional Duties & Customs (E.Y.D)

- Special Additional Duty and Customs.
- Central Cess
- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entertainment Tax
- Entry Tax
- Advertisement Tax
- Taxes on Lotteries, betting and Gambling
- Service Tax Central Surcharge

10.10 Replacement Taxes

All these taxes have been replaced by Central GST, State GST and Integrated GST.

(1) CENTRAL GST: Collected by Central Government on an intra - State Sale (Ex. Within Maharashtra).

(2) STATE GST: Collected by State Government on an intra sale (Ex within Maharashtra.

(3) INTEGRATED GST: Collected by the Central Government for Inter State Sale (Maharashtra to Gujarat).

10.11 Need for GST in India

1) Introduction of GST is considered to be a significant step in the Reformation of Indirect Taxation in India. Amalgamating of various Central and State taxes into a single Tax help to mitigate the double taxation, cascading multiple taxes, classification issues, taxable event etc., and leading to a common National Market.

2) VAT Rates and Regulations differ from State to State. On the other hand, GST brings in uniform tax system across all the States in India.

3) GST is expected to bring together the State economies and improve over all economic growth of the Nation.

10.12 Benefits of GST

a) Benefits to Traders

1) Reduction in multiplicity of taxes.
2) Mitigation of Cascading
3) More efficient fair taxes for exports.
4) Development of Common National Market
5) Simpler Tax Regime
6) Few Tax Rates and Exemptions
7) Distinction between goods and services no longer required.
8) Harmonization of Laws procedures and Rates of tax.
9) Tax burden on companies is likely to come down, which leads to reduce prices.
10) Common procedures for Registration of Tax payers and refund of taxes.

b) Benefits to Consumers

1) Simple Tax system.
2) Low Prices of goods and Services due to elimination of cascading.
3) Uniform prices throughout the country.
4) Transparency in taxation systems.
5) Increase in employment opportunities.

c) Benefits to Nation

1) GST Generates Unified Common National Markets.
2) Economic growth by way of Boost Exports and manufacturing activities.
3) Helps in poverty eradication by generating more employment of opportunities to the unemployed.
4) Simple and easy online procedure.

10.13 Disadvantages of GST

1) Increased costs due to software purchase.
2) GST will mean an increase in operational costs.
3) Increase in prices.
4) Change in business software.
5) Small Merchandised Events will have a higher tax burden.

10.14 GST Council

A GST Council would be constituted comprising the Union Finance Minister (who will be the Chairman of the Council), the Minister of State (Revenue) and the State Finance/Taxation Ministers to make recommendations to the Union and the States concerned on GST.

Unit SUMMARY

Consumer is a person who buys goods or hires services to be used or consumed by himself / herself or by someone on behalf of the buyer. Consumer Protection refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business and to provide them speedy redressal of their grievances. Consumer Protection Act 2019 provides for six consumer rights. These are Right to Safety, Right to be Information, Right to Choice, Right to Consumer Education, Right to Seek Redressal and Right to Heard or Representation. In addition to exercising his rights, a consumer should also keep in mind his responsibilities while purchasing, using and consuming goods and services. There are various ways in which the objective of consumer protection can be achieved. These include Lok Adalat, Public Interest Litigation, Self Regulations by Business, Business Associations, Consumer Awareness, Consumer Organisations and Government. The main objective of the Consumer Protection Act 2019 is to provide better and all-round protection to consumers and effective safeguards against different types of exploitation such as defective goods, deficient services and unfair trade practices. It provides for establishment of consumer protection councils at the central, state and district levels to promote and protect the rights of consumers and a three tier quasijudicial machinery to deal with consumer grievances and disputes. The judicial machinery set up under the Consumer Protection Act, 2019 consists of consumer courts (forums) at the district, state and national levels. These are known as District forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission) separately.

GST is the single tax on the supply of goods and services. It aims at one tax system, integrates all indirect taxes, establish a transparency in tax policies, prevents tax erosion liberalises the taxes etc. All the taxes which were in practice replaced with Central GST, State GST and integrated GST. GST is beneficial to traders, consumers and as well to the nation also. A GST council would be constituted to make recommendation to the central and state governments on GST.

MODEL QUESTIONS

I. Long Answer Questions.

1. Explain the composition and jurisdiction of State commission.
2. Describe the rights of a consumer as per CPA 2019.
3. Explain are the responsibilities of a consumer
4. Explain the redressal mechanism available to consumers under the Consumer Protection Act, 2019.
5. Who can file a complaint, what complaints can be filed, where to file the complaint, how to file the complaints redressal of grievances under the Consumer Protection Act 2019?
6. Explain the need for consumer protection in India.
7. Discuss the various means to give protection to consumers.
8. Write in brief various legalisations and Acts passed by Indian government to protect consumers.
9. What is GST and explain its features.
10. Explain the need, benefits and disadvantages of GST.

II. Short Answer Questions.

1. Give the meaning of Consumer and Consumerism.
2. What do you know about the Bureau of Indian Standards Act?
3. What is meant by consumer protection?
4. What do you know about District Forums.
5. How State Commission helps in consumer protection?
6. What is the composition and jurisdiction of National Commission?
7. Who is consumer in the opinion of Mahatma Gandhi ?
8. What is the need for GST in India ?

III. Very Short Answer Questions.

1. Consumer
2. Consumerism
3. Right to safety
4. Right to be informed
5. Right to be heard
6. Right to choice
7. Public interest litigation
8. Consumer organisation
9. Business Association
10. District Forum composition
11. Objectives of GST
12. GST council.

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