

Forms of Enterprise

Sole Proprietorship

Joint Family Firm

Partnership
Firm

Cooperative Firm

Joint stock Firm



Sole Proprietorship

- A **sole trader** is a person who carries on a business exclusively on his own account and at his own risk

- “It is a form of business which is owned, managed and **controlled by an individual**. It is the simplest form of business, established with the limited resources, ability and capital of the individual known as **sole trader** “

– *James Stephens*



Features of Sole Proprietorship

- ❖ Single ownership
- ❖ No separate Entity
- ❖ Capital
- ❖ Formation
- ❖ Risk bearing
- ❖ Unlimited liability
- ❖ Management and Control
- ❖ Continuity



Merits of Sole Tradership

- ❖ Ease of Formation and closure
- ❖ Flexibility
- ❖ Quick Decision making
- ❖ Secrecy of Information
- ❖ Direct Incentive
- ❖ Sense of Accomplishment
- ❖ Personal Touch
- ❖ Low Overhead Costs
- ❖ Minimum Government Regulations
- ❖ Social Importance



Demerits Of Sole Proprietorship

- ❖ Limited capital
- ❖ Uncertain Life
- ❖ Unlimited Liability
- ❖ Limited Managerial Ability
- ❖ Unsound Business Decisions
- ❖ Non-availability of Economies of Large Scale



Partnership

“**P**artnership may be defined as the relation between persons who agree to share the profits of a business carried on by all or any of them acting for all.” -*L.H. Haney*



Features of Partnership

- ❖ Has two or more members.
- ❖ Lawful Business
- ❖ Risk-bearing and Sharing of Profits
- ❖ Mutual agency
- ❖ Unlimited Liability
- ❖ Restriction on transfer of Share
- ❖ Agreement



Merits of Partnership

- ❖ Ease of Formation and Closure
- ❖ Large Financial Resources
- ❖ Better Management
- ❖ Better decision making
- ❖ Sharing of Risks
- ❖ Secrecy
- ❖ Flexibility.
- ❖ Impact of unlimited Liability.



Demerits of Partnership

- ❖ Less capital as compared to a company
- ❖ Unlimited liability
- ❖ Conflict between partners
- ❖ Slow decision making
- ❖ Non-transferability of interest
- ❖ Uncertain life of the firm
- ❖ Less public confidence



Types of Partnership

- ❖ Partnership at Will
- ❖ Partnership for a Fixed period
- ❖ Particular Partnership



Types of Partners

- Active Partners
- Dormant Partners
- Silent Partners
- Secret Partners
- Nominal Partner
- Estoppel
- Partner in Profits only



Formation of a Partnership

A partnership is formed on the basis of the following:

- **Partnership Deed**
- **Registration of Partnership**



Partnership Deed

- It is a written Agreement between the partners in a firm. It contains several clauses regarding name and address of partners, nature of business, capital, profit sharing ratio, etc.



Registration of Partnership

- *Under law, it is not necessary to get the partnership firm registered*
- It is optional for the partners to get their firm registered but if they so desire, they can get their firm registered with **Registrar of Firms** of the relevant State.



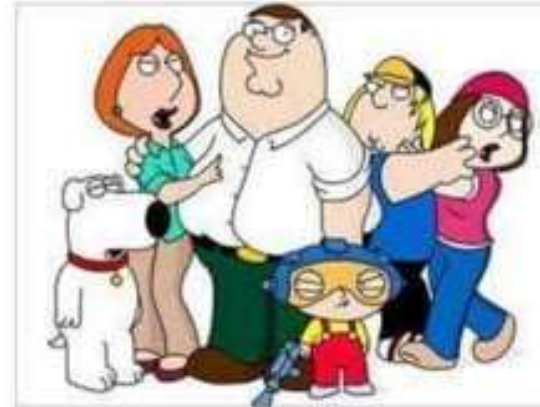
Hindu Undivided Family Business

- The **Hindu Undivided Family Firm** is a form of business organisation in which the family possesses some inherited property and the “**Karta**”, the head of the family manages its affairs.



