

PRODUCT INDEX

INDEX

1. MARGDARSHIKA
2. THEORY NOTES
3. UNIT WISE MCQ
4. AMRIUT BOOKLET
5. PYQ
6. TREND ANALYSIS
7. TOPPERS TOOL KIT (TTK)
8. MODEL PAPER

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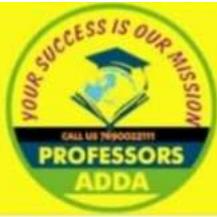
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Covers the entire Commerce UGC NET syllabus – 10 units from Business Environment to Tax Planning – all in one concise guide.



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Margdarshika Booklet UPDATED 2025 Edition

Margdarshika booklet what is this,

Why read this?

- It is a well-planned roadmap to simplify the vast and complex syllabus of UGC NET. It is like a Guru showing you the path to success in the subject. You do not need to depend on anyone.
- Its main aim is to give clear answers to questions like "what to read, where to start, and how deep to read". Focus points are explained.
- It gives a systematic direction to your preparation by dividing it into small (manageable) parts. It tells you what is the new trend of the exam these days.

What's that for?

- It is useful for students preparing for UGC NET, PGT, Asst Professor
- It is very useful for those who are preparing at home, those who are working, those who are not getting proper guidance, those who do not want to watch videos. It is a one stop solution for them

Key Features and Benefits

- **Benefits:** Explains important concepts, theories and examples of the subject.
- **Time saving:** Guides you in the right direction by saving you from unnecessary information. 100% exam oriented
- **Complete coverage:** Ensures that no important part of the syllabus is missed.
- **Increased confidence:** Having a clear plan reduces nervousness regarding preparation.

How to make best use of it?

- Make sure to remember the most important
- Follow the order given in the guide.
- Have a strong grip on the basics of each topic.
- While studying, focus on those topics in ProfessorsAdda Booklets.
- Try to establish a connection between different concepts.
- Solve MCQ practice questions and old question papers based on the guide. All this is given in ProfessorsAdda MCQ + PYQ booklet which is complete, quality updated.
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UGC NET COMMERCE MARGDARSHIKA BOOKLET

Unit 1: Business Environment and International Business

What to Study (Do Highly Focus on These Topics)

- **Concepts and elements of business environment:** This foundational topic requires understanding the various internal and external factors that impact business operations and decision-making.
 - **Economic environment:** A critical component. Focus on:
 - Economic systems: Characteristics of capitalism, socialism, and mixed economies, and how they shape business.
 - Economic policies: Specifically, Monetary policy (actions by the central bank like interest rate changes, reserve requirements to manage money supply and credit) and Fiscal policies (government's use of taxation and public expenditure to influence the economy).
 - **Political environment:** Understand the significant Role of government in business, which can range from regulator (setting rules), promoter (providing incentives), to entrepreneur (public sector undertakings).
 - **Legal environment:** Knowledge of key legislation is vital.
 - Consumer Protection Act: Its main provisions for safeguarding consumer rights, grievance redressal mechanisms, and the rights of consumers.
 - FEMA (Foreign Exchange Management Act): Its objectives, key provisions, and mechanisms for managing foreign exchange transactions in India.
 - **Socio-cultural factors:** Analyze how societal values, beliefs, customs, traditions, ethics, and lifestyles influence business practices, product design, marketing strategies, and consumer behavior.
 - **Corporate Social Responsibility (CSR):** Grasp the concept of CSR, its importance in modern business, arguments for and against it, different models/approaches to CSR, and a company's responsibility towards various stakeholders (shareholders, employees, customers, society, environment).
- **International Business Fundamentals:**
 - **Scope and importance of international business:** Understand the reasons why firms engage in international business (market seeking, resource seeking, efficiency

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seeking, strategic asset seeking) and the overall significance of global trade and investment for national economies.

- **Globalization and its drivers:** Define globalization in its various dimensions (economic, political, cultural, technological) and identify the key technological, political, market, cost, and competitive factors that propel and shape the process of globalization.
- **Modes of entry into international business:** Study the various methods companies use to enter foreign markets, including exporting (direct and indirect), licensing, franchising, management contracts, turnkey projects, contract manufacturing, joint ventures, strategic alliances, and wholly-owned subsidiaries (greenfield vs. acquisition). Understand the advantages and disadvantages of each mode.
- **International Trade Theories and Policies:**
 - **Theories of international trade:** Learn the evolution and core tenets of classical theories (Mercantilism, Adam Smith's Absolute Advantage, David Ricardo's Comparative Advantage, Heckscher-Ohlin Theory) and modern firm-based theories (Product Life Cycle Theory, New Trade Theory, Michael Porter's National Competitive Advantage or Diamond Model).
 - **Government intervention in international trade:** Understand the rationale behind government intervention (political, economic, social arguments) and the various instruments used.
 - **Tariff and non-tariff barriers:** Differentiate clearly between various types of tariffs (EXAMPLEspecific, ad valorem, compound) and a wide array of non-tariff barriers (NTBs) such as quotas, voluntary export restraints (VERs), subsidies, local content requirements, embargoes, anti-dumping duties, and administrative/technical barriers.
 - **India's foreign trade policy (FTP):** Be aware of the broad objectives, key features, export promotion schemes, and recent pronouncements or updates in India's prevailing FTP.
- **Foreign Investment: FDI and FPI**
 - **Foreign direct investment (FDI) and Foreign portfolio investment (FPI):** Clearly distinguish between FDI (investment to acquire a lasting management interest in an enterprise operating in a foreign country) and FPI (passive investment in securities like stocks and bonds, without management control).
 - **Types of FDI:** Understand different classifications like horizontal FDI, vertical FDI (backward and forward), and conglomerate FDI.

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- **Costs and benefits of FDI to home and host countries:** Analyze the diverse impacts of FDI on both the investing (home) and recipient (host) countries, considering aspects like employment, balance of payments, technology transfer, skill development, competition, economic growth, national sovereignty, and cultural impact.
- **Trends in FDI:** Be aware of global and Indian trends in FDI inflows and outflows.
- **India's FDI policy:** Understand the key sectors for FDI, entry routes (automatic vs. approval), sectoral caps, and any recent significant changes or liberalizations in India's FDI regime.
- **Balance of Payments (BOP): Tracking International Transactions**
 - **Importance and components of BOP:** Understand the significance of the BOP statement as a systematic record of all economic transactions between residents of a country and the rest of the world. Master its main components: the Current Account (trade in goods and services, income, current transfers), the Capital Account (FDI, FPI, loans, banking capital), and the Official Reserves Account.
- **Regional Economic Integration: Cooperating for Growth**
 - **Levels of Regional Economic Integration:** Study the different stages or levels of economic integration, from looser forms to deeper integration: Preferential Trading Area (PTA), Free Trade Area (FTA), Customs Union, Common Market, Economic Union, and Political Union. Understand the characteristics of each level.
 - **Trade creation and diversion effects:** Understand these two important economic impacts that result from the formation of regional trade blocs. Trade creation occurs when high-cost domestic production is replaced by low-cost imports from a member country. Trade diversion occurs when low-cost imports from a non-member are replaced by higher-cost imports from a member country.
 - **Regional Trade Agreements (RTAs):** Gain knowledge about the objectives, membership, key features, and achievements/challenges of prominent RTAs like the European Union (EU), Association of Southeast Asian Nations (ASEAN), South Asian Association for Regional Cooperation (SAARC), and North American Free Trade Agreement (NAFTA) (now replaced by USMCA, but NAFTA is what's listed).
- **International Economic Institutions: Shaping the Global Economy**
 - Understand the primary roles, objectives, functions, and lending mechanisms/facilities of key institutions: the International Monetary Fund (IMF; focus on financial stability, balance of payments support), the World Bank Group

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(IBRD and its affiliates like IDA, IFC, MIGA; focus on development and poverty reduction), and the United Nations Conference on Trade and Development (UNCTAD; focus on development-friendly integration of developing countries into the world economy).

- **World Trade Organisation (WTO): Governing Global Trade**
 - **Functions and objectives of WTO:** Focus on its role in administering WTO trade agreements, acting as a forum for multilateral trade negotiations, settling trade disputes between member countries, providing technical assistance to developing countries, and ensuring transparency of trade policies.
 - **Key Agreements under WTO:** Understand the basic principles and objectives of the Agreement on Agriculture (AoA; aimed at reducing trade-distorting subsidies and market access barriers in agriculture), GATS (General Agreement on Trade in Services; framework for liberalizing international trade in services), TRIPS (Trade-Related Aspects of Intellectual Property Rights; setting minimum standards for protection of IPRs), and TRIMS (Trade-Related Investment Measures; regulating investment measures that can restrict or distort trade).

How to Study (Effective & Enlarged Strategies):

- **Mind Maps for Business Environment Components:** Create detailed mind maps for each element of the business environment (PESTLE - Political, Economic, Socio-cultural, Technological, Legal, Environmental). For each component, list key factors and specific examples of how they can impact a business (EXAMPLE under Economic, list inflation, interest rates, exchange rates; under Legal, list specific acts like Consumer Protection Act).
- **Case Study Deep Dives for International Business:** Select 2-3 real-world companies that have successfully (or unsuccessfully) expanded internationally. Analyze their mode(s) of entry, the challenges they faced (cultural, political, economic), the strategies they adopted, and the outcomes. This makes concepts like "modes of entry" and "globalization drivers" more tangible.
- **Comparative Tables for Theories & Integration:**
 - **International Trade Theories:** Create a table comparing different trade theories based on: Proponent, Core Idea/Principle, Assumptions, Relevance/Criticisms.
 - **Levels of Regional Economic Integration:** Use a table to compare the levels (FTA, Customs Union, Common Market, etc.) based on: Removal of Tariffs among

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members, Common External Tariff, Free movement of factors of production (labor, capital), Harmonization of economic policies.

- **Acronym Mastery and Keyword Association:**
 - Maintain a running list of all acronyms encountered (FDI, FPI, BOP, EU, ASEAN, WTO, GATS, TRIPS, TRIMS, FEMA, CSR, etc.). For each, write the full form and a one-sentence explanation of its core function or objective.
- **Dynamic Policy Tracking:**
 - For India's Foreign Trade Policy and FDI Policy, don't just rely on textbooks. Briefly check official websites (Ministry of Commerce, DPIIT) for the latest policy highlights or significant recent changes, as questions might reflect current scenarios.
- **BOP Structure and Problem Solving:**
 - Draw the detailed structure of the Balance of Payments account. Practice classifying various international transactions (EXAMPLE software exports, tourist expenditure, FDI inflows, remittance by an NRI) into the correct BOP account (Current or Capital) and sub-account (EXAMPLE trade balance, invisibles, investment income).
- **WTO Agreements – Focus on Core Objectives & Implications:**
 - For GATS, TRIPS, TRIMS, and AoA, create short summaries focusing on: What does this agreement primarily deal with? What are its main objectives? What are some key implications for a developing country like India? Avoid getting bogged down in minute legal details unless specifically emphasized in your materials.
- **Diagrams for Integration & Effects:**
 - Use simple diagrams to illustrate the progression of regional economic integration.
 - For trade creation and diversion, try to represent them graphically (even simplified supply-demand curves if you are comfortable) or with hypothetical numerical examples to understand which country benefits/loses under each scenario.
- **Relate Concepts to Current Events:** Try to link concepts like globalization, FDI flows, trade barriers, and WTO disputes to current international business news. This enhances understanding and retention.

Exam Tips for Unit 1 (MCQ Focus):

- **Conceptual Definitions:** Be very clear on the definitions of core concepts like globalization, FDI vs. FPI, different modes of entry, types of trade barriers (tariff vs. non-tariff), levels of economic integration, and CSR.

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- **Policy Acumen:** Questions on Monetary/Fiscal policies (their tools and objectives), key provisions and objectives of the Consumer Protection Act and FEMA, and highlights of India's current Foreign Trade Policy and FDI Policy are common.
- **International Bodies & Agreements (High Yield):**
 - Expect MCQs on the primary functions, objectives, headquarters, and key initiatives/reports of IMF, World Bank, UNCTAD, and WTO.
 - For WTO agreements (GATS, TRIPS, TRIMS, AoA), questions usually focus on what each agreement pertains to (EXAMPLETRIPS deals with intellectual property).
 - For RTAs (EU, ASEAN, SAARC, NAFTA), know their full forms, major objectives, and sometimes key member countries or recent significant developments (if any).
- **BOP Accounting:** Be prepared to identify which specific transactions belong to the Current Account (EXAMPLEmerchandise trade, invisibles like software services, remittances) versus the Capital Account (EXAMPLEFDI, FPI, external borrowings) of the BOP.
- **Trade Theories:** Questions might ask you to match theories with their proponents (EXAMPLEComparative Advantage - Ricardo) or identify the core idea of a specific theory.
- **Distinctions are Key:** Be able to clearly differentiate between:
 - Tariff and Non-Tariff Barriers (with examples).
 - FDI and FPI.
 - Trade Creation and Trade Diversion.
 - Different modes of international market entry (EXAMPLElicensing vs. franchising).
- **CSR Questions:** Could focus on the scope of CSR, stakeholder theory, or arguments for/against CSR.
- **"Match the Following" & "Identify the Correct/Incorrect Statement":** These formats are frequently used for this unit, covering theories, institutions, agreements, and policy features.
- **Application-Based Questions:** Some questions might present a short scenario and ask you to apply a concept (EXAMPLEidentify the mode of entry used by a company).

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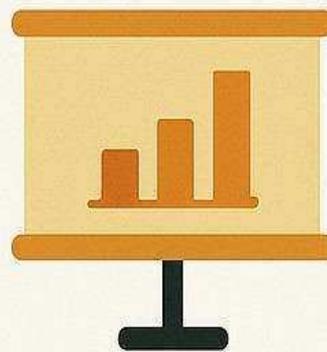
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Commerce E-BOOKLET Index

Unit 1: Business Environment and International Business

- **Concepts and elements of business environment:**
 - Economic environment: Economic systems, Economic policies (Monetary and fiscal policies)
 - Political environment: Role of government in business
 - Legal environment: Consumer Protection Act, FEMA
 - Socio-cultural factors and their influence on business
 - Corporate Social Responsibility (CSR)
- **Scope and importance of international business**
- **Globalization and its drivers**
- **Modes of entry into international business**
- **Theories of international trade**
- **Government intervention in international trade**
- **Tariff and non-tariff barriers**
- **India's foreign trade policy**
- **Foreign direct investment (FDI) and Foreign portfolio investment (FPI)**
 - Types of FDI
 - Costs and benefits of FDI to home and host countries
 - Trends in FDI
 - India's FDI policy
- **Balance of payments (BOP): Importance and components of BOP**
- **Regional Economic Integration:**
 - Levels of Regional Economic Integration
 - Trade creation and diversion effects
 - Regional Trade Agreements: European Union (EU), ASEAN, SAARC, NAFTA
- **International Economic institutions: IMF, World Bank, UNCTAD**

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- **World Trade Organisation (WTO):**
 - Functions and objectives of WTO
 - Agriculture Agreement
 - GATS
 - TRIPS
 - TRIMS

Unit 2: Accounting and Auditing

- **Basic accounting principles, concepts and postulates**
- **Partnership Accounts: Admission, Retirement, Death, Dissolution and Insolvency of partnership firms**
- **Corporate Accounting:**
 - Issue, forfeiture and reissue of shares
 - Liquidation of companies
 - Acquisition, merger, amalgamation and reconstruction of companies
- **Holding company accounts**
- **Cost and Management Accounting:**
 - Marginal costing and Break-even analysis
 - Standard costing
 - Budgetary control
 - Process costing
 - Activity Based Costing (ABC)
 - Costing for decision-making
 - Life cycle costing, Target costing, Kaizen costing and JIT
- **Financial Statements Analysis:**
 - Ratio analysis
 - Funds flow Analysis
 - Cash flow analysis
- **Human Resources Accounting**
- **Inflation Accounting**

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- Environmental Accounting
- Indian Accounting Standards and IFRS
- Auditing:
 - Independent financial audit
 - Vouching
 - Verification and valuation of assets and liabilities
 - Audit of financial statements and audit report
 - Cost audit
- Recent Trends in Auditing:
 - Management audit
 - Energy audit
 - Environment audit
 - Systems audit
 - Safety audit

Unit 3: Business Economics

- Meaning and scope of business economics
- Objectives of business firms
- Demand analysis:
 - Law of demand
 - Elasticity of demand and its measurement
 - Relationship between AR and MR
- Consumer behavior:
 - Utility analysis
 - Indifference curve analysis
- Law of Variable Proportions: Law of Returns to Scale
- Theory of cost: Short-run and long-run cost curves
- Price determination under different market forms:
 - Perfect competition
 - Monopolistic competition

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- Oligopoly- Price leadership model
- Monopoly
- Price discrimination
- Pricing strategies:
 - Price skimming
 - Price penetration
 - Peak load pricing

Unit 4: Business Finance

- Scope and sources of finance
- Lease financing
- Cost of capital and time value of money
- Capital structure
- Capital budgeting decisions: Conventional and scientific techniques of capital budgeting analysis
- Working capital management
- Dividend decision: Theories and policies
- Risk and return analysis
- Asset securitization
- International monetary system
- Foreign exchange market
- Exchange rate risk and hedging techniques
- International financial markets and instruments: Euro currency, GDRs, ADRs
- International arbitrage
- Multinational capital budgeting

