NCERT SOLUTIONS CLASS-11 BUSINESS STUDIES CHAPTER-3

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TEXTBOOK QUESTIONS SOLVED

I. Multiple Choice Questions

Question 1. A government company is any company in which the paid up capital held by the government is not less than

(a) 49 per cent (b) 51 per cent

(c) 50 per cent (d) 25 per cent

Question 2. Centralised control in MNC's implies control exercised by

(a) Branches (b) Subsidiaries

(c) Headquarters (d) Parliament

Question 3. PSE's are organizations owned by

(a) Joint Hindu Family (b) Government

(c) Foreign companies (d) Private entrepreneurs

Question 4. Reconstruction of sick public sector units is taken up by

(a) MOFA (b) MoU

(c) BIER (d) NRF

Question 5. Disinvestments of PSE's implies

(a) Sale of equity shares to private sector/public

(b) Closing down operations

(c) Investing in new areas

(d) Buying shares of PSE's

Answers:

1. (b) 2. (c) 3. (b) 4. (c) 5. (a)

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II. Short Answer Type Questions

Question 1. Explain the concept of Public Sector and Private Sector.

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Answer: Private sector consists of business owned by individuals or a group of individuals. Examples of private sector include sole proprietorship, partnership, Joint Hindu Family system, cooperative and company. On the other hand, the public sector consists of various organizations owned and managed by the government, owned either wholly or partly by the central or the state government. These may be part of a ministry or come into existence by a special act of the parliament.
Public sector works for social welfare while private sector works for profit motive.
Public sector organizations may take form of departmental undertaking, statutory corporation and a government company. Private sector may take form of sole proprietorship, partnership, Joint Hindu Family, company or a cooperative.

Question 2. State the various types of organizations in the private sector.
Answer: Various types of organizations in the private sector include:

1. **Sole Proprietorship:** Sole proprietorship refers to a form of business organization which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks.
2. **Hindu Undivided Family Business:** It refers to a form of organization wherein the business is owned and carried by the members of the Hindu Undivided Family (HUF).
3. **Partnership:** Partnership is the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.
4. **Cooperative Society:** Cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members.
5. **Joint Stock Company:** A company is an association of persons formed for carrying out business activities and has a legal status independent of its members.
6. **Multinational Corporations:** An MNC is a company whose business operations extend beyond the country in which it has been incorporated.

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Question 3. What are the different kinds of organizations that come under the public sector?
Answer: Following are the different kinds of organizations that come under the private sector.

1. **Departmental Undertaking:** This is the oldest and traditional form of public enterprises. It is managed by government officials as one of the government departments. It is under the control of concerned minister of the department, who is answerable to government through parliament.
2. **Statutory Corporation:** Statutory Corporation is a corporate body with a separate legal existence, set up under a special act of parliament or of the state legislature.
3. **Government Company:** According to the Indian Companies Act 1956, a government company means any company in which not less than 51 per cent of the paid up capital is held by the government or by any state government or partly by central government and partly by one or more state governments.

Question 4. List the names of some enterprises under the public sector and classify them.
Answer: Some of the enterprises under the public sector are as follows:

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Railways	Departmental Undertaking
Reserve Bank of India	Statutory Corporation
Life Insurance Corporation of India	Statutory Corporation
The Hindustan Steel Limited	Government Company
Coal India Limited	Government Company
Post and Telegraph Department.	Departmental Undertaking
Food Corporation of India	Statutory Corporation
State Financial Corporation	Statutory Corporation
Damodar Valley Corporation	Statutory Corporation
Hindustan Machine Tools	Government Company
State Trading Corporation of India	Statutory Corporation
Hindustan Aircrafts Limited	Government Company

Question 5. Why is the government company form of organization preferred to other types in the public sector?

Answer: Government company form of organization is preferred to other forms of organizations due to it advantages over other forms. These advantages are as follows:

- It is registered or incorporated under Companies Act.
- It has a separate legal entity.
- Management is regulated by the provision of Companies Act.
- Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of Association.
- The government company obtains its funds from government shareholdings and other its private shareholdings. It can also raise funds from capital market.
- It can be easily formed as per the provision of Companies Act. Only an executive decision of government is required.
- It enjoys autonomy in management decisions and flexibility in day to day working.
- It can appoint professional managers on high salaries.