Features of Hindu Undivided Family Firm

- Control by “Karta”
- Liability
- Continued existence
- Status of Minors
- Fluctuating Share



Merits of Hindu Undivided Family Firm

- Easy Formation
- Stable existence
- Limited Liability
- Effective decision making and control
- Secrecy
- Close relations with customers
- Close relations with Employees



Demerits of Hindu Undivided Family Firm

- Limited resources
- Unlimited liability of “Karta”
- Limited managerial ability
- Lack of relationship between Responsibility and reward
- Dominance of “Karta”
- Unstable form of organisation



Co-operative Firm

“Co-operative organisation is a society which has its objective for the **promotion of economic interest of its members** in accordance with cooperative principles.”



Features of a Co-operative Society

- Voluntary association
- Open membership
- Separate legal Entity
- Limited liability
- Service Motive
- Disposal of Surplus
- Democratic form of society



Merits of a Co-operative Society

- Ease of formation
- Equality in voting rights
- Democratic functioning
- Limited liability
- Continued existence
- Government assistance
- Fair Dealings



Demerits of Co-operative Society

- Limited Capital
- Inefficiency in management
- Excessive government Regulation
- Lack of Secrecy
- Lack of Motivation
- Misuse of funds



Types of Co-operative Societies

- Consumers co-operative society
- Credit co-operative society
- Producers co-operative society
- Marketing co-operative society
- Farmers co-operative society
- Housing co operative society



Company (a.k.a. Joint stock Company)

“A company is a person, artificial, invisible,
intangible and **existing only in the eyes of law**”

-Justice Marshal



Features of a company

- Artificial person
- Separate legal identity
- Perpetual existence
- Limited liability
- Control and management
- Separate Property
- Common seal
- Risk bearing



Merits of Joint Stock Company

- Vast financial resources
- Limited Liability
- Perpetual Existence
- Professional management
- Diffused risk
- Scope for Expansion
- Public Confidence



Demerits of Joint Stock Company

- Complex procedure of formation
- Government regulations
- Lack of Secrecy
- Slow decision making
- Management in the hands of few Shareholders(oligarchic management)
- Conflicts among shareholders



Types of Companies

- Private Company
- Public Company
- Government Company
- Foreign or Multinational Company.



Stages in formation of a company

- Promotion
- Incorporation/Registration
- Commencement of business



Function of Promoter

- Identification of business idea
- Detailed study of the project
- Making arrangement of capital, machinery, material, etc.
- Entering into arguments with bankers, underwriters, etc.
- Preparation of documents for filling with Registrar of Companies





Certificate of Incorporation

It is issued by the Registrar of Companies when all formalities concerned with the registration of a company have been fulfilled.

The moment this certificate is issued, the company acquires a legal status.

It is a conclusive proof that all legal formalities required for incorporation of a company have been duly fulfilled



Certificate of Commencement

It is issued by the Registrar of Companies to a public company after it has successfully raised capital and completed the necessary formalities .

This certificate entitles the public companies to start a business





Documents required for formation of company

1. Memorandum of association.
2. Articles of association
3. Prospectus

Considerations in starting a business

- Market analysis
- Choice of business
- Location of business
- Choice of ownership
- Financial planning
- Workforce
- Tax planning



Sources of finance

A company can raise capital from a variety of sources. Each source has distinct features that must be properly analyzed in order to choose the greatest accessible method of obtaining finances. For all organizations, there is no one optimum source of funding. A choice of the source to be used may be made depending on the situation, purpose, cost, and associated risk.