Unit 5: Business Statistics and Research Methods

- Measures of central tendency

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- Measures of dispersion
- Measures of skewness
- Correlation and regression of two variables
- Probability:
 - Approaches to probability
 - Bayes' theorem
- Probability distributions: Binomial, poisson and normal distributions
- Research: Concept and types
- Research designs
- Data: Collection and classification of data
- Sampling and estimation:
 - Concepts
 - Methods of sampling probability and non-probability methods
 - Sampling distribution
 - Central limit theorem
 - Standard error
 - Statistical estimation
- Hypothesis testing: z-test, t-test, ANOVA, Chi-square test, Mann-Whitney test (U-test), Kruskal-Wallis test (H-test), Rank correlation test
- Report writing

Unit 6: Business Management and Human Resource Management

- Principles and functions of management
- Organization structure: Formal and informal organizations; Span of control
- Responsibility and authority: Delegation of authority and decentralization
- Motivation and leadership: Concept and theories
- Corporate governance and business ethics
- Human resource management:

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- Concept, role and functions of HRM
- Human resource planning
- Recruitment and selection
- Training and development
- Succession planning
- **Compensation management:**
 - Job evaluation
 - Incentives and fringe benefits
- Performance appraisal including 360 degree performance appraisal
- Collective bargaining and workers' participation in management
- Personality: Perception; Attitudes; Emotions; Group dynamics; Power and politics; Conflict and negotiation; Stress management
- Organizational Culture: Organizational development and organizational change

Unit 7: Banking and Financial Institutions

- Overview of Indian financial system
- Types of banks: Commercial banks; Regional Rural Banks (RRBs); Foreign banks; Cooperative banks
- Reserve Bank of India: Functions; Role and monetary policy management
- Banking sector reforms in India: Basel norms; Risk management; NPA management
- Financial markets: Money market; Capital market; Government securities market
- Financial Institutions: Development Finance Institutions (DFIs); Non-Banking Financial Companies (NBFCs); Mutual Funds; Pension Funds
- Financial Regulators in India
- Financial sector reforms including financial inclusion
- Digitisation of banking and other financial services: Internet banking; mobile banking; Digital payments systems

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- **Insurance:**
 - Types of insurance- Life and Non-life insurance
 - Risk classification and management
 - Factors limiting the insurability of risk
 - Re-insurance
 - Regulatory framework of insurance- IRDA and its role

Unit 8: Marketing Management

- **Marketing:** Concept and approaches; Marketing channels; Marketing mix; Strategic marketing planning; Market segmentation, targeting and positioning
- **Product decisions:** Concept; Product line; Product mix decisions; Product life cycle; New product development
- **Pricing decisions:** Factors affecting price determination; Pricing policies and strategies
- **Promotion decisions:**
 - Role of promotion in marketing
 - Promotion methods - Advertising; Personal selling; Publicity; Sales promotion tools and techniques
 - Promotion mix
- **Distribution decisions:** Channels of distribution; Channel management
- **Consumer Behaviour:** Consumer buying process; factors influencing consumer buying decisions
- **Service marketing**
- **Trends in marketing:** Social marketing; Online marketing; Green marketing; Direct marketing; Rural marketing; CRM
- **Logistics management**

Unit 9: Legal Aspects of Business

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- **Indian Contract Act, 1872:**
 - Elements of a valid contract
 - Capacity of parties
 - Free consent
 - Discharge of a contract
 - Breach of contract and remedies against breach
 - Quasi contracts
- **Special contracts:**
 - Contracts of indemnity and guarantee
 - contracts of bailment and pledge
 - Contracts of agency
- **Sale of Goods Act, 1930:**
 - Sale and agreement to sell
 - Doctrine of Caveat Emptor
 - Rights of unpaid seller and rights of buyer
- **Negotiable Instruments Act, 1881:**
 - Types of negotiable instruments
 - Negotiation and assignment
 - Dishonour and discharge of negotiable instruments
- **The Companies Act, 2013:**
 - Nature and kinds of companies
 - Company formation
 - Management, meetings and winding up of a joint stock company
- **Limited Liability Partnership: Structure and procedure of formation of LLP in India**
- **The Competition Act, 2002: Objectives and main provisions**
- **The Information Technology Act, 2000: Objectives and main provisions; Cyber crimes and penalties**
- **The RTI Act, 2005: Objectives and main provisions**
- **Intellectual Property Rights (IPRs): Patents, trademarks and copyrights; Emerging issues in intellectual property**

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- Goods and Services Tax (GST): Objectives and main provisions; Benefits of GST; Implementation mechanism; Working of dual GST

Unit 10: Income-tax and Corporate Tax Planning

- **Income-tax:**
 - Basic concepts
 - Residential status and tax incidence
 - Exempted incomes
 - Agricultural income
 - Computation of taxable income under various heads
 - Deductions from Gross total income
 - Assessment of Individuals
 - Clubbing of incomes
- **International Taxation:**
 - Double taxation and its avoidance mechanism
 - Transfer pricing
- **Corporate Tax Planning:**
 - Concepts and significance of corporate tax planning
 - Tax avoidance versus tax evasion
 - Techniques of corporate tax planning
 - Tax considerations in specific business situations: Make or buy decisions; Own or lease an asset; Retain; Renewal or replacement of asset; Shut down or continue operations
- **Deduction and collection of tax at source**
- **Advance payment of tax**
- **E-filing of income-tax returns**

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5. Theories of International Trade



These theories provide frameworks for understanding why countries engage in international trade and what benefits they derive.

1. Mercantilism (16th-18th Century):

- **Key Idea:** A nation's wealth and power are directly correlated with its accumulation of gold and silver (bullion). To achieve this, a country should maximize exports and minimize imports, aiming for a consistent trade surplus.
- **Role of Government:** Strong government intervention to protect domestic industries (tariffs on imports), subsidize exports, and promote colonial expansion to secure raw materials and markets.
- **View of Trade: Zero-sum game**, where one country's gain

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comes at another's expense.

- **Criticism: David Hume** (1752, Of the Balance of Trade) disproved mercantilism with the "price-specie flow mechanism," arguing that a persistent trade surplus (gold inflow) would lead to domestic inflation, making exports less competitive and imports more attractive, eventually correcting the surplus. Also, it restricts overall global output.

2. **Theory of Absolute Advantage: Adam Smith** (1776, The Wealth of Nations).

- **Key Idea:** A country should specialize in producing and exporting goods in which it has an **absolute advantage** (can produce more efficiently or with less labor/resources than any other country). It should import goods where other countries have an absolute advantage.
- **Assumptions:** Two countries, two goods, labor is the only factor of production, perfect competition, free trade, constant returns to scale.
- **Benefit:** Leads to increased global output and efficiency through specialization, making trade a **positive-sum game**.
- **Limitation:** Fails to explain trade patterns if one country has an absolute advantage in producing all goods.

3. **Theory of Comparative Advantage: David Ricardo** (1817, On the Principles of Political Economy and Taxation).

- **Key Idea:** Even if one country has an absolute advantage in producing all goods, mutually beneficial trade can still

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occur. A country should specialize in producing and exporting goods in which it has a **comparative advantage** (can produce at a lower opportunity cost relative to another country).

- **Opportunity Cost:** The value of the next best alternative that must be foregone to produce a unit of a good.
- **Assumptions:** Same as absolute advantage.
- **Benefit:** Trade is a **positive-sum game**, leading to higher overall efficiency and consumption possibilities for all trading partners, even for less efficient countries.
- **Example:** If Country A produces 10 units of wine or 20 units of cloth with the same labor, and Country B produces 5 units of wine or 8 units of cloth, A has absolute advantage in both. But A's opportunity cost for 1 wine is 2 cloth, while B's is 1.6 cloth. So B has a comparative advantage in wine. A has a comparative advantage in cloth (opportunity cost of 1 cloth is 0.5 wine for A, vs 0.625 for B). Both can gain by specializing and trading.
- **Implications:** Trade patterns are determined by relative productivity differences.

4. Heckscher-Ohlin Theory (Factor Endowment Theory):

Eli Heckscher (1919) and **Bertil Ohlin** (1933).

- **Key Idea:** Differences in **factor endowments** (relative abundance of land, labor, capital) rather than productivity differences, explain trade patterns. A country will export goods that intensely use its relatively abundant and cheap

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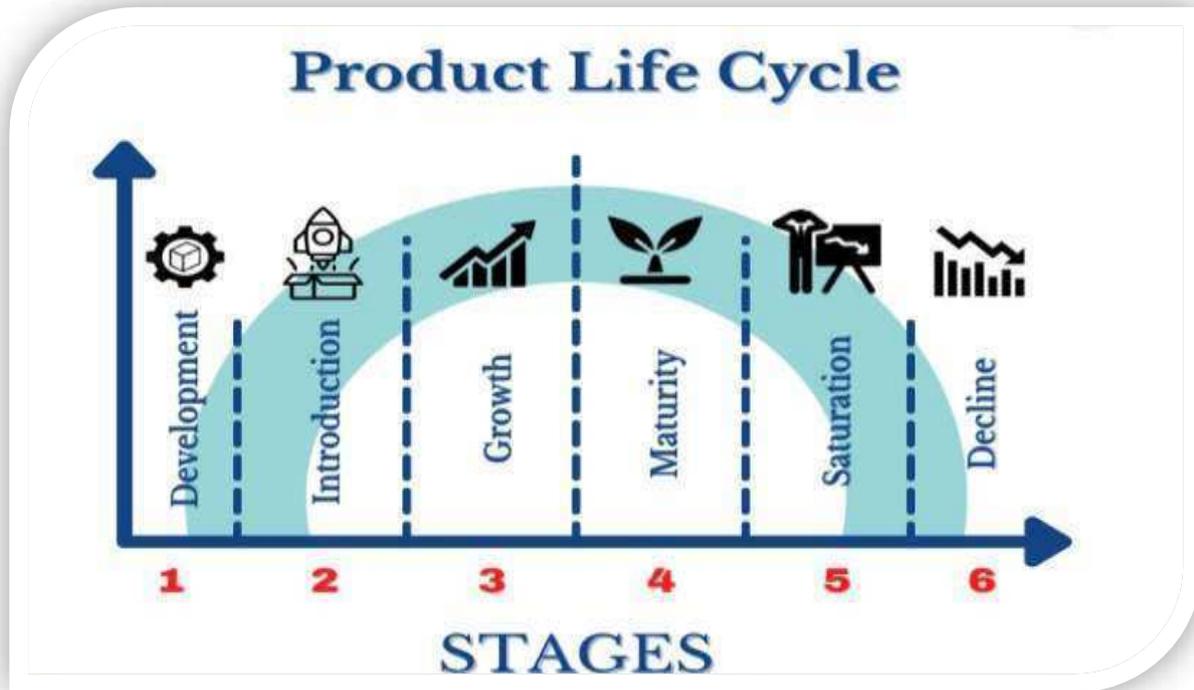
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factor of production, and import goods that intensely use its relatively scarce and expensive factor.

- **Assumptions:** Two countries, two goods, two factors of production (labor and capital), identical production technology across countries, identical tastes and preferences, factors are internationally immobile but domestically mobile, perfect competition.
- **Example:** A labor-abundant country like India will export labor-intensive goods (e.g., textiles, handicrafts), while a capital-abundant country like Germany will export capital-intensive goods (e.g., machinery, automobiles).
- **Criticism: Leontief Paradox (Wassily Leontief, 1953):** Empirical study found that the U.S. (a capital-abundant country) was exporting relatively labor-intensive goods and importing capital-intensive goods. This contradicted the H-O theory, suggesting other factors (e.g., human capital, technology) were at play.

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5. **Product Life Cycle Theory: Raymond Vernon** (1966, "International Investment and International Trade in the Product Cycle").

- **Key Idea:** The location of production and export of a new product shifts over its life cycle, typically starting in the innovating developed country, then moving to other developed countries, and finally to developing countries.
- **Stages:**
 - **New Product Stage (Innovating Country - e.g., US):** Product is new, demand uncertain, production is flexible, skilled labor is key. Innovating country exports the product.
 - **Maturing Product Stage (Other Developed Countries):** Demand grows in other developed countries. Production standardization allows for mass production. Foreign

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competition increases, so firms start producing in other developed countries. Innovating country's exports may decline, and it may start importing from other developed nations.

- **Standardized Product Stage (Developing Countries):**

Product is widely accepted, production is highly standardized, emphasis shifts to cost reduction. Production moves to developing countries with low labor costs. The innovating country becomes an importer of the product.

- **Implication:** Explains changing patterns of trade and investment, especially for manufactured goods.
- **Limitations:** Less relevant for products with very short life cycles, or for industries with simultaneous global product introductions (e.g., many high-tech products).

6. **New Trade Theory: Paul Krugman** (1970s-1980s, awarded Nobel Prize in Economics in 2008 partly for this work).

- **Key Idea:** Trade patterns are not solely determined by comparative advantage based on factor endowments but also by the presence of **economies of scale** and **network effects**. This theory explains **intra-industry trade** (countries trading similar goods).
- **Economies of Scale:** As a firm's output increases, its average cost of production decreases. This provides an incentive for firms to specialize in a few varieties and produce them for the global market, even if countries are similar in factor

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endowments.

- **First-Mover Advantage:** Firms that establish a presence early in an industry (especially those with high fixed costs and learning effects) can achieve economies of scale, build brand loyalty, and create barriers to entry for later entrants, thus dominating global trade in that industry.
- **Intra-Industry Trade:** Explains why countries trade differentiated products within the same industry (e.g., Germany exports BMWs to Japan, and Japan exports Toyotas to Germany). Consumers benefit from greater product variety.
- **Implication:** Governments might use strategic trade policy to support specific industries to gain a first-mover advantage.

7. National Competitive Advantage (Porter's Diamond):

Michael Porter (1990, The Competitive Advantage of Nations).

- **Key Idea:** Explains why certain industries within a nation are internationally competitive. It identifies four broad attributes (the "diamond") that shape the environment in which local firms compete, promoting or hindering the creation of competitive advantage.
- **Four Attributes:**
 - **Factor Endowments:** A nation's position in factors of production (e.g., skilled labor, infrastructure). Porter distinguishes between:
 - Basic Factors: Natural resources, climate, unskilled

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labor (inherited).

- **Advanced Factors:** Skilled labor, research capabilities, technological infrastructure (created through investment, crucial for sustained advantage).
- **Demand Conditions:** The nature of home demand for the industry's product or service. Sophisticated and demanding domestic buyers push firms to innovate faster and upgrade quality.
- **Related and Supporting Industries:** The presence or absence of internationally competitive supplier industries and related industries.¹⁰ Clusters of competitive industries (e.g., Silicon Valley for IT) can foster innovation through information exchange and healthy competition among specialized suppliers.
- **Firm Strategy, Structure, and Rivalry:** The conditions governing how companies are created, organized, and managed, and the nature of domestic rivalry.¹¹ Intense domestic rivalry forces firms to innovate, improve quality, and reduce costs, preparing them for global competition.
- **Role of Government:** Government policies (e.g., subsidies, education policies, anti-trust laws) can influence each of the four attributes.
- **Role of Chance:** Unforeseen events (e.g., wars, technological breakthroughs) can alter industry structure and create new opportunities.
- **Implication:** Provides a holistic framework for understanding and promoting national competitiveness in specific

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industries, suggesting that government policies should focus on enhancing these diamond attributes.

Theories of International Trade

Theory Name	Main Proponent(s)	Core Idea/Focus	Key Assumptions/Characteristics
Classical Theories			
Mercantilism	(16th-18th Century thinkers)	National wealth is measured by its accumulation of precious metals (gold and silver). Promote exports and restrict imports.	Trade is a zero-sum game (one country's gain is another's loss). Government intervention is crucial (tariffs, subsidies). Focus on trade surplus.
Absolute Advantage	Adam Smith (1776)	A country should specialize in and export goods it can produce more efficiently (with fewer resources) than other countries.	Labor is the primary factor of production and is homogenous. Free trade. No transportation costs. Constant returns to scale.
Comparative Advantage	David Ricardo (1817)	A country should specialize in and export goods in which it has a lower opportunity cost of production, even if it has an absolute advantage in all goods.	Labor is the only factor of production. Different countries have different labor productivities. Constant returns to scale. No transportation costs. Perfect competition.
Heckscher-Ohlin (Factor Proportions) Theory	Eli Heckscher & Bertil Ohlin (Early 20th Century)	Countries export goods that make intensive use of their locally abundant factors of production and import goods that make intensive use of their locally scarce factors.	Two countries, two goods, two factors of production (e.g., labor and capital). Factor endowments differ among countries. Technology is the same across countries. Perfect competition. Factors are mobile domestically but immobile internationally.
Modern Theories			
Product Life-Cycle Theory	Raymond Vernon (1960s)	Production of a product moves from the innovating (developed) country to other advanced countries and then to developing countries as	Innovation occurs in high-income countries. Stages: New product, Maturing product, Standardized product. Technology and production methods change over time.

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		the product matures and becomes standardized.	
Country Similarity Theory	Staffan Linder (1961)	Countries with similar levels of per capita income and preferences will trade more intensively with each other, especially in differentiated manufactured goods.	Focuses on demand rather than supply. Intra-industry trade (trade in similar products) is common. Consumer preferences are similar in countries with similar income levels.
New Trade Theory	Paul Krugman, Kelvin Lancaster (1970s-1980s)	Trade can arise between similar countries due to economies of scale (falling average costs as output increases) and network effects, even without differences in comparative advantage.	Imperfect competition (monopolistic competition, oligopoly). Increasing returns to scale. Product differentiation. First-mover advantages.
National Competitive Advantage (Porter's Diamond)	Michael Porter (1990)	A nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade, determined by four interrelated attributes (the "diamond").	Four attributes: Factor Conditions (skilled labor, infrastructure), Demand Conditions (sophisticated home demand), Related and Supporting Industries (presence of competitive suppliers), Firm Strategy, Structure, and Rivalry. Government and chance also play roles.
Gravity Model of Trade	(Empirically observed, Walter Isard, Jan Tinbergen)	Predicts that bilateral trade between two countries is proportional to the product of their GDPs and inversely proportional to the distance between them. ¹	Larger economies tend to trade more. Distance (transportation costs, cultural differences) acts as a barrier to trade. Other factors like common language, trade agreements also influence.