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Question 6. How does the government maintain a regional balance in the country?

Answer: The government is responsible for developing all regions of a country. Earlier, most of the development was limited to few areas like port towns. For providing employment to the people and for accelerating the economic development of backward areas many industries were set up by public sector in those areas.

1. Four major steel plants "were set up in the backward areas to accelerate economic development.
2. The government also makes efforts to prevent mushrooming growth of private sector units in already advanced regions.
3. Government provided many incentives to private sector like tax concessions, loan at cheap rate of interest etc. to motivate them to set up industries in backward regions.

III. Long Answer Type Questions

Question 1. Describe the Industrial Policy 1991, towards the public sector.

Answer: Development of a country originates from industrial development. Industrially developed countries are also economically prosperous. The 2nd Five Year Plan also called the Mahalnobis Model lead to the promotion of heavy and key industries in India. The period 1950 onwards witnessed development of infrastructure, research and development, establishment of large scale along with many small scale industries, co-existence of public and private sector enterprises, growth of both consumer and capital goods industries. The industrial sector made

a significant contribution to agriculture and trade.

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The industrial policy plays a key role in influencing the foreign trade policy, fiscal policy, the monetary policy, the economic policy of the country. Government of India declared its 1st Industrial Policy Resolution (IPR) in 1948. It divided the industries into four categories.

1. Industries that were to be state monopolies. These were limited to atomic energy, arms and ammunition and railways (3 in all).
2. Basic industries in which the state would have the exclusive right to new investment- 6 industries were included in this – iron and steel, ship building, mineral oils, coal, aircraft production and telecommunication equipments.
3. Industries of national importance that the state might regulate and license in consultation with state government. 18 industries were placed in this category.
4. All other industries that would be opened to the private sector without constraints. IPR 1948 remained in force till 1956. Two developments had taken place. One; the first plan which was initiated in 1951 was completed. Second, Parliament accepted socialistic pattern of society. This led to IPR 1956.

Special features of IPR 1956 were as follows:

1. Specific and all important roles assigned to the public sector – all industries were classified into 3 groups. These groups were called schedule A,B,C.
   - Schedule A – Exclusive responsibility of state. There were 17 industries in this.
   - Schedule B – Progressively state owned – 12 industries.
   - Schedule C – Generally left to private sector. The state reserved the right to enter this if need be.
2. Protection to cottage and small scale industries.
3. Cautious approach towards foreign capital.

   IPR 1956 remained the basis of industrial policy till 1991.

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Question 2. What was the role of the public sector before 1991?

Answer: Before 1991, public sector was supposed to perform the following role in India:

1. **Rapid Economic Development:** It was required to make efforts so that the rate of economic development accelerates.
2. **Provision of Infrastructure:** Another expectation from public sector was to provide infrastructure in the form of better roads, more hospitals, more schools, better irrigation facilities etc.
3. **Sound Industrial Base:** We also needed public sector to develop a sound industrial base because Private Sector either did not have huge capital required for these or were not interested in this sector as they had a long gestation period.
4. **Development of Backward Regions:** Public sector also aimed at developing backward regions as it is necessary for the balanced development of a country. Private sector being profit minded does not take interest in investing in backward regions.
5. **Generation of Surplus:** Another expectation from public sector was to generate a surplus that could be used for investment in other sectors whereby the growth rate could be accelerated.
6. **Creation of Employment Opportunities**: Public sector also played its role in creating employment opportunities in organized sector so that poverty can be reduced and standard of living can be enhanced.
7. **Control of Monopoly and Restrictive Trade Policies**: Public sector also aimed at controlling monopoly and restrictive trade policies. Otherwise few private industrialists

would have gained extreme economic power. It could be harmful for the nation as a whole.

8. **Serving of Strategic National Interests:** Public sector also plays its role in serving strategic national interests. They provide law and order, administrative services, police, defence, and many infrastructural facilities even when they are not given any profit as such in monetary terms.