Different Sources of Finance

Retained Earnings

Trade Credit

Factoring

Financial Institutions

Debentures

Commercial Papers

Lease Financing

Public Deposits

Commercial Banks

Issue of Shares (Equity Shares & Preference Shares)

Retained Earnings:

In most cases, a company does not release all of its earnings or share its profits with its shareholders as dividends. A part of the net earnings may be retained in the company for future use. This is known as retained earnings.

Trade Credit:

Trade credit is credit given by one trader to another for the purchase of products and services. Trade credit facilitates the purchase of goods without the need for immediate payment. Such credit shows in the buyer of goods' records as 'sundry creditors' or 'accounts payable.' Business organizations frequently utilize trade credit as a form of short-term finance.

Factoring :

Factoring is a financial service in which the 'factor' provides a variety of services such as

Bill discounting (with or without recourse) and debt collection for the client: Under this, receivables from the sale of goods or services are sold to the factor at a certain discount.

- Factoring has basic two methods:

- **Recourse** -The customer is not safeguarded against the risk of bad debts while using recourse factoring.

- **Non-recourse** -Non-recourse factoring, on the other hand, involves the factor assuming the complete credit risk, which means that the full amount of the invoice is reimbursed to the client if the debt goes bad.

- **Lease Financing:**

The party who owns the assets is known as the 'lessor,' while the party who utilises the assets is known as the 'lessee.' The lessee pays the lessor a predetermined periodic sum known as lease rental in exchange for the usage of the asset. The lease contract includes the conditions and terms that regulate the lease arrangements. At the end of the lease agreement, the asset will be returned to the owner.

- **Public Deposits:**

- Public deposits are deposits gathered from the public by organizations. Interest rates on public deposits are often higher than those on bank deposits. Anyone who wants to make a monetary contribution to an organization can do so by filling a specified form.

■ Commercial Papers:

A Commercial Paper (CP) is a short-period 90 to 364 day, unsecured promissory note that is issued by a company to raise funds (usually for the inventories, finance, and temporary liabilities). It is issued by one organization (Primary Dealers (PD) and All-India Financial Institutions (FIs) in India) to another organisation, insurance businesses, pension funds, and banks. The money raised by commercial paper is often huge. Due to the fact that this loan is entirely unsecured, the CP may only be issued by companies with a solid credit rating.

■ Issue of Shares:

A share is the smallest unit of a company's capital. The firm's capital is split into small units and issued to the public as shares. The capital gained via the issuance of shares is referred to as '**Share Capital**'. It's a kind of Owner's Fund.

There are two kinds of shares that can be issued:

- **Equity Shares:** These are shares that do not pay a fixed dividend, but do have ownership and voting rights. Owner of the firm refers to the company's equity shareholders. They do not get a set dividend, but are paid dependent on the company's profitability.
- **Preference Shares:** Preference shares are shares that have a slight preference over equity shares. Preference Shareholders get a set dividend rate and have the right to receive their capital before equity shareholders in case of liquidation. They do not, however, have any voting rights in the company's management.

■ Debentures:

Debentures are an effective instrument for raising long-term debt capital. A firm can raise capital by issuing debentures with a fixed rate of interest. A firm's debenture is a recognition that the company has borrowed a specified amount of money, which it commits to repay at a later period. Debenture holders are part of the company as the company's creditors. Debenture holders get a definite stated amount of interest at predetermined periods, such as six months or a year.

Commercial Banks:

A commercial bank is a financial institution that provides services like accepting deposits, granting loans, bank overdrafts, offering certificates of deposits, and savings accounts to individuals and businesses. Commercial banks are considered to be an important component of the banking system.

These are the banks that perform banking services with the aim of earning profits. Commercial banks are generally famous because they provide funds for a different span of time: short-term & medium-term.

Common examples of commercial banks are the State Bank of India (SBI), Bank of Baroda, Punjab National Bank (PNB), Central Bank of India, Canara Bank, Bank of India, etc.

■ Financial Institutions:

The government has established many financial institutions in the country to give financing to businesses.

These organizations are often known as 'Development Banks' since they aim to promote a country's industrial development.