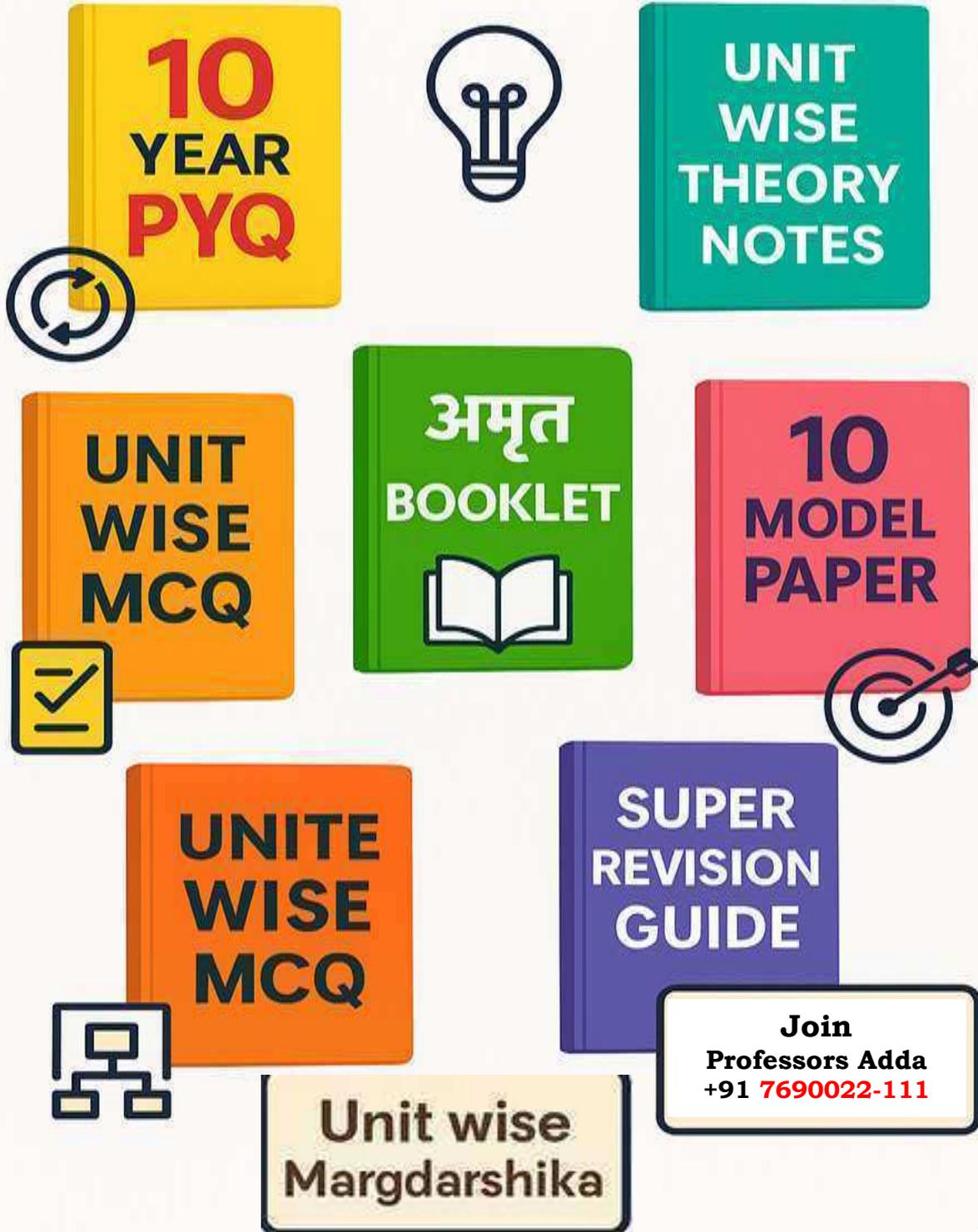
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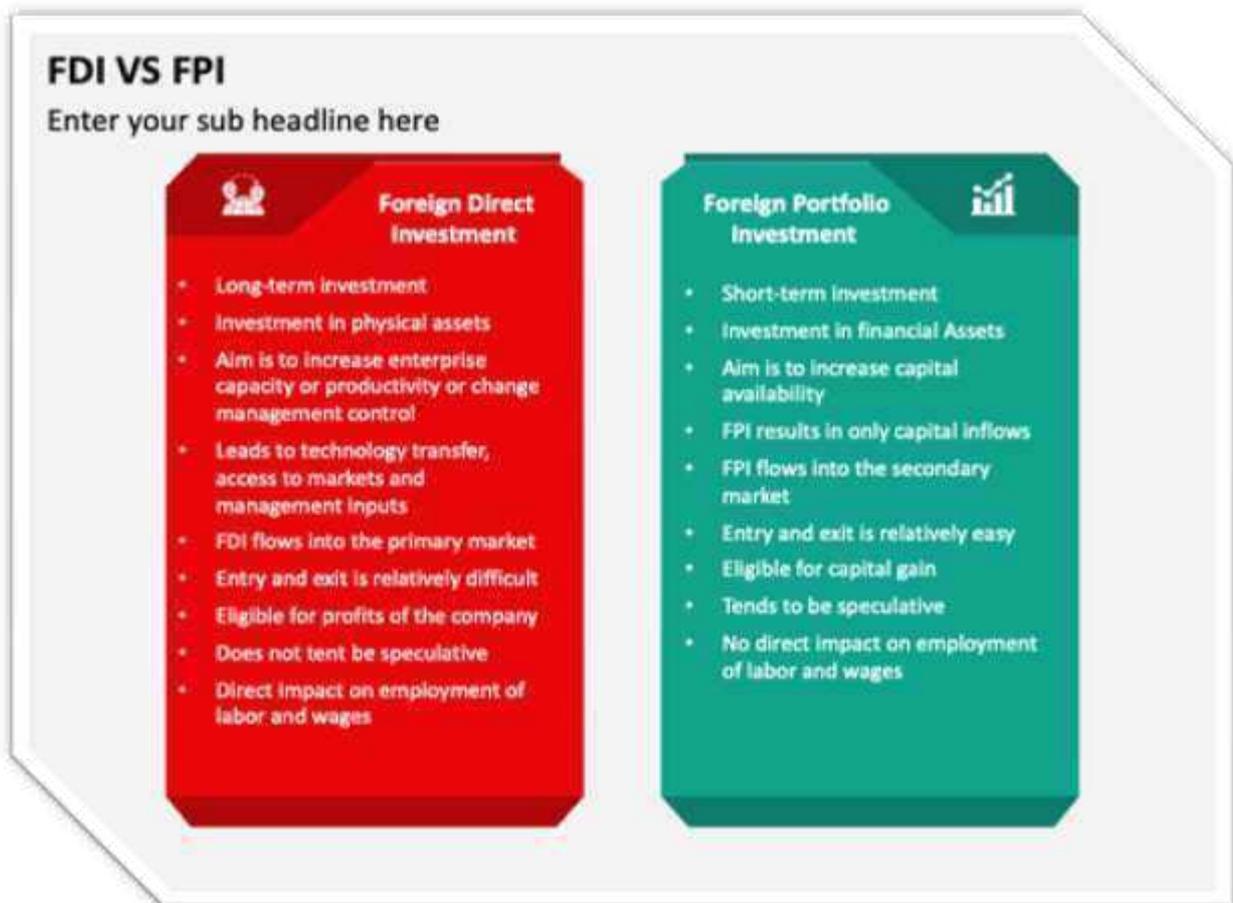


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7. Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)



These are two primary channels of foreign capital inflow, crucial for a country's economic development, but with distinct characteristics.

A. Foreign Direct Investment (FDI)

- **Definition:** An investment made by an entity (company or individual) in one country (home country) into business interests located in another country (host country), with the intention of establishing a **lasting interest** and exercising

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significant managerial influence or control over the foreign entity. The threshold for FDI is typically an equity stake of **10% or more**.

- **Characteristics:**

- **Long-term:** Involves long-term commitment of capital and resources.
- **Control/Influence:** Aims to gain control or significant influence over the foreign operations.
- **Transfer of Resources:** Involves transfer of capital, technology, managerial expertise, and knowledge.
- **Less Liquid:** Difficult to exit quickly.
- **Stable:** Less prone to short-term speculative movements.

- **Types of FDI (Based on Direction/Motive):**

- **Horizontal FDI:** A company invests in a foreign country to produce the same type of goods or services that it produces in its home country.
 - Example: A German automobile manufacturer opening a car assembly plant in India.
- **Vertical FDI:** A company invests in a foreign country to establish operations that are upstream or downstream in its value chain relative to its home country operations.
 - Backward Vertical FDI: Acquiring a foreign supplier of inputs. (e.g., a car manufacturer investing in a steel plant abroad).
 - Forward Vertical FDI: Acquiring a foreign distributor or

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sales outlet. (e.g., a beverage company buying a bottling plant in a foreign market).

- **Conglomerate FDI:** A company invests in a foreign business that is unrelated to its core business in the home country.
 - Example: A technology company investing in a fashion retail chain in a foreign country.
- **Types of FDI (Based on Entry Mode - covered in Section 4, but key here too):**
 - **Greenfield Investment:** Establishing a brand-new facility (e.g., factory, office) from the ground up in a foreign country. (High control, high risk, high cost, time-consuming).
 - **Mergers and Acquisitions (M&A):** Purchasing an existing company (acquisition) or combining with a local company (merger) in the foreign country. (Faster entry, access to existing assets/market share, but integration challenges).
 - **Joint Ventures:** Creating a new entity jointly owned by two or more parent companies (often foreign and local). (Shared risk, access to local knowledge, but potential for conflict).

B. Foreign Portfolio Investment (FPI)

- **Definition:** Passive investment in financial assets (e.g., stocks, bonds, mutual funds, derivatives) in a foreign country, without the intention of acquiring managerial control or a lasting interest. The equity stake is typically **less than 10%**.

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- **Characteristics:**
 - **Short-term:** Often driven by short-term financial gains.
 - **No Control:** Investors do not seek to influence management.
 - **Liquid:** Easy to buy and sell, allowing for quick entry and exit.
 - **Volatile:** Highly sensitive to economic and political news, prone to rapid inflows ("hot money") and sudden outflows, which can destabilize financial markets and exchange rates.
- **Investors:** Foreign Institutional Investors (FIIs), Foreign Portfolio Investors (FPIs), Qualified Foreign Investors (QFIs), Non-Resident Indians (NRIs).¹²

C. Costs and Benefits of FDI to Home and Host Countries

- **To Host Countries (Receiving FDI):**
 - **Benefits:**
 - **Capital Inflow:** Supplements domestic savings, provides funds for investment and economic growth.
 - **Technology Transfer:** Brings in advanced production processes, R&D capabilities, management techniques, and technical know-how.
 - **Employment Generation:** Creates new jobs directly (in the foreign entity) and indirectly (in supporting industries, local suppliers).
 - **Skill Development:** Improves the skills of the local workforce through training, capacity building, and

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exposure to international best practices.

- **Increased Competition:** Enhances efficiency and innovation among domestic firms, leading to better products and services for consumers.
 - **Economic Growth & Diversification:** Contributes to GDP growth, diversification of the industrial base, and exports.
 - **Balance of Payments (BOP) Improvement:** Initial inflow is a credit in the financial account. Long-term, if FDI leads to increased exports, it improves the current account.
 - **Increased Tax Revenues:** From corporate profits and employment generation.
- **Costs:**
- **Crowding Out Effect:** Potential to displace or outcompete domestic firms, leading to closures and job losses in local industries.
 - **Repatriation of Profits:** Long-term outflow of foreign exchange as foreign firms repatriate profits, dividends, royalties back to their home countries, potentially worsening the current account balance.
 - **Loss of Domestic Control:** Foreign firms may prioritize their global strategies over the host country's interests, and strategic sectors might fall under foreign control.
 - **Environmental Concerns:** If foreign firms exploit lax environmental regulations or unsustainable practices.
 - **Cultural Impact:** Potential for foreign cultural norms to undermine local traditions.

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- **Exploitation of Labor:** If foreign firms seek to exploit cheap labor or weak labor laws.
- **Enclave Economy:** Foreign firms may operate as isolated "enclaves" with limited linkages to the local economy, hindering spillover benefits.
- **To Home Countries (Investing FDI):**
 - **Benefits:**
 - **Repatriation of Earnings:** Profits, dividends, royalties, and interest flow back to the home country, improving its current account.
 - **Increased Exports:** FDI can create demand for intermediate goods, components, or capital equipment from the home country.
 - **Learning & Experience:** Firms gain new market knowledge, technologies, and management skills from international operations.
 - **Competitive Advantage:** Strengthens the firm's global competitive position and diversified revenue streams.
 - **Access to New Markets/Resources:** Secures access to foreign markets or scarce resources.
 - **Costs:**
 - **Job Losses (Offshoring):** Domestic jobs may be lost if production or services are shifted abroad to lower-cost locations.
 - **Capital Outflow:** Reduces capital available for domestic investment in the short term.

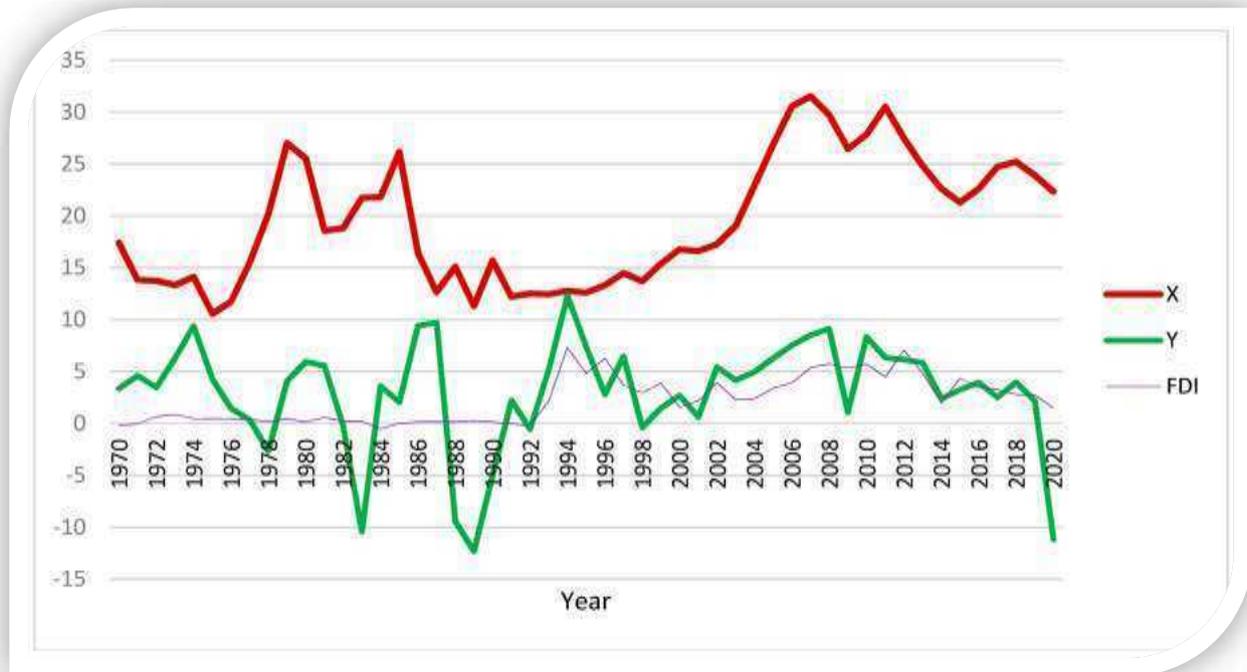
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- **"Hollowing Out" of Industry:** Concerns that extensive outward FDI might weaken the domestic industrial base.
- **Loss of Tax Revenue:** If profits are generated and taxed abroad.



D. Trends in FDI:

- **Overall Growth:** Global FDI flows have generally increased over the long term, despite short-term fluctuations driven by economic crises or geopolitical events.
- **Shift towards Developing Countries:** Emerging economies (e.g., China, India, Brazil, Southeast Asia) have become increasingly attractive destinations for FDI, accounting for a growing share of global inflows, driven by large domestic markets and relatively lower costs.
- **Dominance of Services Sector:** FDI in services (IT, finance, retail, telecommunications) has surpassed manufacturing FDI in many regions.

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- **Rise of M&A:** Cross-border mergers and acquisitions remain a dominant mode of FDI, often preferred for quick market entry.
- **Intra-Regional FDI:** Growth of FDI within regional economic blocs (e.g., within EU, ASEAN).
- **Digital Economy FDI:** New forms of FDI related to digital services, data centers, and e-commerce platforms.
- **Sustainability Focus:** Increasing importance of environmental, social, and governance (ESG) factors in FDI decisions, with a push for responsible investment.

E. India's FDI Policy:

- **Objective:** To attract and retain foreign investment to supplement domestic capital, technology, and skills for accelerated economic growth and employment generation.
- **Regulatory Body:** Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce & Industry, in consultation with¹³ RBI.
- **FDI Routes:**
 - **Automatic Route:** FDI does not require prior approval from the Government or the Reserve Bank of India (RBI). Investors only need to notify the RBI post-investment. Most sectors fall under this route, often up to 100% (e.g., manufacturing, services, construction, most infrastructure sectors).