Question 3. Can the public sector companies compete with the private sector in terms of profits and efficiency? Give reasons for your answer.
Answer: It is difficult for a public sector undertaking to compete with a private sector undertaking in terms of profits due to following reasons:

1. **Motive of public sector is not profit:** Public sector works not for profit but for social welfare. It gives first priority to social welfare then it is almost impossible for it to compete with private sector enterprise on the basis of profit which mainly works for profit only.
2. **Public sector takes care of strategic industries:** Public sector invests in strategic areas even when these industries have low return generating capacity and long gestation period. These industries do not give monetary returns but if we consider their return in development of our economy otherwise their return is really high.
3. **Public sector provides many facilities free of fast to the weaker section of society:** We can't expect a government hospital or a government school to generate profits. Many public sector undertakings provide many facilities for free or at a very low cost due to the benefits that it gives to other sectors of the society.

It is difficult for a public sector undertaking to compete with a private sector undertaking in terms of efficiency due to following reasons:

1. **Dependence on authorities for taking minor decisions:** Public Sector undertakings follow a protocol for everything. It leads to delay in decision making and inefficiency in operations.
2. **Job security:** Workers of Public Sector enjoy job security. It reduces their performance as they know that in spite of bad performance there is no fear of losing job.
3. **Red tapism and bureaucracy:** In public sector undertakings there is red tapism and bureaucracy. It leads to inefficiency in operations.

Question 4. Why are global enterprises considered superior to other business organizations?
Answer: Global enterprises are considered superior to other business organizations because it has following advantages which other business organizations may not have.

1. **Huge capital resources:** MNCs possess huge capital resources and they are able to raise lot of funds from various sources.
2. **International operations:** A MNC has production, marketing and other facilities in several countries.
3. **Centralized control:** MNCs have headquarters in their home countries from where they exercise their control over all branches and subsidiaries. It provides only broad policy, framework to them and there is no interference in their day to day operations.
4. **Foreign collaboration:** Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country
5. **Advanced technology:** These organisations possess advanced and superior technology which enable them to provide world class products and services.
6. **Product innovations:** MNCs have highly sophisticated research and development

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departments. These are engaged in developing new products and superior design of existing products.

7. **Marketing strategies:** MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

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Question 5. What are the benefits of entering into joint ventures?
Answer: Benefits of joint ventures are as follows:

1. **Greater resources and capacity:** In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently.
2. **Access to advanced technology:** It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.
3. **Access to new markets and distribution network:** A foreign company gains access to the vast Indian market by entering into a joint venture with Indian company. It can also take advantage of the well established distribution system of local firms.
4. **Innovation:** Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.
5. **Low cost of Production:** Raw materials and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefited by the low cost of production.
6. **Well known brand names:** When one party has well established brands and goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

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MORE QUESTIONS SOLVED

I. Multiple Choice Questions

Question 1. Which of the following is a departmental undertaking?
(a) Life Insurance Corporation Limited (b) Railways
(c) Bharat Heavy Electrical Limited (d) All of the above
Question 2. In which form of public sector enterprise, private individuals can also become shareholders?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above
Question 3. Which of the following is most suitable when purpose is to generate revenue for the government?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above
Question 4. Which of the following is most suitable when national security is of utmost importance?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above
Question 5. Steel Authority of India Limited (SAIL) is an example of:
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation id) None of the above
Question 6. Which of the following is an example of Statutory Corporation?
(a) Life Insurance Corporation Limited (b) Railways
(c) Bharat Heavy electrical Limited (d) All of the above
Question 7. BIFR stands for:
(a) Bureau of Industrial and Financial Reconstruction

(b) Board of Industrial and Financial Reconstruction
(c) Board of Indian Financial Reconstruction
(d) Board of Industrial and Financial Reformation

Question 8. Which of the following has 51% of the capital from government?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above

Question 9. Which of the following is under the control of a ministry?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above

Question 10. Which of the following is controlled and managed as per the provisions of the statute under which it has been formed?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above

Question 11. When two or more businesses join hands for mutual benefit and common purpose, it is called:
(a) Public Private Partnership (b) Joint Venture
(c) Global Enterprises (d) Statutory Corporation

Question 12. Which year brought a drastic change in the role of public sector in India?
(a) 1951 (b) 1956
(c) 1991 (d) 2001

Question 13. Memorandum of Understanding (MOU) is a term used in context of:
(a) Public Private Partnership (6) Joint Venture
(c) Changing role of public Sector (d) All of the above

Question 14. Employees of which of the following are considered as government employees?
(a) Departmental Undertaking (b) Government Company
(c) Statutory Corporation (d) None of the above

Question 15. Since 1991, number of has increased in India.
(a) Departmental Undertaking (6) Government Company
(c) Statutory Corporation (d) Global Enterprises

Answer:
1. (6) 2. (b) 3. (b) 4. (a) 5. (c)
6. (a) 7. (b) 8. (b) 9. (a) 10. (c)
11. (b) 12. (c) 13. (d) 14. (a) 15. (d)

II. Short Answer Type Questions

Question 1. What is the difference between Public and Private sector?