Financial institutions provide funds for the expansion, reorganization and modernization of an enterprise.

Meaning - Short term finance

- Short term finance refers to financing needs for a small period normally less than a year. In businesses, it is also known as working capital financing. This type of financing is normally needed because of uneven flow of cash into the business, the seasonal pattern of business, etc.



Financial needs of the organization:-

- 1) Long term – for a period of 5 to 10 years.
- For acquiring fixed assets
- 2) Medium term – 1 to 5 years.
- Expenditure for publicity
- 3) Short term – 0 to 1 year. Known as
- working capital requirements.
- Investments in current assets like stock, debtors etc.



Short term sources of fund

- ØTrade credit
- ØCommercial banks
- ØFixed deposits for a period of one year
- ØAdvance received from customers
- ØVarious short term provisions



Short-term financing

The main sources of short-term financing are

- (1) trade credit,
- (2) commercial bank loans,
- (3) commercial paper, a specific type of promissory note, and
- (4) secured loans.

PRESENTATION

OF

BUSINESS ECONOMICS



TOPIC

MACROECONOMICS

CONCEPT

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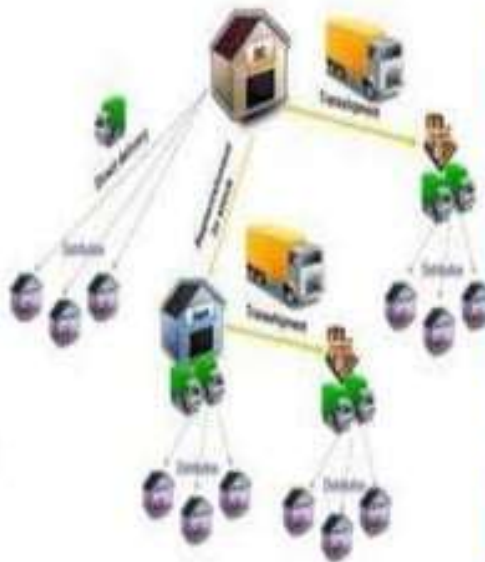
MICROECONOMICS

V/S

MACROECONOMICS

ECONOMICS

Economics is the social science that seeks to describe the factors which determines the **production, distribution** and **consumption** of goods and services



MACROECONOMICS

. Macroeconomics is the study of the behavior and performance of the economy as a **whole**. It **deals with :-**

- the economy's total output of goods and services,
- the growth rate of output,
- the rates of inflation and unemployment,
- the balance of payments,
- exchange rates,
- booms and recessions,
- economic policies, etc.

MACROECONOMICS GOALS

➤ FULL EMPLOYEMENT



STABILITY



➤ GROWTH

NATURE OF MACROECONOMICS

- ❑ Macroeconomics is relatively a new branch of economics
- ❑ A full fledged macroeconomics appeared only after the publication of Keynes' *General Theory of Employment, Interest and Money* in 1936
- ❑ Macroeconomics is more normative by nature (unlike positive science)
- ❑ Macroeconomics is both a theoretical as well as policy science

EVOLUTION OF MACROECONOMICS

❑ Classical and Neo Classical School of Thought (1776-1930)

- ❖ An economy as a whole functions at the level of full employment
- ❖ Supply creates its own demand
- ❖ Flexibility of prices and wages
- ❖ Free Economy

GREAT DEPRESSION PERIOD 1929 - 33



KEYNESIAN THEORY

- AN ECONOMY CAN BE IN EQUILIBRIUM AT LESS THAN FULL EMPLOYMENT
- DEMAND CREATES ITS OWN SUPPLY
- THERE IS GOVERNMENT INTERFERENCE
- KEYNESIAN THEORY APPLY UNDER SHORT RUN AND PERFECT COMPETITION