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- **Government Route:** FDI requires prior approval of the Government (DPIIT/Ministry of Finance, or the specific administrative ministry for the sector). This route applies to sectors with strategic importance, sensitive areas, or where sectoral caps exist (e.g., broadcasting content, print media, defense manufacturing, multi-brand retail trading).
- **Key Features & Sectoral Caps (Examples):**
 - **100% FDI under Automatic Route:** Many sectors including manufacturing, construction, power, roads, ports, airports (except for certain sensitive areas), pharmaceuticals (greenfield), IT services, renewable energy.
 - **Defense Manufacturing:** 74% under Automatic Route (for new projects, up to 100% by government route in specific cases).
 - **Telecommunications:** 100% under Automatic Route.
 - **Insurance:** 74% under Automatic Route.
 - **Public Sector Banks:** 20% under Government Route.
 - **Private Sector Banks:** 74% under Automatic Route (with specific conditions for beyond 49%).
 - **Multi-Brand Retail Trading:** 51% under Government Route (with stringent conditions).
 - **Single Brand Retail Trading:** 100% (Automatic up to 100% with specific conditions).
 - **Print Media:** 26% (News & Current Affairs) under Government Route.
 - **Prohibited Sectors (No FDI allowed, irrespective of route):**

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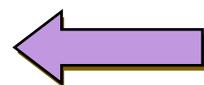
- Lottery Business (including online lotteries).
 - Gambling and Betting (including casinos).
 - Nidhi Company.
 - Chit Funds.
 - Trading in Transferable Development Rights (TDRs).
 - Real Estate Business (excluding construction development, townships, housing, etc.).
 - Manufacturing of Cigars, Cheroots, Cigarillos, and Cigarettes (tobacco products).
 - Activities/sectors not open to private sector investment (e.g., Atomic Energy, Railway Operations).
- **Government Initiatives:** Continuous relaxation of FDI norms, simplification of procedures, initiatives like "Make in India" and "Atmanirbhar Bharat" to encourage FDI in manufacturing, and promotion of digital infrastructure to attract investment.

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FDI vs. FPI: A Comparative Overview

Feature	Foreign Direct Investment (FDI)	Foreign Portfolio Investment (FPI)
Definition	Investment to acquire a lasting interest or control in an enterprise operating outside the investor's economy.	Investment in financial assets (stocks, bonds) of a foreign country without controlling interest.
Nature	Direct investment in physical assets, production, and management.	Indirect investment in financial instruments.
Control	Significant influence or control over the foreign enterprise.	Generally, no direct control over the management or operations of the company.
Objective	Long-term strategic interest, market access, efficiency gains, resource seeking.	Typically, short-term financial returns, portfolio diversification.
Investment Type	Establishing new businesses, acquiring existing ones, joint ventures.	Purchasing stocks, bonds, mutual funds, ETFs.
Duration	Long-term commitment.	Often short-term to medium-term; can be liquidated more easily.
Volatility	Generally more stable; less prone to quick reversals.	Can be more volatile ("hot money"); susceptible to market sentiment and quick withdrawals.
Entry & Exit	Relatively difficult and time-consuming.	Relatively easy and quick.
Risk	Higher, involving operational, political, and economic risks in the host country.	Generally lower individual risk but exposed to market and currency fluctuations.
Impact on Host Economy	Often brings technology transfer, job creation, infrastructure development, and managerial expertise.	Increases capital market liquidity and efficiency; can contribute to market development.
Investor Type	Typically multinational corporations (MNCs), large companies.	Individuals, institutional investors (pension funds, mutual funds).
Example	A foreign automobile company setting up a manufacturing plant in another country.	An individual or fund buying shares of a foreign company listed on a stock exchange.

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COMMERCE ONELINER SAMPLE

- Question:** Who is known as the father of Scientific Management?

Answer: F.W. Taylor.
- Question:** In which book did Adam Smith originally describe the concept of the "invisible hand"?

Answer: The Theory of Moral Sentiments (1759), though it is more famously associated with The Wealth of Nations (1776).
- Question:** The concept of "Marketing Myopia" was introduced in a 1960 Harvard Business Review article by which thinker?

Answer: Theodore Levitt.
- Question:** What is the concept, introduced by F.W. Taylor, that involves breaking down a job into its component parts and timing each part?

Answer: Time and Motion Study.
- Question:** Name the influential book on marketing strategy written by Philip Kotler.

Answer: Marketing Management.
- Question:** The 'Hierarchy of Needs' motivation theory is attributed to which psychologist?

Answer: Abraham Maslow.
- Question:** Which 1911 book by F.W. Taylor detailed his theory of scientific management?

Answer: The Principles of Scientific Management.

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8. **Question:** The famous Hawthorne Studies, which led to the human relations movement, are most closely associated with which researcher?

Answer: Elton Mayo.

9. **Question:** What framework, developed by Michael E. Porter, is used for analyzing industry competition?

Answer: Porter's Five Forces Model.

10. **Question:** In which year was the current Indian Companies Act enacted, replacing the 1956 Act?

Answer: 2013.

11. **Question:** Who is the author of the foundational management book, The Practice of Management (1954)?

Answer: Peter F. Drucker.

12. **Question:** The theory of 'Bureaucratic Management', emphasizing formal structure and rules, was proposed by whom?

Answer: Max Weber.

13. **Question:** What is the name of Frederick Herzberg's theory that separates job satisfaction from job dissatisfaction?

Answer: Two-Factor Theory (or Motivator-Hygiene Theory).

14. **Question:** Which management thinker introduced the concepts of Theory X and Theory Y in his 1960 book, The Human Side of Enterprise?

Answer: Douglas McGregor.

15. **Question:** Name the accounting concept that dictates that expenses must be recorded in the same period as the revenues they helped generate.

Answer: Matching Principle.

16. **Question:** The 14 Principles of Management were outlined in the 1916 book General and Industrial

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Management by which author?

Answer: Henri Fayol.

17. **Question:** In what year was the General Agreement on Tariffs and Trade (GATT) replaced by the World Trade Organization (WTO)?

Answer: 1995.

18. **Question:** The concept of a company's 'Core Competency' was developed by which two thinkers in a 1990 Harvard Business Review article?

Answer: C.K. Prahalad and Gary Hamel.

19. **Question:** What is the financial term for the model developed by William F. Sharpe for determining the expected return on an asset?

Answer: Capital Asset Pricing Model (CAPM).

20. **Question:** The VALS (Values and Lifestyles) framework for market segmentation was developed at Stanford Research Institute by which thinker?

Answer: Arnold Mitchell.

21. **Question:** The 'Product Life Cycle' concept, which describes the stages a product goes through, was popularized by which marketing scholar?

Answer: Theodore Levitt.

22. **Question:** In his 1938 book, The Functions of the Executive, which thinker introduced the concept of the "informal organization"?

Answer: Chester Barnard.

23. **Question:** The management philosophy of 'Management by Objectives' (MBO) was first popularized by which thinker?

Answer: Peter F. Drucker.

24. **Question:** What is the name of the strategic planning

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tool credited to Albert Humphrey for assessing internal and external factors?

Answer: SWOT Analysis.

25. **Question:** The theory of 'Absolute Advantage' in international trade is credited to which classical economist?

Answer: Adam Smith.

26. **Question:** In which year was the Securities and Exchange Board of India (SEBI) granted statutory powers?

Answer: 1992.

27. **Question:** Who authored the influential 1980 book, Competitive Strategy: Techniques for Analyzing Industries and Competitors?

Answer: Michael E. Porter.

28. **Question:** The economic principle stating that "bad money drives out good" is known by what name?

Answer: Gresham's Law.

29. **Question:** Who is widely regarded as the 'Father of Modern Management' for his numerous books and articles on management theory?

Answer: Peter F. Drucker.

30. **Question:** The 'Indifference Curve' analysis in consumer theory was developed by which economist?

Answer: Francis Ysidro Edgeworth and later refined by Vilfredo Pareto.

31. **Question:** The Modigliani-Miller theorem (1958) in capital structure theory suggests that a company's value is unaffected by what?

Answer: How it is financed (its debt-to-equity ratio).

32. **Question:** The 'Managerial Grid' model, plotting leadership styles based on 'Concern for People' vs.

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'Concern for Production', was developed by which two thinkers?

Answer: Robert R. Blake and Jane S. Mouton.

33. **Question:** The Boston Consulting Group (BCG) matrix classifies business units based on market share and market growth into what four categories?

Answer: Stars, Cash Cows, Question Marks, and Dogs.

34. **Question:** Victor Vroom's 'Expectancy Theory' of motivation is based on three elements: Expectancy, Instrumentality, and what else?

Answer: Valence.

35. **Question:** In which year was the Indian Contract Act enacted?

Answer: 1872.

36. **Question:** Who is credited with developing the theory of 'Comparative Advantage' in international trade?

Answer: David Ricardo.

37. **Question:** The 'Kinked Demand Curve' model is used to explain price rigidity in which market structure?

Answer: Oligopoly.

38. **Question:** The concept of 'Consumer Surplus' was refined and popularized by which economist in his 1890 book Principles of Economics?

Answer: Alfred Marshall.

39. **Question:** The 'Just-in-Time' (JIT) inventory management strategy was pioneered by which Japanese company?

Answer: Toyota.

40. **Question:** Who proposed the 'Contingency Theory' of leadership, suggesting that a leader's effectiveness depends on the situation?

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Answer: Fred Fiedler.

41. **Question:** In marketing, the concept of the '4 Ps' (Product, Price, Place, Promotion) was proposed by whom?

Answer: E. Jerome McCarthy.

42. **Question:** What accounting principle states that a business is a separate legal and financial entity from its owners?

Answer: Business Entity Concept (or Economic Entity Assumption).

43. **Question:** The Heckscher-Ohlin model of international trade argues that countries will export goods that make intensive use of which factors?

Answer: Factors that are locally abundant.

44. **Question:** 'Theory Z', focusing on a Japanese management style with long-term employment and collective decision-making, was developed by whom?

Answer: William Ouchi.

45. **Question:** In which year was the first Consumer Protection Act passed in India?

Answer: 1986.

46. **Question:** What is the name of the financial theory, developed by Eugene Fama, that suggests asset prices fully reflect all available information?

Answer: Efficient Market Hypothesis (EMH).

47. **Question:** The book Blue Ocean Strategy (2004), which advocates for creating uncontested market space, was written by which two authors?

Answer: W. Chan Kim and Renée Mauborgne.

48. **Question:** What statistical measure, developed by Karl Pearson, indicates the strength and direction of a linear relationship between two variables?

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Answer: Pearson Correlation Coefficient.

49. **Question:** The 'Ansoff Matrix' is a strategic planning tool for identifying four growth strategies. What are they?

Answer: Market Penetration, Market Development, Product Development, and Diversification.

50. **Question:** In which year was the Negotiable Instruments Act enacted in India?

Answer: 1881.

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1. Matching Type

Match List I with List II:

List I (International Trade Theory)	List II (Proponent/Concept)
A. Absolute Advantage Theory	I. Raymond Vernon
B. Comparative Advantage Theory	II. Michael Porter
C. Product Life Cycle Theory	III. David Ricardo
D. National Competitive Advantage	IV. Adam Smith

Choose the correct answer from the options given below:

- (1) A-IV, B-III, C-I, D-II
- (2) A-III, B-IV, C-II, D-I
- (3) A-IV, B-III, C-II, D-I
- (4) A-I, B-II, C-III, D-IV

Correct Answer: (1) A-IV, B-III, C-I, D-II

Explanation:

- **Absolute Advantage Theory (Adam Smith):**
 - Proponent: Adam Smith.
 - Key Work: "The Wealth of Nations" (1776).
 - Core Idea: A country exports goods it can produce more efficiently (using fewer resources) than other nations.
 - Focus: Specialization based on higher productivity.
- **Comparative Advantage Theory (David Ricardo):**
 - Proponent: David Ricardo.
 - Key Work: "Principles of Political Economy and Taxation" (1817).
 - Core Idea: A country exports goods it can produce at a lower opportunity cost, even if not absolutely more efficient.
 - Foundation: Basis for most international trade theory.
- **Product Life Cycle Theory (Raymond Vernon):**
 - Proponent: Raymond Vernon.
 - Year Proposed: 1966.

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- Core Idea: Traces stages of a product (introduction, growth, maturity, decline) and corresponding shifts in production location (e.g., from innovating to developing countries).
- Dynamic: Explains trade patterns for manufactured goods over time.
- **National Competitive Advantage (Porter's Diamond):**
 - Proponent: Michael Porter.
 - Key Work: "The Competitive Advantage of Nations" (1990).
 - Core Idea: Explains why certain industries in a nation are globally competitive based on four determinants: Factor Conditions, Demand Conditions, Related and Supporting Industries, and Firm Strategy, Structure & Rivalry.
 - Framework: Known as Porter's Diamond.

2. Assertion and Reasoning (A and R) Type

Assertion (A): Globalization leads to increased competition in domestic markets.

Reason (R): Globalization facilitates the free flow of goods, services, capital, and labor across international borders.

Codes:

- (1) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (2) Both (A) and (R) are true but (R) is NOT the correct explanation of (A).
- (3) (A) is true but (R) is false.
- (4) (A) is false but (R) is true.

Correct Answer: (1) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation:

- **Globalization's Core:** Characterized by intensified cross-border flows of goods, services (e.g., IT, finance), capital (FDI, FPI), and, to a lesser extent, labor.
- **Mechanism of Competition:** Reduced trade barriers (tariffs, quotas) under globalization allow foreign firms easier access to domestic markets.
- **Impact on Domestic Firms:** Forces local companies to enhance efficiency, innovate, and improve product/service quality to compete with

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international players like Multinational Corporations (MNCs).

- **Direct Causality:** The facilitation of free flows (Reason R) is the direct mechanism through which globalization (Assertion A) heightens competition in domestic economies.
- **Evidence:** Rise of global brands and services in many countries illustrates this increased competition.

3. Statement Type

Which of the following statements are correct regarding the World Trade Organization (WTO)?

Statement I: The WTO was established on January 1, 1995.

Statement II: The primary objective of the WTO is to promote free trade by reducing tariffs and other trade barriers.

Statement III: The WTO's dispute settlement mechanism is binding on member countries.

Statement IV: The WTO is headquartered in Washington D.C., USA.

Choose the correct answer from the options given below:

- (1) Statements I and II only
- (2) Statements I, II, and III only
- (3) Statements II and IV only
- (4) All statements (I, II, III, and IV) are correct

Correct Answer: (2) Statements I, II, and III only

Explanation:

- **Establishment (Statement I):** The WTO was officially formed on January 1, 1995, as a result of the Marrakesh Agreement (signed April 1994), succeeding the General Agreement on Tariffs and Trade (GATT, est. 1948).
- **Primary Goal (Statement II):** To ensure international trade flows smoothly, predictably, and freely by administering trade agreements, acting as a forum for trade negotiations, and reducing trade barriers.
- **Dispute Settlement (Statement III):** The WTO's Dispute Settlement Understanding (DSU) provides a legally binding mechanism for resolving trade disputes between member countries, enhancing the rule-based trading

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system.

- **Correct Statements:** Statements I, II, and III accurately describe the WTO's establishment, primary goal, and the binding nature of its dispute settlement mechanism.

4. Multi-Option Type

Which of the following are considered components of a country's Balance of Payments (BOP)?

- (A) Current Account
- (B) Capital Account
- (C) Fiscal Deficit
- (D) Foreign Exchange Reserves
- (E) Monetary Policy

Choose the correct answer from the options given below:

- (1) (A), (B), and (C) only
- (2) (A), (B), and (D) only
- (3) (B), (C), and (E) only
- (4) (A), (D), and (E) only

Correct Answer: (2) (A), (B), and (D) only

Explanation:

- **BOP Definition:** A systematic **Statement** of all economic transactions between residents of a country and the rest of the world during a given period (typically a year).
- **Current Account (A):** Includes trade in goods (exports/imports), services (e.g., tourism, IT services), primary income (e.g., investment income like profits/dividends), and secondary income (current transfers like remittances). This is a core component.
- **Capital Account & Financial Account (B):** The Capital Account (narrowly defined) includes capital transfers and non-produced non-financial assets. The Financial Account records transactions in financial assets and liabilities (e.g., FDI, FPI, loans). These are key components of BOP.
- **Foreign Exchange Reserves (D):** Changes in official reserves (foreign

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currencies, gold, SDRs held by the central bank) act as the balancing item in the BOP, reflecting overall surplus or deficit and are integral to the BOP statement.

5. Matching Type

Match List I with List II:

List I (Form of Economic Integration)	List II (Characteristic Feature)
A. Free Trade Area	I. Common external tariff and free movement of factors
B. Customs Union	II. No internal tariffs, common external tariff
C. Common Market	III. Removal of tariffs among members
D. Economic Union	IV. Harmonization of economic policies, common currency (possible)

Choose the correct answer from the options given below:

- (1) A-III, B-II, C-I, D-IV
- (2) A-II, B-III, C-IV, D-I
- (3) A-III, B-I, C-II, D-IV
- (4) A-IV, B-II, C-I, D-III

Correct Answer: (1) A-III, B-II, C-I, D-IV

Explanation:

- **Free Trade Area (FTA) - III. Removal of tariffs among members:**
 - Characteristic: Member countries eliminate tariffs among themselves.
 - External Policy: Each member maintains its own trade policies with non-member countries.
 - Example: United States-Mexico-Canada Agreement (USMCA).
- **Customs Union - II. No internal tariffs, common external tariff:**
 - Characteristic: Eliminates internal tariffs AND establishes a common external tariff (CET) against non-members.
 - Example: The European Union (EU) initially functioned as a customs union (European Economic Community). Southern African Customs Union (SACU).