Answer: Differences between public and private sectors are summarised in the table given below:

Basis	Public Sector	Private Sector
Ownership	These are owned by the government-central or state.	These are owned by individuals or group of individuals.
Aim	It aims at social welfare.	It aims at profit maximisation.

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Efficiency	It is likely to be less efficient due to lack of autonomy and too much interference.	It is likely to be more efficient due to quick decision making.
Management Control	It is subject to control from the government.	It is controlled only by business laws but not directly by the government.
Accountability	These are accountable to the government.	These are accountable to the owners.
Example	Railways, BHEL, LIC Ltd, SAIL, GAIL	Reliance Industries Limited, Partnership firms, HUF, Cooperatives etc.

Question 2. Discuss the merits and demerits of Departmental Undertaking.
Answer: These are established as departments of the ministry and are financed, managed and controlled by either central government or state government. Examples: Indian railways, post and telegraph.
Features

- **No separate entity:** It does not have separate legal entity.
- **Finance:** It is financed by annual budget allocation of the government and all its earnings go to government treasury.
- **Accounting and Audit:** The government rules relating to audit and accounting are applicable to it.
- **Staffing:** Its employees are government employees and are recruited and appointed as per government rules.
- **Accountability:** These are accountable to the concerned ministry.

Merits

- It is more effective in achieving the objective laid down by government as it is under the direct control of govt.
- It is a source of government income as its revenue goes to government treasury.
- It is accountable to parliament for all its actions which ensures proper utilisation of funds.
- It is suitable for activities where secrecy and strict control is required like defence production.

Demerits

- It suffers from interference from minister and top officials in their working. .
- It lacks flexibility which is essential for smooth operation of business.
- It suffers from red tapism in day to day work.
- These organizations are usually insensitive to consumer needs and do not provide goods and adequate service to them.
- Such organisations are managed by civil servants and government officials who may not have the necessary expertise and experience in management.

Question 3. Explain three trends indicating changing role of public sector.
Answer: The changing role of public sector is clear from the following trends:

1. **Restricting the role of public sector only to critical areas:** The reservation of industries exclusively for the public sector has been reduced from 17 to 8 and further to 3 only.
2. **Performance improvement through Memorandum of Understanding (MOU):** Under this government lays down performance targets for the management and gives

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greater autonomy to hold the management accountable for the results.

3. **Disinvestment:** Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better financial discipline.
4. **Restructure and Revival**: All public sector sick units were referred to Board of Industrial and Financial Reconstruction (BIFR). Units which were potentially viable were restructured and which could not be revived were closed down by the board.

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III. Long Answer Type Questions

Question 1. Define Joint Venture and explain its major benefits.

Answer: Meaning: When two or more independent firms together establish a new enterprise by pooling their capital, technology and expertise, it is known as a Joint Venture. Example: Hero Cycle of India and Honda Motors Co. of Japan jointly established Hero Honda. Similarly Suzuki Motors of Japan and Govt, of India come together to form Maruti Udyog.

Benefits

1. **Greater resources and capacity:** In a joint venture the resources and capacity of two or more firms are combined which enables them to grow quickly and efficiently.
2. **Access to advanced technology:** It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.
3. **Access to new markets and distribution network:** A foreign company gain access to the vast Indian market by entering into a joint venture with Indian company. It can also take advantage of the well established distribution system of local firms.
4. **Innovation:** Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.
5. **Low cost of production:** Raw materials and labour are comparatively cheap in developing countries so if one partner is from developing country they can be benefited by the low cost of production.
6. **Well known brand names:** When one party has well established brands and goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

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Question 2. Explain the main features of Multinational Company.