DIFFERENCE

MICROECONOMICS



MACROECONOMICS

MICROECONOMICS

- THE BRANCH OF ECONOMICS THAT STUDIES BEHAVIOUR OF **INDIVIDUAL, FAMILY, FIRM** KNOWN AS MICROECONOMICS



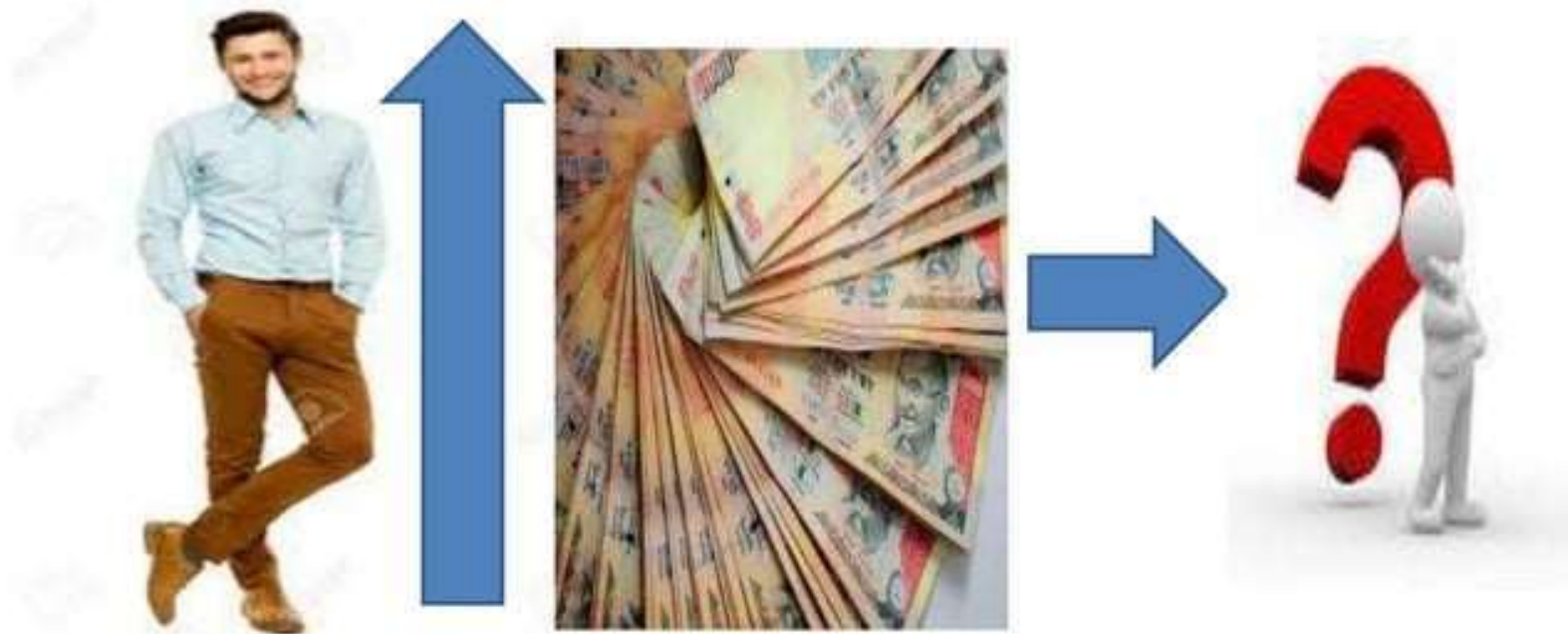
IMPORTANCE OF MICROECONOMICS

- INDIVIDUAL CONSUMER BEHAVIOUR
- INDIVIDUAL LABOUR MARKET
- SUPPLY AND DEMAND IN INDIVIDUAL MARKET
- PRICE DETERMINATION, RESOURCES ALLOCATION

LIMITATION OF MICROECONOMICS

- IT ONLY ANALYSIS THE **SMALL** PART OF ECONOMY
- IT IS BASED ON **UNREALISTIC** ASSUMPTION THAT THERE IS THE FULL EMPLOYMENT IN THE ECONOMY

FOR EXAMPLE



CHANGE IN CONSUMPTION HABIT



MACROECONOMICS

THE BRANCH OF ECONOMICS THAT STUDIES THE BEHAVIOUR OF THE WHOLE ECONOMY. IT LOOKS AT **AGGREGATE** VARIABLES, SUCH AS AGGREGATE DEMAND, NATIONAL OUTPUT AND INFLATION.