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- **Common Market - I. Common external tariff and free movement of factors:**
 - Characteristic: All features of a customs union PLUS free movement of factors of production (labor and capital) among members.
 - Example: The European Union (EU) operates as a common market. MERCOSUR (Southern Common Market) aims for this.
- **Economic Union - IV. Harmonization of economic policies, common currency (possible):**
 - Characteristic: All features of a common market PLUS harmonization of economic policies (fiscal, monetary) and potentially a common currency.
 - Example: The Eurozone within the EU, with its common currency (Euro) and coordinated monetary policy by the European Central Bank (ECB).

6. Assertion and Reasoning (A and R) Type

Assertion (A): Foreign Direct Investment (FDI) is generally considered more stable than Foreign Portfolio Investment (FPI).

Reason (R): FDI involves acquiring a lasting management interest in an enterprise operating in an economy other than that of the investor, while FPI is generally for short-term gains.

Codes:

- (1) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (2) Both (A) and (R) are true but (R) is NOT the correct explanation of (A).
- (3) (A) is true but (R) is false.
- (4) (A) is false but (R) is true.

Correct Answer: (1) Both (A) and (R) are true and (R) is the correct explanation of (A).

Explanation:

- **FDI Characteristics:** Involves acquiring substantial interest (typically 10% or more of voting power, as per OECD/IMF definitions) in a foreign enterprise, implying long-term commitment and often management participation or influence.

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- **FPI Characteristics:** Investment in financial assets like stocks (below 10% ownership), bonds, and money market instruments. These are generally more liquid and can be divested quickly, often driven by short-term yield or capital appreciation.
- **Stability Factor:** FDI is less volatile ("sticky money") because divesting physical assets or a significant stake is more complex and costly than selling portfolio securities.
- **Motivation Difference:** FDI is usually strategic, aimed at market access, efficiency gains, or resource acquisition. FPI is often tactical, seeking quick returns, making it more prone to sudden outflows ("hot money").
- **Empirical Evidence:** Historically, FDI flows tend to be more resilient during financial crises compared to FPI flows, which can reverse rapidly.

7. Statement Type

Consider the following statements about the International Monetary Fund (IMF):

Statement I: The IMF provides short-term financial assistance to member countries facing balance of payments problems.

Statement II: The voting power of member countries in the IMF is determined solely by their population size.

Statement III: 'Special Drawing Rights' (SDRs) are an international reserve asset created by the IMF.

Which of the above statements is/are correct?

- (1) Statement I only
- (2) Statements I and III only
- (3) Statements II and III only
- (4) All statements (I, II, and III) are correct

Correct Answer: (2) Statements I and III only

Explanation:

- **IMF Financial Assistance (Statement I):** A primary role of the IMF (established 1944, Bretton Woods Conference) is to provide temporary financial support to member countries experiencing balance of payments

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difficulties, often tied to policy reforms (conditionality).

- **Special Drawing Rights (SDRs) (Statement III):** Created by the IMF in 1969 as a supplementary international reserve asset. Its value is based on a basket of five major currencies: US Dollar, Euro, Chinese Renminbi, Japanese Yen, and British Pound.
- **Correct Statements:** Statements I and III accurately describe key functions and creations of the IMF.

8. Multi-Option Type

Which of the following factors influence the political environment of a business?

- (A) Stability of the government
- (B) Taxation policies
- (C) Ideology of the ruling party
- (D) Consumer income levels
- (E) Foreign trade regulations

Choose the correct answer from the options given below:

- (1) (A), (B), and (C) only
- (2) (A), (B), (C), and (E) only
- (3) (B), (D), and (E) only
- (4) All (A), (B), (C), (D), and (E)

Correct Answer: (2) (A), (B), (C), and (E) only

Explanation:

- **Government Stability (A):** Refers to the consistency and predictability of the governing regime; political instability increases business risk.
- **Taxation Policies (B):** Government decisions on corporate tax rates, GST/VAT, customs duties directly affect business profitability and investment.
- **Ideology of Ruling Party (C):** The political party's philosophy influences economic policies, regulations, attitudes towards private enterprise, and property rights.
- **Foreign Trade Regulations (E):** Government-imposed rules on

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imports/exports, tariffs, quotas, embargoes, and trade agreements shape international business operations.

- **Political Environment Factors:** These elements (A, B, C, E) are key governmental and political influences on business.

9. Statement Type

Regarding Corporate Social Responsibility (CSR), which of the following statements is incorrect?

Statement I: CSR is a self-regulating business model that helps a company be socially accountable.

Statement II: In India, the Companies Act, 2013 mandates CSR activities for certain companies based on their net worth, turnover, or net profit.

Statement III: CSR activities are primarily focused on maximizing shareholder profit.

Statement IV: Environmental sustainability and ethical labor practices are common areas of CSR.

Choose the correct answer from the options given below:

- (1) Statement I only
- (2) Statement II only
- (3) Statement III only
- (4) Statement IV only

Correct Answer: (3) Statement III only

Explanation:

- **Focus of CSR (Statement III - Incorrect):** Modern Corporate Social Responsibility (CSR) emphasizes a broader stakeholder approach, considering the interests of employees, customers, communities, and the environment.
- **Shareholder Profit Maximization:** The idea that CSR is primarily focused on maximizing shareholder profit is a traditional and narrower view (often associated with Milton Friedman) and does not align with contemporary CSR principles.
- **Stakeholder Theory:** CSR aligns more with stakeholder theory, which posits

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that corporations should serve the interests of all stakeholders, not just shareholders.

- **Broader Accountability:** CSR involves social accountability and contributions to sustainable development beyond immediate profit motives for shareholders. Archie Carroll's Pyramid of CSR, for instance, places economic responsibilities as foundational but also includes legal, ethical, and philanthropic responsibilities.

10. Multi-Option Type

Which of the following are examples of non-tariff barriers in international trade?

- (A) Import Quotas
- (B) Tariffs
- (C) Voluntary Export Restraints (VERs)
- (D) Subsidies to domestic producers
- (E) Ad valorem duties

Choose the correct answer from the options given below:

- (1) (A), (C), and (D) only
- (2) (B), (D), and (E) only
- (3) (A), (B), and (C) only
- (4) (C), (D), and (E) only

Correct Answer: (1) (A), (C), and (D) only

Explanation:

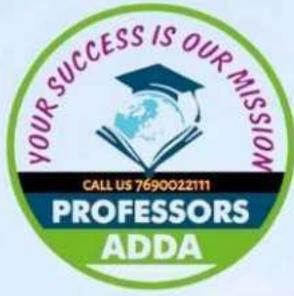
- **Non-Tariff Barriers (NTBs):** These are trade restrictions other than direct taxes (tariffs) on imports, often more complex and less transparent than tariffs.
- **Import Quotas (A):** These are direct quantitative limits on the amount of a specific good that can be imported (e.g., US sugar quotas).
- **Voluntary Export Restraints (VERs) (C):** Agreements where an exporting country limits its exports, often under pressure from the importing country (e.g., Japanese auto VERs to the US in the 1980s).
- **Subsidies to Domestic Producers (D):** Government financial aid (e.g.,

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payments, tax breaks like under EU's Common Agricultural Policy) that make domestic firms more competitive against imports.

- **Identified NTBs:** Options A, C, and D are clear examples of non-tariff mechanisms used to restrict or distort international trade flows.



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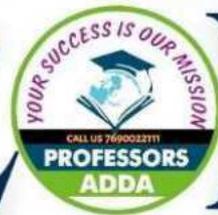
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1. "An agreement which is enforceable by law at the option of one or more of the parties but not at the option of the other or others" is called:

- (a) Void contract
- (b) Valid contract
- (c) Voidable contract
- (d) Illegal contract

Ans. (c)

2. The system where two or more banking companies are controlled by one or two individuals is called

- (a) Chain Banking
- (b) Group Banking
- (c) Mixed Banking
- (d) Bunch Banking

Ans. (a)

3. Arrange the phases of capital expenditure/ Investment planning and control from beginning to end

- A. Evaluation of the net benefits.
- B. Identification of Investment opportunities
- C. Development of forecasts of benefits and costs.
- D. Authorization for progressing spending capital expenditure and
- E. Control of capital Projects.

Choose the correct answer from the options given below

- (a) A, C, D, E, B
- (b) B, C, A, D, E
- (c) A, B, C, D, E
- (d) B, A, D, C, E

Ans. (b)

4. Which is not a key element of consumer psychology and pricing

- (a) Reference price
- (b) Price indifference band
- (c) Image pricing
- (d) Pricing cues

Ans. (b)

5. Arrange the steps in Decision making by a business firm in last to first order:

- A. Exploring available alternative
- B. Performing sensitivity analysis
- C. Determining Objectives
- D. Choosing best alternative

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E. Assessing alternative consequences of various

Choose the correct answer from the options given below:

- (a) A, B, C, D, E
- (b) B, A, D, C, E
- (c) E, A, C, D, B
- (d) B, D, E, A, C

Ans. (d)

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6. Arrange the following financial institutions according to the order in which they were established.

- A. NABARD
- B. NHB
- C. EXIM Bank
- D. SIDBI
- E. IBI

Choose the correct answer from the options given below:

- (a) E, C, A, B, D
- (b) A, C, D, B, E
- (c) B, A, C, E, D
- (d) C, B, D, A, E

Ans. (a)

7. "An organisation that carries out its activities not in one central place, but rather in multiple locations by suppliers and partner firms as part of strategic alliance or a larger "Supply Chain" is termed as:

- (a) Collateral organisations
- (b) Network organisations
- (c) Virtual organisations
- (d) Typical matrix organisation

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Ans. (c)

8. Which one of the following has given the Net Income approach of capital structure?

- (a) Durand
- (b) Walter
- (c) Gordon
- (d) Modigliani-Miller

Ans. (a)

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9. Which of the following are merits of NPV method of capital budgeting?

- A. Considers all cash flows.
- B. Consider the time value of money.
- C. Give more weightage to future receipt.
- D. Satisfies the value additively principle.
- E. No relation with the wealth maximisation principle.

Choose the correct answer from the options given below:

- (a) A, B, C only
- (b) C, D, E only
- (c) B, C, E only
- (d) A, B, D only

Ans, (d)

10. In which book Alfred Marshall has for the first time used the term/word "Terms of Trade"?

- (a) Money, Credit and Commerce
- (b) Principles of Economics
- (c) The Economics of Industry
- (d) On Rent

Ans. (b)

11. Assumptions of the law of diminishing marginal utility

- A. Rationality
- B. Suitable units
- C. Cardinal utility
- D. Commodity satisfying different wants
- E. Introspection

Choose the correct answer from the options given below:

- (a) A, B and C only
- (b) B, C and D only
- (c) AC and E only
- (d) C, D and E only

Ans. (a)

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12. Which of the following is/are the principles of General Agreement on Tariff and Trade (GATT)?

- A. Trade without discrimination
- B. Protection only through Tariffs.
- C. Stable Trade
- D. Consultation
- E. Unfair distribution of wealth

Choose the correct answer from the options given below:

- (a) A, B, C and E only
- (b) A, B, C, D only
- (c) B, C, D, E only
- (d) A, C, D, E, only

Ans. (b)

13. Match List-1 with List-II:

List-1	List-II
A. Finance lease	1. The lessor transfers, substantially all the risk and rewards incidental to the ownership of the asset to the lessee
B. Operating lease	2. The lease under a lessor the which owns/acquires assets that are leased to a given lessee
C. Sale and lease back	3. The lessee sell an asset for cash to prospective lessor
D. Direct lease	4. The lessor does not transfer all the risk and incidental rewards to ownership of the assets.

Choose the correct answer from the options given below:

A B C D

- (a) 1 4 3 2
- (b) 4 1 3 2
- (c) 1 2 3 4
- (d) 1 3 4 2

Ans (a)

14. Under which sections of the Central Goods and Services Tax Act, 2017, the provisions of Input Tax Credit has been provided?

- (a) Section 12 to Section 15.
- (b) Section 16 to Section 21
- (c) Section 22 to Section 30
- (d) Section 31 to Section 34

Ans. (b)

15. Who has defined Economics as a 'Science which studies human behaviour as a relationship between ends and scarce means which have alternative uses'?

- (a) Marshall
- (b) Pigou
- (c) Robbins

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(d) Keynes

Ans. (c)

16. Which of the following assumption is of Net Income Approach of capital structure?

A. Cost of debt is less than cost of equity.

B. There is no tax.

C. Risk perception of investor will not change by the use of debt.

D. Change in capital structure of a company does not affect market value of the firm.

E. The business risk will remain constant at every level of debt and equity mix.

Choose the correct answer from the options given below:

(a) A, B only

(b) D, E only

(c) A, B, C only

(d) C, D, E only

Ans. (c)

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17. Which of the following are quantitative credit control methods?

A. Bank Rate Policy

B. Open market Operations

C. Rationing of credit

D. Margin requirements

E. Variable reserve ratio

Choose the correct answer from the options given below:

(a) A, B, C only

(b) C, D, E only

(c) A, B, E only

(d) B, C, D only

Ans. (C)

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18. Arrange the provisions section wise under the Companies Act, 2013 in ascending order

- A. Prospectus
- B. Incorporation of company
- C. Articles
- D. Formation of company
- E. Service of Documents

Choose the correct answer from the options given below:

- (a) B, A, C, D, E
- (c) D, C, B, E, A
- (b) E, C, B, DA
- (d) A, B, C, D, E

Ans (c)

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19. What is not a distinctive characteristics of services?

- (a) Tangibility
- (b) Inseparability
- (c) Variability
- (d) Perishability

Ans. (a)

20. "Management is the Art of getting things done through people." Who said this?

- (a) Peter Drucker
- (b) Mary Parker Follett
- (c) George R. Terry
- (d) Hanri Fayol

Ans. (b)

21.

22. If two regression co-efficient are $b_{yx} = -\frac{6}{9}$ and $b_{xy} = -\frac{3}{7}$ which one of the following is the value of correlation?

- (a) 2857
- (b) -5345
- (c) 5345
- (d) -2857

Ans. (b)

23. Match List-I with List-II:

List	List-II Related
A. Ind As	1. Revenue
B. Ind As	2. Property plant and equipment
C. Ind As	3. Inventories

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Commerce PYQ Question Paper Analysis and Trend Pattern (Based on PDF 2016 – JAN 2025)

1. Variety in Question Formats:

- **Multiple Choice Questions (MCQs):** All questions are in this Format. These include direct factual, concept-based, application-based and numerical questions.
- **Match based questions (Match List):** This Format is extremely important and is asked from almost all units. It involves matching concepts, principles, scholars, acts/sections, committees, institutions, accounting standards, financial instruments etc.
- **Assertion & Reason - A/R:** These questions test conceptual clarity and logical reasoning ability in almost all areas of commerce, especially business environment, economics, management, marketing and finance.
- **Statement-based questions:** A number of statements (True/False) are given and asked to select the combination of true/false statements. It demands detailed knowledge and nuanced understanding of concepts.
- **Chronological/Sequential Order:** Questions are asked arranging the events, stages of processes (like recruitment process, marketing planning, e-filing), enactment of Acts, establishment of institutions etc. in the correct order.

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- **Numerical/Calculation based questions:** Computational questions related to Accounting (Ratios, Goodwill calculation, Share issue/re-issue, Working capital, Cash flow, Costing), Business Finance (Cost of capital, Capital budgeting, Leverage, EOQ), Statistics (Correlation, Regression coefficient, Probability, Standard Error) and Income Tax (Tax liability, Discount calculation, Gross Annual Value) are regularly asked.
- **Passage-based questions:** In each question paper (where included in the Format), passage based questions (usually 5 questions per passage) were asked. These passages may relate to the business environment, marketing, insurance, or contemporary business issues and test comprehension, analysis, and interpretation skills.

2. Balance of conceptual/theoretical versus applied/factual questions:

- A good balance of conceptual understanding, factual information and practical application is seen in the question papers.
 - **Conceptual:** A deep theoretical understanding of the many disciplines of business economics, business management, human resource management, marketing

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management, and business finance is required.

- **Factual:** Factual information related to acts, sections, institutions, schemes, committees, tax rates, definitions and recent developments in business environment, international trade, banking and financial institutions, business law and income tax entities is important.
- **Applied/Calculated:** Practical application of Formulas and concepts and calculation skills are essential in accounting, finance, statistics and income tax.

3 Difficulty levels:

- The overall level of question papers is moderate to difficult. Extensive study is required due to the detailed curriculum and depth of concepts in many units. Numerical questions, questions based on legal provisions and latest data require special attention.

conclusion:

A thorough and balanced study of all the ten units of the syllabus is essential For success in the UGC NET Commerce exam. Mere factual information is not enough, but it is also important to develop clear understanding of concepts, analysis of principles, knowledge of legal provisions and calculative skills. Practicing previous years' question papers, especially Matching, Assertion-Reason, Statement-Based and Numerical questions, is extremely important For understanding the exam pattern and effective preparation.

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- **Accounting and Auditing:** Principles and Concepts of Accounting, Accounting Standards (Ind AS/AS), Partnership Accounts (Admission, Retirement, Dissolution), Company Accounts (Issue of Shares/Debentures, Foreclosure, Re-Issue, Redemption), Holding Company Accounts, Cost Accounting Techniques (Marginal, Standard, Activity-Based),

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Budgetary Control, Financial Statement Analysis (Ratio Analysis, Cash Flow Statement, Fund Flow Statement), Human Resource Accounting, Auditing (Types, Process, Company Auditor).