Answer: Multinational Company may be defined as a company that has business operations in several countries by having its factories, branches or offices in those countries. But it has its head quarter in one country in which it is incorporated. Example: GEC, IBM, PHILIPS, COCA-COLA etc.

Features

1. **Huge capital resources:** MNCs possess huge capital resources and they are able to raise lot of funds from various sources.
2. **International operations:** A MNC has production, marketing and other facilities in several countries.
3. **Centralised control:** MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only broad policy framework to them and there is no interference in their day to day operations.
4. **Foreign collaboration:** Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country.
5. **Advanced technology:** These organisations possess advanced and superior technology which enable them to provide world class products and services.

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6. **Product innovations:** MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.
7. **Marketing strategies:** MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

Question 3. Differentiate between Statutory Corporation, Departmental Undertaking and Government Company.

Answer: Differences between Statutory Corporation, Departmental Undertaking and Government Company are summarized in the table given below:

Basis	Statutory Corporation	Departmental Undertaking	Government Company
Formation	By a special act of Parliament or State Legislature	By a Ministry	Under Companies Act with or without Private Sector participation
Ownership	Wholly owned by the Government	Wholly owned by the Government	At least 51% share capital is held by the Government.
Autonomy	Sufficient	No Autonomy	Highest
Legal Status	Separate legal entity	No separate legal entity	Separate legal entity
Public Accountability	Moderate	Highest	Low
Personnel	Not government employees but hired under a contract of service	Government employees	Not government employees but hired under a contract of service
Funds	Financed from its own resources which may include issue of shares and debentures.	Financed from government budget	Financed from its own resources which may include issue of shares and debentures.
Suitability	Industrial and commercial undertakings	Defense, services of public utility like education, health etc.	Industrial and commercial undertakings
Example	LIC, GIC, SBI, RBI etc.	Railways, Post and Telegraph	SAIL, GAIL, BHEL etc.

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Question 4. Explain the merits and demerits of public-private partnership.

Answer: Public private partnership also called PPP or p3 is a contract between government and private business firms for the provision of public assets and/or public services.

Merits

- **Inflow of private investment:** PPP attracts private investment which is of utmost importance to undertake such essential projects.
- **Increased efficiency:** Involvement of private sector will bring efficiency in implementation of projects and cut down cost and time.
- **Innovation:** It helps in bringing innovative design and constructive practices.
- **Better economic viability:** Involvement of experienced and creditworthy sponsors and commercial lenders can increase economic viability of the projects.
- **Risk sharing:** The structuring of a PPP project allocates the risks to the agency which can handle it most suitably.

Demerits

- **Increased cost:** Cost of production increases for the government as private sector also demands its profit share for the money it invests.
- **Control gets divided:** Control gets divided between private and public sector. Government remains involved in all stages and private sector, is responsible for more commercial functions like project design, construction, finance and operations.

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Question 5. What is Statutory Corporation? Explain its features, merits and demerits.

Answer: It is established under a special act passed in parliament or state legislative assembly.

Its objectives, powers and functions are clearly defined in the Statute /Act.

Examples include Unit Trust of India, Life Insurance Corporation of India, Steel Authority of India Limited etc.

Features

- It is established under a special act which defines its objects, powers and functions.
- It has a separate legal entity.
- Its management is vested in a Board of Directors appointed or nominated by the government.
- It has its own staff, recruited and appointed as per the provisions of act.
- This type of enterprise is usually independently financed. It obtains funds by borrowing from government or from public or through earnings.
- It is not subject to same accounting and audit rules which are applicable to Government Department.

Merits

- **Internal autonomy:** It enjoys a good deal of autonomy in its day to day operations and is free from political interference.
- **Quick decisions:** It can take prompt decisions and quick actions as it is free from the prohibitory rules of government.
- **Parliamentary control:** Their performance is subject to discussion in Parliament which ensures proper use of public money.
- **Efficient management:** Their Directors and top Executives are professionals and experts of different fields.

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Demerits

- **Flexibility is for name sake only:** In reality, there is not much operational flexibility. It suffers from lot of political interference.
- **Lack of profit motive:** Usually they enjoy monopoly in their field and do not have profit motive due to which their working turns out to be inefficient.
- **Corruption:** Where there is dealing with public, rampant corruption exists. Thus public corporation is suitable for undertaking requiring monopoly powers e.g., public utilities.

