



3.1 Understanding, Applying, Analysing, Evaluating and Creating Based Questions (with answers)

CASE PROBLEM-1

Q.1. Once upon a time a round of Election to the five Legislative Assemblies of the country was in progress. The different political parties were putting in the best of their efforts to entice the people through their respective promises to them. There were three main political parties contesting elections in these states. One of the political parties made a promise that if they came into power, they would set up such public sector enterprises in the states which will have the partnership of both the public and the government. However, in these enterprises, the ownership of the government shall not be less than 51%. The setting up of these enterprises is done as per the provisions of the Indian Companies Act, 2013. The financing of these enterprises is done jointly by both, the people and the government. The second political party promised that if they came into power, they would set up such public sector enterprises which will be completely under the ownership of the government. The burden of financing them will not be put on the shoulders of the people, but they will be managed with the general budget. The third political party, which was contesting the elections for the first time, promised that on coming into power they would set up such public sector enterprises which will be fully financed by the government. However, there will be no bar to get loan from the people to set up them. They will be set up as per the special Act passed by the Parliament or the State Legislative Assembly.

On the basis of the above para, identify the type of public sector enterprises to be set up as being promised by the three political parties. Also state any two merits of each of them. 6 marks

Ans. (a) The first political party promised to set up Government Companies.

Merits:

(i) A government company can be easily established under the Indian Companies Act, 2013. A separate Act in the Parliament is not required.

- (ii) It has a separate legal entity, apart from the government. It is free from government regulations.
- (b) The second political party promised to set up Departmental Undertakings.

Merits:

- (i) Since control is direct and centralised, these undertakings facilitate the Parliament to exercise effective control over their operations.
- (ii) These ensure a high degree of public accountability.
- (c) The third political party promised to set up Public Corporations/Statutory Corporations.

Merits:

- (i) The government does not interfere in their financial matters, including their income and receipts.
- (ii) A statutory corporation is relatively free from red tapism and bureaucracy and hence, can take quick decisions.

CASE PROBLEM-2

Q.2. 'Indian Railways' is a part of Railway Ministry. It is organised, financed and controlled by Railway Ministry. The finances are allocated from government treasury and whatever revenue it earns is deposited to government treasury only. It is treated as a part of government and even the appointment recruitment and selection of employees is done in the same way as that of civil servant.

- (i) Name the type of public sector enterprise 'Indian Railways' is.
- (ii) What is the status of employees working in Indian Railways?
- (iii) How does it get its finance?
- (iv) What does it do with its revenue?

4 marks

- Ans. (i) Departmental Undertaking
- (ii) They are considered as civil servants or government employees.
- (iii) From government treasury.
- (iv) It is deposited in the government treasury.

CASE PROBLEM-3

Q.3. Gas authority of India Ltd. (GAIL) is carrying on various projects of energy and power. Majority of its shares are held by the government of India. It was registered under the previous Companies Act. It enjoys all the characteristics of a company. The board of directors are appointed by the government. The Board and shareholders are responsible for the efficient working of the company. The company prepares its annual report and submit to the appropriate authorities.

- (a) Name the type of public sector enterprise referred to in the above para.
- (b) In whose name does the government buy shares?
- (c) State any three features of the type of public sector enterprise identified in part (a) other than those discussed in the above para.

5 marks

- Ans. (a) Government Company
- (b) President of India
- (c) Features of government company:
- (i) The company can file a suit in a court of law against any third party and be sued.
- (ii) The company can enter into a contract and can acquire property in its own name.
- (iii) The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.

CASE PROBLEM-1

Q.1 Amko Ltd., an American company is manufacturing a high quality products, which is very popular in America. The company is searching for the possibilities of exporting its product to foreign countries. After a thorough search on the internet it arrived at the conclusion that India can be a good market for its products. But the company is unaware of the distribution system in India. Now the company is looking for such a company which is already established in India and has a strong distribution system. Once again it searched on the internet and found that there was an Indian company named 'Surya Ltd.' which was facing severe financial constraints, but it had a very strong distribution system. Amko Ltd. negotiated with Surya Ltd., and both the companies made an agreement to jointly run their businesses. In this way the American company, with the help of Surya Ltd., got a good experience of entering the foreign markets.

- (a) Identify the type of business enterprise formed by merging Surya Ltd. with Amko Ltd.
(b) State any four features of such a business enterprise.

5 marks

Ans. (a) Joint Venture

(b) Features:

- (i) Increased resources and capacity: Joint venture adds to existing resources and capacity enabling the company to grow and expand more quickly and efficiently.
- (ii) Access to new markets and distribution networks: When a business enters into joint venture, it can access new markets. They can also take advantage of the established distribution channels, i.e., the retail outlets in different local markets.
- (iii) Access to technology: Advanced techniques of production leads to superior quality of products and reduced cost of production. It saves a lot of time, energy and investment because they do not have to develop their own technology.
- (iv) Innovation: Joint ventures allow business to come up with new and innovative products for the market because of new ideas and technology of foreign partners.

CASE PROBLEM-2

Q.2. Max Ltd., a foreign company, started its business in a under-developed country. The size of the business is quite large. The company has plenty of resources. It employs thousands of people in the under-developed country. The raw materials used by the company are readily available here. However, since there was not demand for these raw materials here, the producers were unable to get the best price for it. Due to this reason, the producers were discouraged. Some local businessmen used to act arbitrarily earlier, but now they have corrected themselves. The reason for their becoming better is competition with the foreign company. Now their arbitrary approach has ended altogether. Max Ltd. is using completely the latest technology in its various business activities. As a result, the local people also have got the opportunity to learn the new technology. Because of using the modern technology and doing production at a large scale, the company's cost of production is very low. Because of its huge size and status, the company occupied a dominant position in the market and took over some domestic firms.

- (a) Which type of business enterprise is referred to in the above para?
- (b) State any three features of the enterprise identified in (a) by quoting the lines from the above para.

4 marks

Ans. (a) Multinational Company

(b) Features:

(i) Expansion of market territory/International operations

An MNC has production, marketing and other facilities in several countries. It operates through a network of subsidiaries and branches in host countries. It owns and controls assets in foreign countries.

"Max Ltd., a foreign company, started its business in a under-developed country."

(ii) Giant size and huge capital resources

MNCs possess huge capital resources. They are able to tap funds from various sources. They may issue equity shares, debentures or bonds to the public. They are also in a position to borrow from financial institutions and international banks.

"The size of the business is quite large. The company has plenty of resources. It employs the thousands of people in the under-developed country."

(iii) Sophisticated/Advanced technology

Generally, a multi-national corporation has at its command advanced technology so as to provide world class products and services.

"Max Ltd. is using completely the latest technology in its various business activities."

CASE PROBLEM-3

Q.3. The Government planned to begin a Road Project. The Government needed management specialists and financial help to complete it. The Government contacted the private sector to fulfil this requirement. Now, this project will be completed jointly by both the public sector and private sector.

- (a) Identify the form of enterprise and state its importance.
- (b) Give any three features of such enterprises.

4 marks

Ans. (a) Public Private Partnership (PPP)

This type of enterprise helps in speeding up projects, and completing them in the minimum time period.

(b) Features:

(i) Pertaining to high priority projects: PPP pertains to high priority projects that are aimed at creating public goods like in the infrastructure sector.

(ii) Suitable for big projects (Capital Intensive and Heavy Industries): PPP is suitable for big projects whose gestation period is very long.

(iii) Public welfare: PPP is used in the government projects targeted at public welfare, e.g. Delhi Metro Railway Corporation.