- **business Economics:** Demand analysis (elasticity), consumer behavior (indifference curve), production function, cost theory, market structures (perfect competition, monopoly, oligopoly), pricing strategies.
- **Business Finance:** Sources of finance, cost of capital, capital structure principles (NI, NOI, MM), leverage (operational, financial, joint), capital budgeting techniques (payback, ARR, NPV, IRR, PI), dividend policies (Walter, Gordon, MM), working capital management (EOQ, cash management model – Miller-Orr).
- **Professional Statistics and Research Techniques:** Measures of central tendency and dispersion, skewness, kurtosis, correlation and regression, probability (theory, distributions – binomial, Poisson, normal), sampling (methods, errors), hypothesis testing (z, t, F, Chi-square, non-parametric tests – Mann-Whitney, Kruskal-Wallis), ANOVA.
- **Business Management and Human Resource Management:** Theories of Management (Fayol, Taylor), Functions of Management, Organization Structure, Motivation Theories (Maslow, Herzberg, Broome, Porter-Lawler), Leadership Styles, Functions of HRM (Planning, Recruitment, Selection, Training, Performance Appraisal, Compensation), Industrial Relations, Trade Unions.
- **Banking and Financial Institutions:** Types of Indian Banking System, RBI (Functions, Monetary Policy, Credit Control), Banking Sector ReForms (Committees – Narasimham, Chelapathi Rao), NPA, Basel Norms, Financial Markets (Money Market, Capital Market – Instruments), Financial Institutions (IDBI, ICICI, SIDBI, NABARD, EXIM Bank), Financial Inclusion, Digital Payment System, Insurance (IRDA).
- **marketing Management:** Marketing Concepts, Marketing Mix (7 P's), Product Life Cycle (PLC), Pricing Strategies, Distribution Channels, Promotion Mix (Advertising, Sales Promotion, Public Relations), Consumer Behavior, Service Marketing, Digital Marketing, CRM.
- **Business Method:** Indian Contract Act 1872, Sale of Goods Act 1930, Negotiable Instruments Act 1881 (cheques, promissory notes, bills of exchange), Companies Act 2013 (incorporation, councilor limit rules, amalgamation, auditor), LLP Act 2008, Competition Act 2002, InFormation Technology Act 2000, RTI Act 2005, Intellectual Property Rights (patents, trademarks, copyrights), GST.
- **Income Tax and Corporation Tax Scheme:** Basic Concepts (Income, Assessment Year, Previous Year, Residential Status), Heads of Income (Salary, House Property, Business/Profession, Capital Gains, Other Sources), Computation of Gross Total Income,

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Deductions (Sections 80C to 80U, especially 80G, 80QQB, 80TTA, 80E, 80EE), Calculation of Tax Liability, TDS Provisions, Advance Tax, ITR Form (Sugam/ITR-4), Tax Planning, Tax Avoidance, tax evasion, DTAA.

Unit I: Business Environment and International Business

- **Question Type:** Definition and identification of concepts, Matching principles/institutions/agreements, Questions on WTO/IMF/World Bank functions, Identification of BOP components, FDI policy, CSR, Consumer Protection Act, Assertion-reason, Statement-based questions, Sequence arrangement (levels of integration, WTO conventions).
- **Broad Concepts:**
 - **Business Environment:** Concept, components (Internal, External – Micro, Macro), Economic environment (Economic policies – monetary, fiscal; economic planning), Political and government environment (legal framework), Socio-cultural environment (Ethics, CSR), Technological environment. SWOT analysis.
 - **consumer Protection:** Consumer Protection Act (1986/2019), Consumer Rights, Redressal Mechanism (District Forum, State Commission, National Commission).
 - **Corporate Social Responsibility (CSR):** Concept, stakeholders, ethical principles. Corporate Governance (Committees – Bhagwati, Narayana Murthy).
 - **Liberalization, Privatization, Globalization (LPG):** Policies and impacts of second generation reForms in the context of India.
 - **International Trade Principles:** Absolute advantage (Adam Smith), Comparative advantage (Ricardo), Heckscher-Ohlin, Leontief paradox.
 - **Foreign Direct Investment (FDI):** Types (horizontal, vertical), benefits and costs, FDI policy in India. Multinational Corporations (MNCs) – Types (autocentric, polycentric, geocentric), issues.

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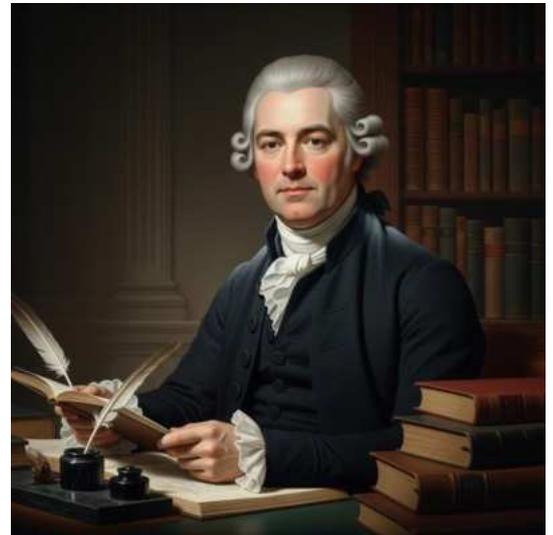
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COMMERCE Thinker Tool Kit Sample

1. Adam Smith (1723-1790)

Introduction

- A Scottish economist and philosopher, considered the "Father of Modern Economics."
- A key figure during the Scottish Enlightenment, his work laid the foundation for classical free-market economic theory.
- He argued against mercantilism, the prevailing economic theory of his time, which advocated for government regulation and protectionism.
- His ideas on the division of labor, free trade, and the "invisible hand" have profoundly shaped the understanding of the business environment.
- His theories form the bedrock of capitalism and have a direct bearing on international business.



Key Concepts

- **Theory of Absolute Advantage:** This is his cornerstone theory in international trade. He argued that a country should specialize in producing and exporting goods that it can produce more efficiently (using fewer resources) than other countries.
- **Laissez-Faire:** The principle that governments should not interfere in the workings of the economy. He believed that free markets, without government intervention, produce the best outcomes.
- **The "Invisible Hand":** A metaphor for the unseen forces that move a free-market economy. He argued that individuals acting in their own self-interest inadvertently promote the economic well-being of society as a whole.
- **Division of Labor:** Smith posited that dividing a production process into many small, specialized tasks increases productivity and efficiency. This concept is fundamental to modern business operations.
- **Free Trade:** He was a strong advocate for free trade between nations, believing it allows all countries to benefit by specializing in what they do best and trading for the rest.
- **The Paradox of Value:** He distinguished between "value in use" (the utility of an object, like water) and "value in exchange" (the power of purchasing other goods, like diamonds), a foundational concept in value theory.
- **Limited Role of Government:** Argued that the government's role should be limited to protecting national borders, enforcing legal rights, and providing public works that are not profitable for private enterprise.
- **Self-Interest as a Motivator:** Believed that self-interest is the primary motivator of economic activity, leading to competition and innovation.

Key Books with Publication

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- **The Theory of Moral Sentiments (1759):** His first major work, which examines the moral thinking of his time and discusses how humans develop a sense of morality through social interaction and sympathy.
- **An Inquiry into the Nature and Causes of the Wealth of Nations (1776):** Often abbreviated as The Wealth of Nations, this is his magnum opus and a foundational text of classical economics. It details his theories on division of labor, free markets, and absolute advantage.

Fact

- Adam Smith worked as a customs commissioner in his later years, a seemingly ironic job for the world's most famous advocate of free trade.

2. David Ricardo (1772-1823)

Introduction

- An influential English classical economist and a member of the British Parliament.
- He was one of the most important figures in the development of classical economics, building upon and sometimes challenging the work of Adam Smith.
- His most significant contribution to international business theory is the principle of comparative advantage.
- His theories on rent, wages, and profits provided a framework for understanding the distribution of income within an economy.
- His rigorous, abstract reasoning set a new standard for economic analysis.



Key Concepts

- **Theory of Comparative Advantage:** Ricardo refined Adam Smith's theory by arguing that trade can be mutually beneficial even if one country has an absolute advantage in producing all goods. A country should specialize in the goods where it has the greatest relative efficiency or the lowest opportunity cost.
- **Opportunity Cost:** The concept of opportunity cost is central to comparative advantage. It refers to the value of what is given up to produce a particular good. Trade should be based on minimizing this cost.
- **Labor Theory of Value:** He largely followed Smith in believing that the value of a commodity is determined by the amount of labor required to produce it.
- **Law of Diminishing Returns:** Ricardo applied this law to agriculture, arguing that as more labor and capital are applied to a fixed amount of land, the marginal output will eventually decrease.
- **Theory of Rent:** He defined rent as the payment to a landowner for the use of the "original and indestructible powers of the soil," arguing that it arises from the differing fertility of land.
- **"Iron Law of Wages":** Ricardo posited that, in the long run, wages would naturally tend towards the minimum level necessary for subsistence.
- **International Trade as a Positive-Sum Game:** His theory of comparative

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advantage demonstrated that international trade is not a zero-sum game (where one country's gain is another's loss) but a positive-sum game where all participating countries can benefit.

Key Books with Publication

- **On the Principles of Political Economy and Taxation (1817):** This is Ricardo's most important work. It lays out his major theories, including comparative advantage, the labor theory of value, and his theories on rent, wages, and profit.

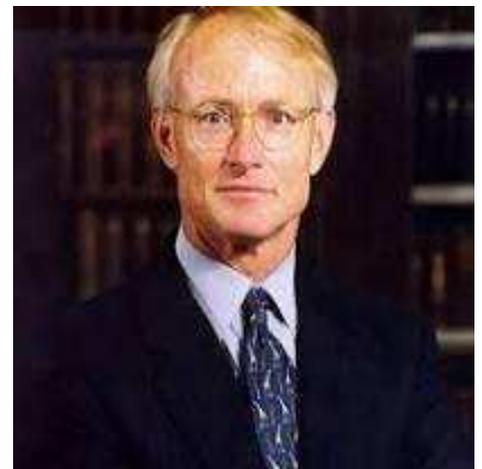
Fact

- David Ricardo made a vast fortune as a stockbroker and loan broker before he even turned 30, which allowed him to retire and dedicate the rest of his life to studying and writing about economics.

3. Michael E. Porter (born 1947)

Introduction

- An American academic, economist, and business strategist, based at Harvard Business School.
- He is one of the most influential thinkers in the fields of business strategy and competitiveness.
- His work bridges the gap between economics and business management, providing practical frameworks for analyzing industries and competitors.
- His theories are fundamental to understanding how firms and nations can achieve a competitive advantage in the international business environment.
- He has developed widely used strategic tools for businesses and governments.



Key Concepts

- **Porter's Five Forces:** A framework for analyzing the level of competition within an industry. The five forces are:
 1. Threat of New Entrants
 2. Bargaining Power of Buyers
 3. Bargaining Power of Suppliers
 4. Threat of Substitute Products or Services²
 5. Rivalry Among Existing Competitors³
- **Porter's Diamond Model (Theory of National Competitive Advantage):** A model designed to explain why certain industries within a particular nation are competitive internationally. It consists of four determinants:
 1. Factor Conditions (e.g., skilled labor, infrastructure)
 2. Demand Conditions (the nature of home-market demand)
 3. Related and Supporting Industries
 4. Firm Strategy, Structure, and Rivalry
- **Generic Strategies:** Porter identified three generic strategies a firm can use to gain a competitive advantage:

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1. **Cost Leadership** (being the lowest-cost producer)
 2. **Differentiation** (being unique in a way that is valued by customers)
 3. **Focus** (concentrating on a narrow market segment)
- **Value Chain Analysis:** A concept that breaks down a firm's activities into a series of value-adding steps (e.g., inbound logistics, operations, marketing, service). A firm gains a competitive advantage by performing these activities more efficiently or uniquely.
 - **Clusters:** He emphasized the role of geographic clusters of interconnected companies and institutions in a particular field, which foster innovation and competitiveness.

Key Books with Publication

- **Competitive Strategy: Techniques for Analyzing Industries and Competitors (1980):** This book introduced his famous Five Forces framework and his three generic strategies.
- **Competitive Advantage: Creating and Sustaining Superior Performance (1985):** This work introduced the concept of the Value Chain.
- **The Competitive Advantage of Nations (1990):** This influential book detailed his Diamond Model of national advantage.

Fact

- Although he is a professor at a business school, Michael Porter's initial training was in aerospace engineering before he switched to business and economics.

4. Heckscher-Ohlin (Theory)

Introduction

- This is not a single thinker but a collaborative theory developed by two Swedish economists, Eli Heckscher (1879-1952) and his student Bertil Ohlin (1899-1979).
- Their work provides a more advanced explanation of international trade patterns, going beyond Ricardo's theory of comparative advantage.
- The Heckscher-Ohlin (H-O) theory is also known as the "Factor Proportions Theory" or the "2x2x2 Model" (2 countries, 2 goods, 2 factors of production).
- It focuses on how a country's endowment of production factors (like land, labor, and capital) influences its trade patterns.
- Bertil Ohlin was awarded the Nobel Memorial Prize in Economic Sciences in 1977 for this theory.



Key Concepts

- **Factor Endowments:** The H-O model posits that different countries have different endowments of factors of production (e.g., India is labor-abundant, while the USA is capital-abundant).
- **The Heckscher-Ohlin Theorem:** The core of the theory states that a country will export goods that make intensive use of the factors of production that it has in abundance. For example, a capital-abundant country will export capital-intensive goods.
- **Factor-Price Equalization Theorem:** A related theorem which suggests that the

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prices of identical factors of production (like the wage rate or the return to capital) will gradually be equalized across countries as a result of free trade.

- **Stolper-Samuelson Theorem:** This theorem extends the H-O model to show how opening to trade affects the distribution of income within a country. It states that free trade will increase the return to a country's abundant factor and decrease the return to its scarce factor.
- **Focus on 'Why':** While Ricardo's theory explains that comparative advantage exists, the H-O model attempts to explain why it exists, linking it to differences in national factor endowments.
- **Leontief Paradox:** A famous empirical test of the H-O model by Wassily Leontief in 1953 found that the U.S. (the world's most capital-abundant country) exported labor-intensive commodities and imported capital-intensive⁴ ones, a finding that contradicted the H-O theory.

Key Books with Publication

- **Eli Heckscher's initial article, "The Effect of Foreign Trade on the Distribution of Income" (1919):** This laid the groundwork for the theory.
- **Bertil Ohlin's book, Interregional and International Trade (1933):** This book elaborated on and popularized the theory, making it a central part of international trade economics.

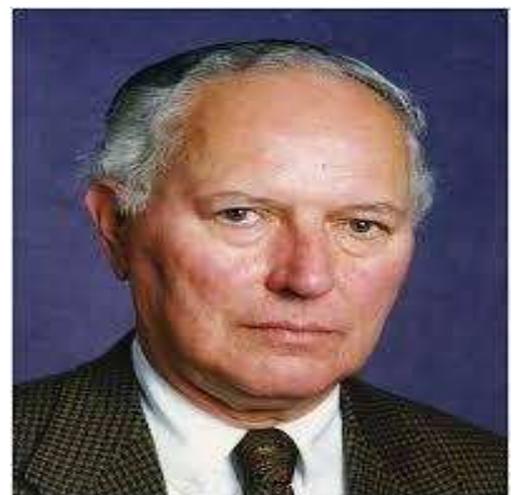
Fact

- Bertil Ohlin was a prominent political figure in Sweden, serving as the leader of the Liberal People's Party for over two decades and as Minister of Trade during World War II.

5. F. T. Knickerbocker (1973 - Theory)

Introduction

- This refers to the theory developed by Frederick T. Knickerbocker based on his 1973 study.
- His work focuses on explaining the foreign direct investment (FDI) patterns of oligopolistic industries.
- An oligopoly is a market structure dominated by a small number of large firms.
- Knickerbocker's theory is a behavioral theory of FDI, focusing on the strategic interactions and rivalries between firms.
- It is often called the "Follow the Leader" theory or the theory of "Oligopolistic Reaction."



Key Concepts

- **Oligopolistic Reaction:** The core idea is that FDI by firms in an oligopoly is often a reaction to the investment decisions of their rivals.
- **"Follow the Leader":** The theory suggests that if one firm in an oligopoly (the leader)

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invests in a foreign market, other firms in the same industry (the followers) will quickly make similar investments in that market to maintain their competitive positions.

- **Defensive Strategy:** This "follow the leader" behavior is a defensive strategy. Firms invest not necessarily to exploit a profit opportunity but to prevent a rival from gaining a competitive advantage in a foreign market that could then be used to challenge them globally.
- **Imitative Behavior:** The theory highlights the imitative nature of FDI in oligopolistic industries. Firms mimic each other's moves to reduce the risk of being left behind.
- **Bunching of Investments:** A key prediction of the theory is that FDI from a particular country in a specific industry will tend to be "bunched" together in time, as firms react to each other's moves in quick succession.
- **Focus on 'When':** Knickerbocker's theory is particularly useful for explaining the timing of FDI decisions, linking them directly to the strategic actions of competitors.
- **Limitations:** The theory is less effective at explaining the initial FDI decision (why the "leader" invested in the first place) but is very strong at explaining the subsequent wave of investments.

Key Books with Publication

- **Oligopolistic Reaction and Multinational Enterprise (1973):** This is the Harvard doctoral dissertation and book by Knickerbocker that lays out his theory, based on a study of FDI patterns of major U.S. corporations.

Fact

- Knickerbocker's theory helps explain why, for example, when one major tire company sets up a factory in an emerging market, other major tire companies often announce plans to do the same within a short period.

Adam Smith (1723-1790)

School of Thought	Core Contribution	Book Title & Year	Book's Content/Significance
Classical Economics	Theory of Absolute Advantage & "Invisible Hand" concept.	The Wealth of Nations (1776)	Foundational text; details theories of free markets, division of labor, and absolute advantage.