Question 6. Give the meaning of Government Company. Explain three merits and three limitations of Government Company.

Answer. A Government Company is a company in which not less than 51% of the paid up share capital is held by the central government; or state government or jointly by both. Hindustan Insecticides Ltd., State Trading Corporation of India, Hindustan Cables Ltd.etc are some of the examples.

Features

- It is registered or incorporated under Companies Act.
- It has a separate legal entity.
- Management is regulated by the provision of Companies Act.
- Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of Association.
- The Government Company obtains its funds from government shareholdings and other

private shareholdings. It can also raise funds from capital market.

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Merits

- It can be easily formed as per the provision of Companies Act. Only an executive decision of government is required.
- It enjoys autonomy in management decisions and flexibility in day to day working.
- It can appoint professional managers on high salaries.

Limitations

- It suffers from interference from government officials, ministers and politicians.
- It evades constitutional responsibility, which a company financed by the government should have, as it is not directly answerable to Parliament.
- The board usually consists of the politicians and civil servants who are interested more in pleasing their political bosses than in efficient operation of the company.

IV. Higher Order Thinking Skills (HOTS)

Question 1. "The basic rationale of public sector has changed significantly." In the light of this statement explain any four initiatives taken by the government.

Answer: In the industrial policy 1991, the Government of India introduced four major reforms in public sector.

1. **Reduction in number of industries reserved for public sector:** This number is reduced from 17 to 8 and to 3 industries only in 2001. These three industries are atomic energy, arms and rail transport.
2. **Memorandum of Understanding (MOU):** Under this govt, lays down performance targets for the management and gives greater autonomy to hold the management accountable for the results.
3. **Disinvestment:** Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better financial discipline.
4. **Restructure and revival:** All public sectors, sick units were referred to Board of Industrial and Financial Reconstruction (BIFR). Units which were potentially viable were restructured and which could not be revived were closed down by the board.

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Question 2. "Global enterprises are giant both in size and operations." Substantiate this statement.

Answer: The statement is absolutely correct that global enterprises are giant both in size and operations.

1. It has huge capital resources.
2. It involves foreign collaboration.
3. It uses advanced technology.
4. It leads to product innovation.
5. It makes use of marketing strategies.
6. It leads to expansion of market territory.
7. It makes use of centralized control.

Question 3. "MNC's are in a position to exercise massive control on an economy." Substantiate.

Answer: MNC's are in a position to exercise massive control on an economy because of the

following reasons:

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- MNC's are characterised by possessing huge financial resources. These huge financial resources give them economic power in the economy. They can afford to survive even during losses as well.
- MNCs possess technological superiorities and are capable of conform to international standards and quality specifications.
- They make use of aggressive marketing strategies for their products.
- They have an established brand image in the market.

V. Value Based Questions

Question 1. Multinational Companies have done more harm than good. Explain.

Answer: Yes, I agree that Multinational Companies have done more harm than good. It is clear from the following disadvantages which it is creating for the economy.

1. It disregards national priorities.
2. It leads to creation of monopoly.
3. It leads to depletion of natural resources.
4. It leads to technology obsolete .
5. It creates threat to national sovereignty.

Question 2. "Public sector has changed its role since 1991 a great deal". Do you agree? Justify your answer.

Answer: The role and importance of public sector changed with passage of time.

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1. **Development of infrastructure:** At the time of independence, India suffered from an acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machineries, etc. Because of huge investment requirement and long gestation period, private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to public sector which it discharged quite efficiently.
2. **Regional balance:** Earlier, most of the development was limited to a few areas like port towns. For providing employment to the people and for accelerating the economic development of backward areas many industries were set up by public sector in those areas.
3. **Economics of scale:** In certain industries (like electric power plants, natural gas, petroleum, etc) huge capital and large base are required to function economically. Such areas were taken up by public sector.
4. **Control of monopoly and restrictive trade practices:** These enterprises were also established to provide completion to private sector and to check their monopolies and restrictive trade practices.
5. **Import substitution:** Public enterprises were also engaged in production of capital equipments which were earlier imported from other countries. At the same time public sector companies like STC and MMTC have played an important role in expanding exports of the country. Very important role was assigned to public sector but its performance was far from satisfactory which forced government to do rethinking on public enterprises.