David Ricardo (1772-1823)

School of	Core Contribution	Book Title &	Book's Content/Significance
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Thought		Year	
Classical Economics	Theory of Comparative Advantage (based on opportunity cost).	On the Principles of Political Economy and Taxation (1817)	Details theories of comparative advantage, value, rent, wages, and profit.

Michael E. Porter (born 1947)

School of Thought	Core Contribution	Book Title(s) & Year	Book's Content/Significance
Strategic Management	Frameworks for Industry Competition & National Advantage .	Competitive Strategy (1980) Competitive Advantage (1985) The Competitive Advantage of Nations (1990)	Introduces Five Forces & Generic Strategies . Introduces Value Chain concept. Details the Diamond Model .

Heckscher-Ohlin (H-O) Theory

Theory Type	Core Contribution	Key Publication & Year	Publication's Content/Significance
Neoclassical Trade Theory	Explains trade via differences in national factor endowments . Also called Factor Proportions Theory .	Ohlin's Interregional and International Trade (1933)	Elaborated and popularized the H-O theory, making it central to trade economics.

F. T. Knickerbocker (1973 - Theory)

Theory Type	Core Contribution	Key Publication & Year	Publication's Content/Significance
Behavioral Theory of FDI	Explains FDI as an imitative "Oligopolistic Reaction" among rivals.	Oligopolistic Reaction and Multinational Enterprise (1973)	Lays out the theory based on a study of U.S. corporations' FDI patterns.

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Commerce Important Books & Table

1. **Marketing Management** (1967) - **Philip Kotler**: Considered the "bible of marketing," this book covers all fundamental concepts from segmentation and targeting to branding and marketing channels.
2. **Principles of Scientific Management** (1911) - **F.W. Taylor**: The foundational text for the scientific management school, focusing on efficiency, time-and-motion studies, and standardization.
3. **General and Industrial Management** (1916) - **Henri Fayol**: Outlines the famous 14 principles of management and the five functions of management (planning, organizing, commanding, coordinating, controlling).
4. **The Practice of Management** (1954) - **Peter Drucker**: A classic work that introduced key management concepts like Management by Objectives (MBO) and the role of managers in a modern organization.
5. **Financial Management** - **I.M. Pandey**: A comprehensive Indian textbook covering all major aspects of financial management, from capital budgeting to working capital.
6. **Projects: Planning, Analysis, Selection, Financing, Implementation, and Review** - **Prasanna Chandra**: A leading text on project management and capital budgeting in the Indian context.
7. **Competitive Strategy: Techniques for Analyzing Industries and Competitors** (1980) - **Michael E. Porter**: Introduces analytical frameworks like the Five Forces model for industry analysis and generic competitive strategies.
8. **The Wealth of Nations** (1776) - **Adam Smith**: The foundational text of classical economics, introducing concepts like the "invisible hand," division of labour, and absolute advantage theory.
9. **Modigliani-Miller Theorems** (Papers, 1958, 1963) - **Franco Modigliani & Merton Miller**: A series of seminal papers that formed the basis of modern corporate finance theory regarding capital structure irrelevance.
10. **Efficient Capital Markets: A Review of Theory and Empirical Work** (Paper, 1970) - **Eugene Fama**: The foundational paper for the Efficient Market Hypothesis (EMH), a cornerstone of modern finance.
11. **Capital Asset Pricing Model (CAPM)** (Papers, 1960s) - **William F. Sharpe, John Lintner**, et al.: A model that describes the relationship between systematic risk and expected return for assets.
12. **Heckscher-Ohlin Theory** (1933) - **Eli Heckscher & Bertil Ohlin**: A major international trade theory stating that countries export products that use their abundant and cheap factors of production.
13. **Product Life-Cycle Theory** (Paper, 1966) - **Raymond Vernon**: A trade theory explaining the observed pattern of international trade as a product goes through its life cycle.
14. **Hawthorne Studies** (1924-1932) - **Elton Mayo**: A series of experiments that gave rise to the Human Relations school of management, emphasizing social factors in productivity.

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Table 1: Components of Business Environment

Environment Type	Components	Description / Examples
Internal Environment	(Controllable factors within the organization)	Value System/Mission, Corporate Culture, Organizational Structure, Human Resources, Physical Resources. These define the strengths and weaknesses within the organization.
External - Micro Environment	(Immediate external factors affecting performance)	Customers, Suppliers, Competitors, Marketing Intermediaries, Publics. These are close to the organization and directly impact its functioning.
External - Macro Environment	(Broad societal forces, largely uncontrollable)	Political (government policies), Economic (GDP, inflation), Social (socio-cultural trends), Technological (innovations), Ecological (environmental regulations), Legal (business laws). Also known as PESTEL analysis.

Table 2: Key Economic Policies of India

Policy	Year / Period	Primary Objective	Key Features
Industrial Policy Resolution	1956	To accelerate industrial growth and establish a "socialistic pattern of society".	Classification of industries into three categories, giving a leading role to the public sector, promoting small-scale industries.
New Economic Policy (LPG)	1991	To overcome the economic crisis by making the economy more market-oriented.	Liberalisation, Privatisation, and Globalisation. Abolition of the license raj.
Monetary Policy	(Ongoing)	To control the money supply, manage inflation, and stabilize the currency.	Managed by the RBI. Tools: Repo Rate, Reverse Repo Rate, CRR, SLR, Open Market Operations.
Fiscal Policy	(Annual Budget)	To manage government revenue (taxation) and expenditure to influence the economy.	Managed by the Ministry of Finance. Tools: Taxes (Direct/Indirect), Public Expenditure, Public Debt.

Table 3: Theories of International Trade

Theory	Proponent(s)	Year (Approx.)	Core Idea / Principle
Mercantilism	(Various thinkers)	16th-18th Century	A nation's wealth is measured by its reserves of gold and silver. Encourages exports and discourages imports.
Absolute	Adam Smith	1776	A country should produce and export

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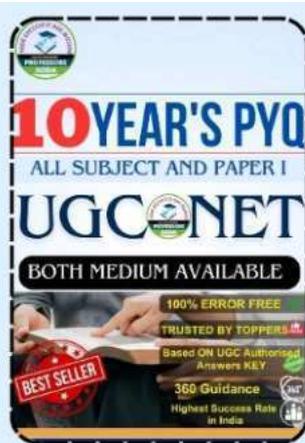
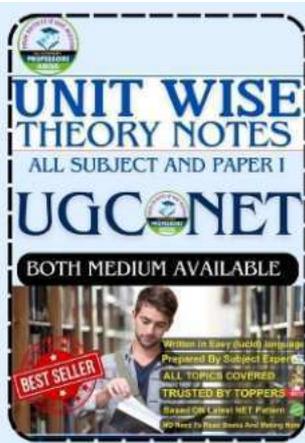
Advantage			goods which it can make more efficiently (at a lower cost) than others.
Comparative Advantage	David Ricardo	1817	Even if a country is less efficient in producing all goods, it should produce and export those goods in which its comparative disadvantage is the least.
Heckscher-Ohlin Theory	Eli Heckscher & Bertil Ohlin	1933	Countries should export products that use their abundant and cheap factors of production (like labour or capital).
Product Life-Cycle Theory	Raymond Vernon	1966	The pattern of international trade changes as a product goes through its life cycle (new, maturing, standardized).
Porter's National Diamond	Michael E. Porter	1990	A nation's competitiveness depends on four factors: Factor Conditions, Demand Conditions, Related and Supporting Industries, and Firm Strategy, Structure ¹ & Rivalry.

Table 4: International Economic Institutions & Agreements

Institution / Agreement	Founded (Year)	Headquarters	Primary Objective
IMF (International Monetary Fund)	1944	Washington, D.C., USA	To promote global monetary cooperation, ensure financial stability, and assist countries in Balance of Payments (BOP) crises.
World Bank (IBRD)	1944	Washington, D.C., USA	To reduce poverty by providing financial and technical assistance to developing countries for development projects.
WTO (World Trade Organization)	1995 (Successor to GATT, 1948)	Geneva, Switzerland	To set the rules for international trade, reduce trade barriers, and settle trade disputes among member nations.
UNCTAD	1964	Geneva, Switzerland	To maximize the trade, investment, and development opportunities of developing countries and assist their integration into the world economy.
ASEAN	1967	Jakarta, Indonesia	To promote economic, political, security, and socio-cultural cooperation among Southeast Asian nations.
SAARC	1985	Kathmandu, Nepal	To promote economic and regional integration among South Asian countries.
European Union (EU)	1993 (Treaty of Maastricht)	Brussels, Belgium	To create an economic and political union among member states, including a common market and a common

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1. According to the Heckscher-Ohlin theory, which one of the following statements is correct?
 - (a) Trade should take place among countries that have greater differences in their factor endowments.
 - (b) A country with a relatively cheaper cost of labour would export labour-intensive products.
 - (c) A country benefits from international trade even if it is less efficient than other nations.
 - (d) Countries with the proximity of geographical locations would have greater trade compared to the distant ones.

Correct Answer: (b)

- The Heckscher-Ohlin theory states nations export goods using their abundant and cheap factors of production intensively.
- Therefore, a country where labor is relatively cheaper and more abundant will specialize in exporting labor-intensive goods.
- This comparative advantage arises directly from the differences in national factor endowments like labor and capital supply.

2. According to the 'Accounting Period Concept':
 - (a) The business will continue for an indefinite period.
 - (b) The life of the business is divided into appropriate segments for studying the results.
 - (c) Only monetary transactions are recorded in the books.
 - (d) Every transaction has two aspects that are recorded.

Correct Answer: (b)

- This concept allows businesses to report financial performance and position for specific, regular time intervals like a year.
- Dividing the continuous life of a business into shorter periods facilitates timely analysis and comparison of performance.
- It enables stakeholders to assess profitability and financial health periodically, aiding informed decision-making processes over time.

3. If the demand for a product is perfectly inelastic, what effect will an increase in

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price have on Total Revenue?

- (a) Total revenue will increase.
- (b) Total revenue will decrease.
- (c) Total revenue will remain unchanged.
- (d) Total revenue will become zero.

Correct Answer: (a)

- Perfectly inelastic demand implies that the quantity demanded remains constant irrespective of any price changes occurring.
- Since Total Revenue equals Price multiplied by Quantity ($TR = P \times Q$), if P increases and Q stays constant, TR must increase.
- Consumers buy the exact same amount even at a higher price, thus increasing the total revenue for the seller.

4. The 'Break-even point' for a firm is the situation where:

- (a) Total Revenue = Total Cost
- (b) Total Revenue > Total Cost
- (c) Total Revenue < Total Cost
- (d) Marginal Revenue = Marginal Cost

Correct Answer: (a)

- The break-even point is defined as the level of output or sales where total revenues equal total costs.
- At this specific volume, the company makes neither a profit nor a loss, covering all fixed and variable expenses.
- It is a crucial metric for businesses to understand the minimum sales needed to avoid losses during operations.

5. According to Walter's model, if a firm's internal rate of return (r) is greater than its cost of capital (K_e), the optimal payout ratio is:

- (a) 0%
- (b) 100%
- (c) 50%
- (d) Depends on r and K_e

Correct Answer: (a)

- Walter's dividend model suggests that if a firm earns more on its investments (r) than its cost of capital (K_e), it creates more value by retaining earnings.
- A 0% dividend payout ratio means the firm retains all profits for reinvestment into profitable projects yielding ' r '.
- This reinvestment strategy maximizes shareholder wealth compared to distributing dividends which shareholders might invest at a lower rate (K_e).

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6. Portfolio theory suggests diversification primarily to reduce which type of risk?
- (a) Market risk
 - (b) Financial risk
 - (c) Unsystematic risk
 - (d) Business risk

Correct Answer: (c)

- Unsystematic risk, also called specific or diversifiable risk, affects individual securities or industries due to company-specific factors.
- Diversification, by holding a variety of assets, reduces the impact of these unique risks on the overall portfolio.
- It aims to average out the random negative events specific to individual investments within the portfolio effectively.

7. If the two regression coefficients are 0.8 and 0.2, what will be the value of the coefficient of correlation?

- (a) 0.16
- (b) 1.00
- (c) 0.40
- (d) 0.50

Correct Answer: (c)

- The coefficient of correlation (r) is calculated as the geometric mean of the two regression coefficients (b_{xy} and b_{yx}).
- The formula is $r = \sqrt{(b_{xy} * b_{yx})}$, and 'r' takes the same sign as the regression coefficients involved.
- Therefore, $r = \sqrt{(0.8 * 0.2)} = \sqrt{0.16} = 0.40$, indicating a positive relationship between the variables.

8. Which of the following is NOT a characteristic of the Normal Distribution?

- (a) It is symmetrical.
- (b) Mean, Median, and Mode are equal.
- (c) The total area under the curve is 1.
- (d) It is always mesokurtic.

Correct Answer: (d)

- Mesokurtic refers to a specific level of peakedness (kurtosis = 3), characteristic of the standard normal distribution.
- However, general normal distributions can be leptokurtic (more peaked) or platykurtic (less peaked) while still being normal.
- Therefore, being mesokurtic is not a mandatory characteristic for every curve that follows a normal distribution pattern.

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9. According to Herzberg's Two-Factor Theory, which of the following is a 'Motivator Factor'?

- (a) Salary
- (b) Working Conditions
- (c) Recognition
- (d) Company Policy

Correct Answer: (c)

- Herzberg identified motivators as factors intrinsic to the job that lead to satisfaction and motivation when present.
- Recognition for achievement is a key motivator that enhances job satisfaction and encourages higher performance levels.
- Salary, working conditions, and company policy are considered hygiene factors, preventing dissatisfaction but not necessarily motivating employees.

10. Who developed the 'Managerial Grid' style of leadership?

- (a) Blake and Mouton
- (b) Hersey and Blanchard
- (c) Fred Fiedler
- (d) Rensis Likert

Correct Answer: (a)

- Robert Blake and Jane Mouton developed the Managerial Grid, also known as the Leadership Grid, in the 1960s.
- This model plots leadership styles based on two dimensions: concern for people and concern for production results.
- It identifies five distinct leadership styles based on the varying degrees of these two concerns shown by managers.

11. Who is the regulator of Mutual Funds in India?

- (a) Reserve Bank of India (RBI)
- (b) Securities and Exchange Board of India (SEBI)
- (c) Insurance Regulatory and Development Authority of India (IRDAI)
- (d) Ministry of Finance

Correct Answer: (b)

- The Securities and Exchange Board of India (SEBI) is the primary regulatory body for the securities market in India.
- SEBI oversees the registration, functioning, and regulation of mutual funds to protect investor interests and ensure market integrity.
- It sets guidelines for fund operations, disclosures, and conduct to maintain transparency and fairness in the industry.

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12. What is the main objective of the Basel III standards?

- (a) To increase the profitability of banks.
- (b) To increase the lending capacity of banks.
- (c) To strengthen the financial stability and risk management of banks.
- (d) To reduce competition among banks.

Correct Answer: (c)

- Basel III norms were introduced globally to enhance banking regulation, supervision, and risk management post-financial crisis.
- Its primary goal is to improve the banking sector's ability to absorb shocks arising from financial stress.
- This involves stricter capital requirements, better liquidity management, and reduced leverage to ensure overall systemic stability.

13. What is the main marketing objective during the 'Decline' stage of the Product Life Cycle?

- (a) Maximize market share.
- (b) Build brand awareness.
- (c) Reduce costs and maintain cash flow.
- (d) Enter new market segments.

Correct Answer: (c)

- In the decline stage, sales and profits fall, so the focus shifts from growth to maximizing remaining value.
- Strategies often involve reducing expenditures (marketing, R&D) and harvesting the product for maximum short-term cash flow.
- The aim is to manage the exit efficiently while minimizing losses and potentially serving a niche loyal market.

14. What is the pricing strategy called where a high initial price is set and then gradually lowered?

- (a) Penetration pricing
- (b) Psychological pricing
- (c) Price skimming
- (d) Promotional pricing

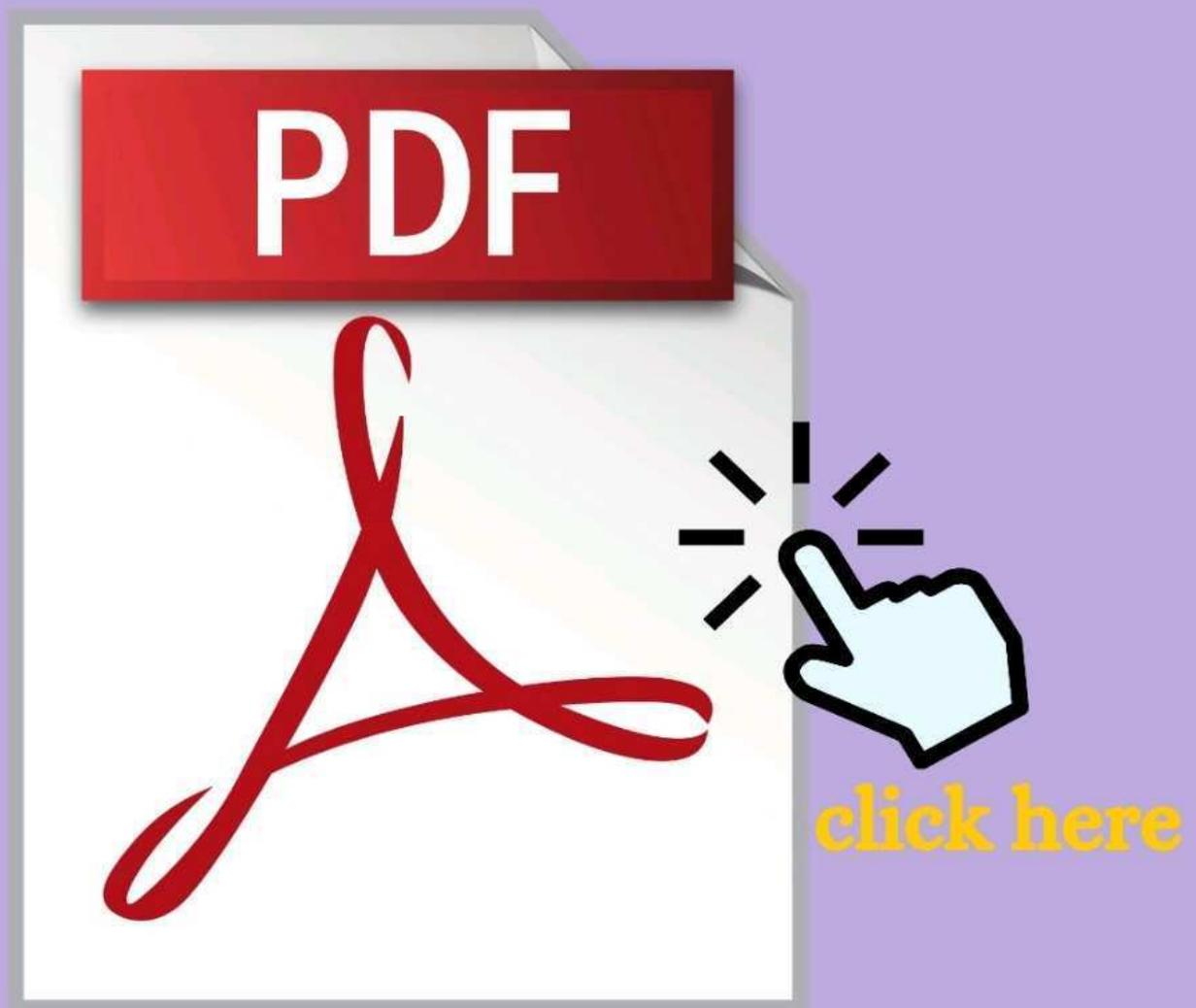
Correct Answer: (c)

- Price skimming involves launching a new product at a high price to capture maximum revenue from early adopters.
- The price is subsequently lowered over time to attract more price-sensitive customer segments in the broader market.
- This strategy is often used for innovative products with limited initial competition to recoup development costs quickly.

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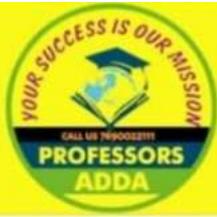
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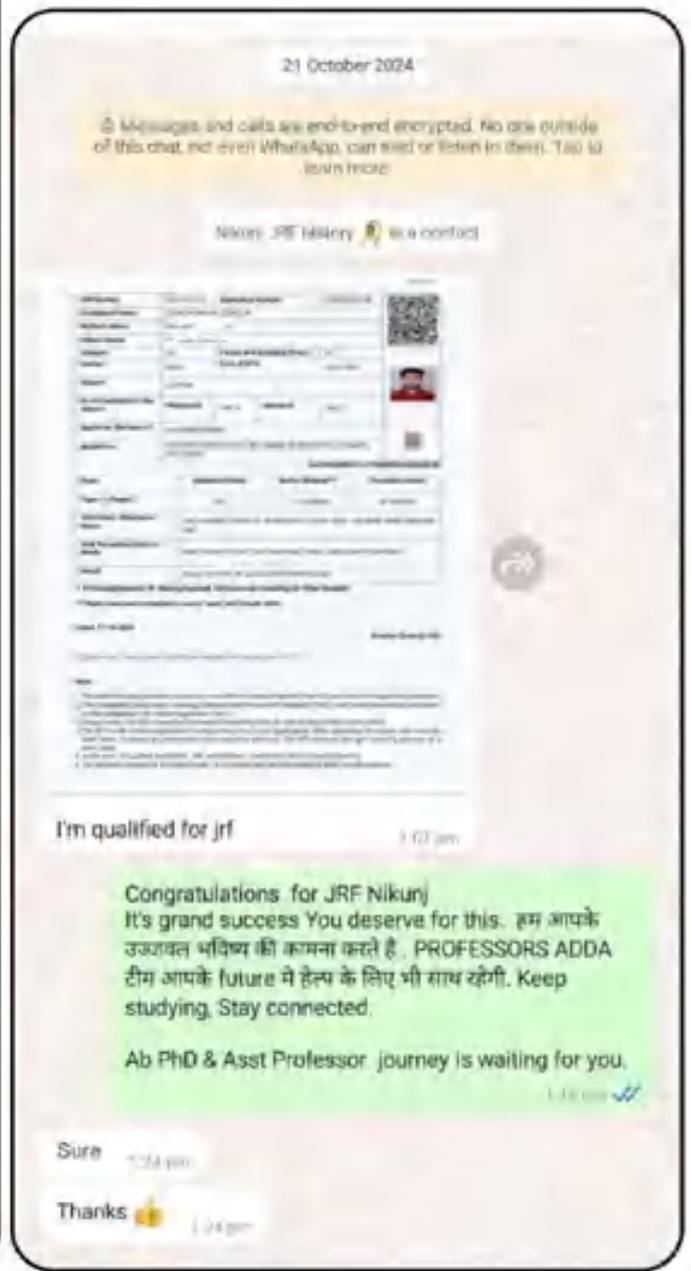
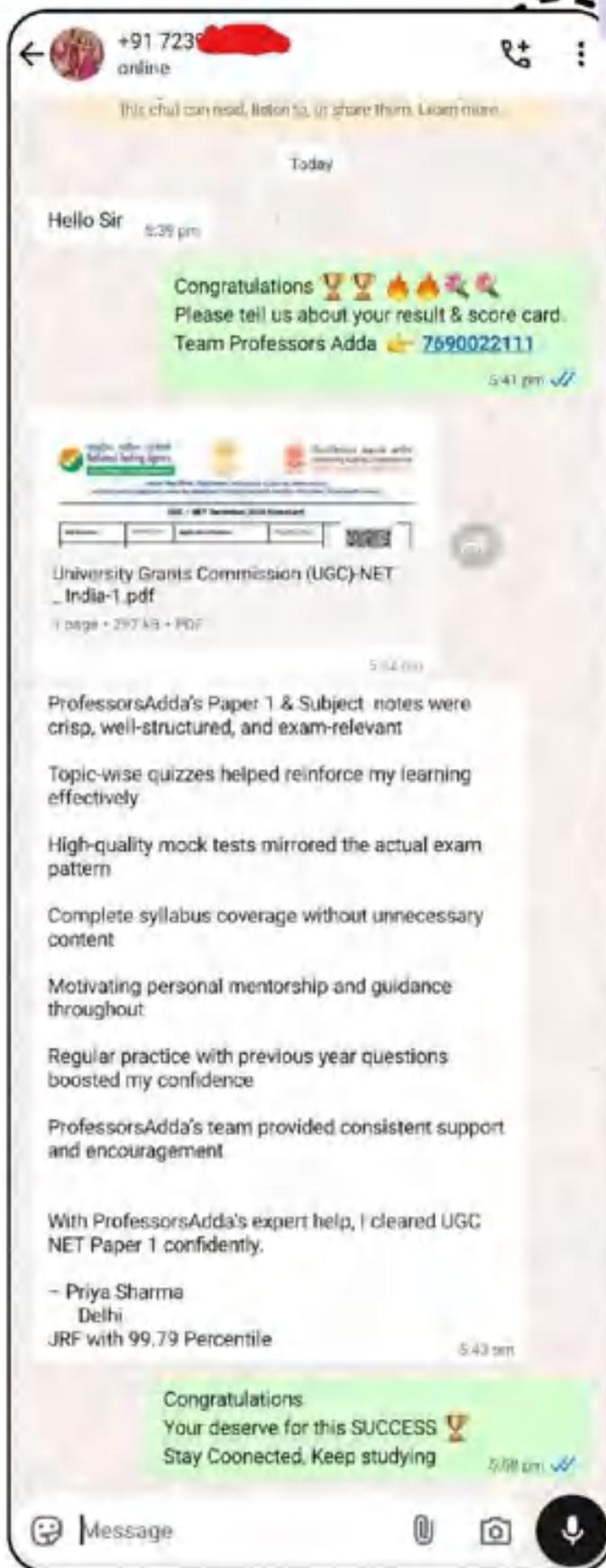
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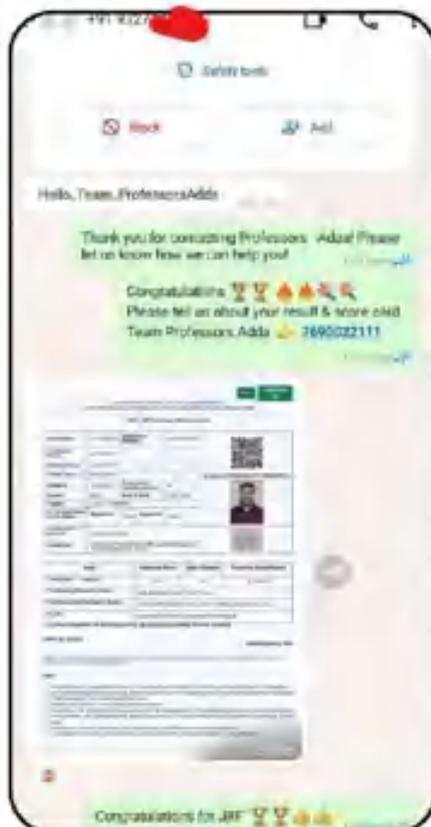
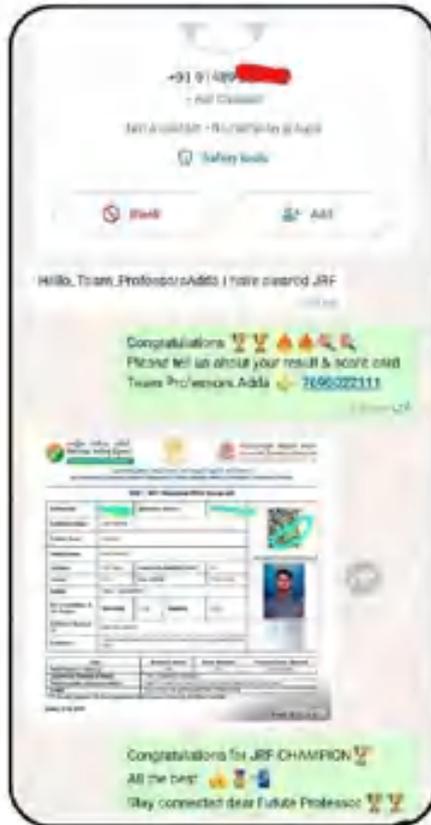
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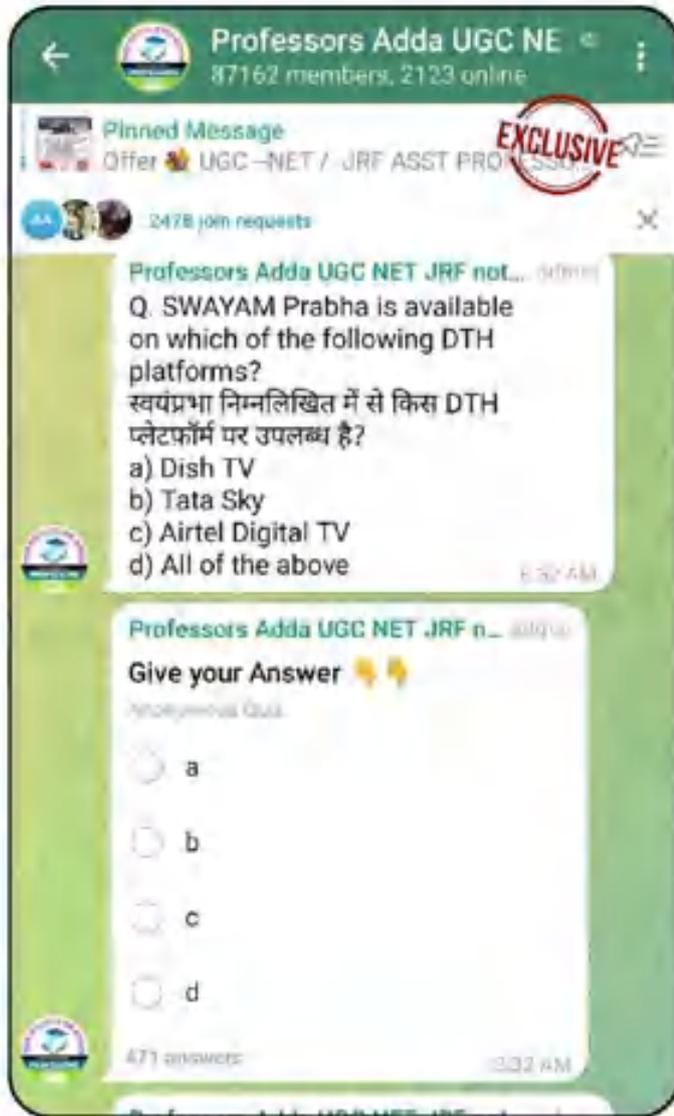
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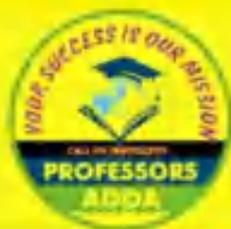
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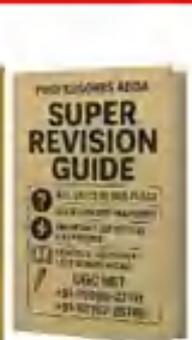
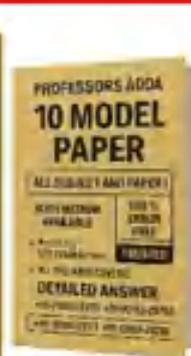
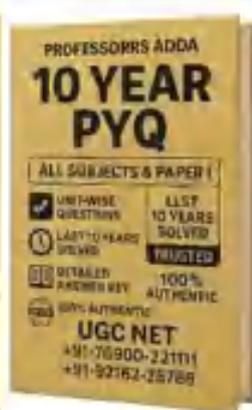
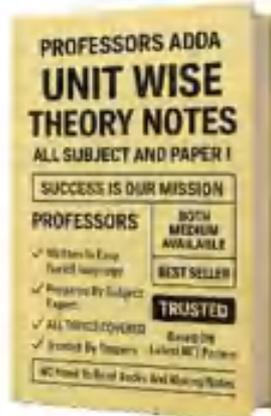
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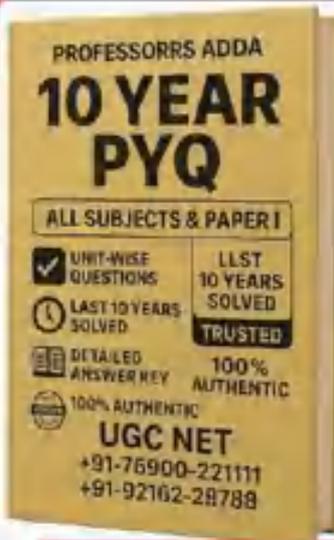
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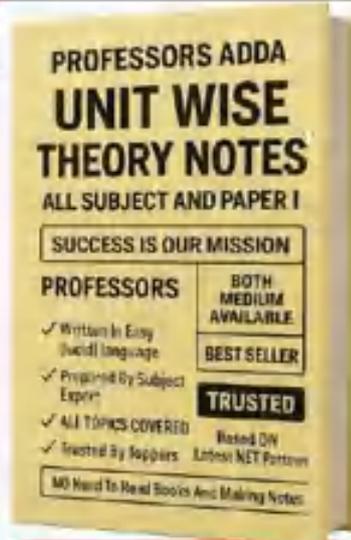
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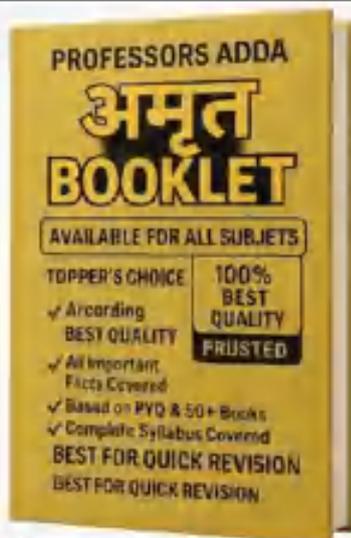
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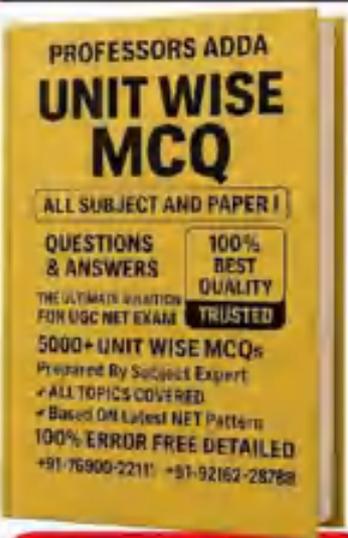
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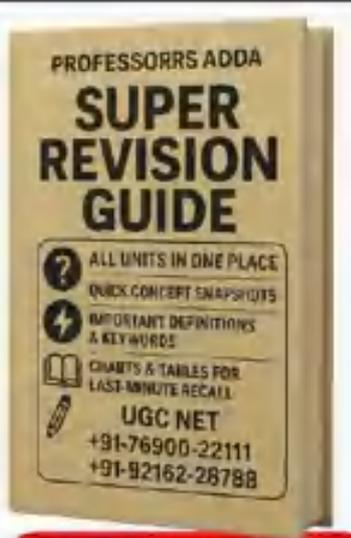
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