IMPORTANCE OF MACROECONOMICS

- **MONETARY , FISCAL POLICY**
- ECONOMIC GROWTH
- GOVERNMENT BORRROWING
- INTERNATIONAL TRADE AND GLOBALISATION
- **INFLATION, UNEMPLOYMENT, DEFLATION**



BUSINESS CYCLE

The business cycle refers to the rhythmic fluctuations in aggregate economic activities in the country over a period of time.

The business cycle is the periodic but irregular up & down movements in economic activity, measured by fluctuations in real gross domestic product(GDP) & other macroeconomic variables.

How do we measure "up & down" movement in business activity?

- These are generally measured using rise & fall in real GDP (which includes output from the household & non profit sector and the govt. sector, as well as the business output.

DEFINITION

Prof. Keynes says : " A business cycle is composed of *periods of bad trade* characterized by *falling prices and high unemployment percentages* while a *period of good trade* is characterized by *rising prices and high employment percentages.*"

*In simple words, a **business cycle** refers to fluctuations in economic activities specially in employment, output and income, prices, profits etc.*

CAUSES OF BUSINESS CYCLE

- ▶ Forces of Demand and Supply
- ▶ Capital goods and consumer goods
- ▶ Purchasing power
- ▶ Population expansion
- ▶ Human psychology
- ▶ Cyclical changes in weather

DIFFERENT PHASES OF BUSINESS CYCLE



PHASES OF BUSINESS CYCLE

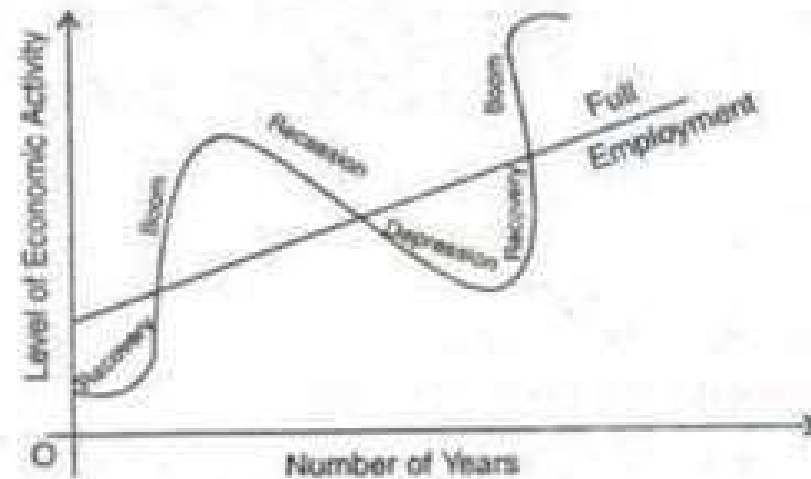


FIG. 2 : PHASES OF TRADE CYCLE

BOOM/ PEAK

This phase of business cycle represents the best stage of prosperity .

- ❑ Income or production is the maximum
- ❑ Traders and industrialists earn huge profits because at this stage production is the maximum.
- ❑ Reaches full employment & hence rise in prices and wages
- ❑ Price rise very high
- ❑ Expansion in bank credit
- ❑ All kinds of investments increase
- ❑ Rate of interest is high
- ❑ Optimistic behaviour in economy

RECESSION

Recession means a fall in the level of real national output i.e. a period when growth is negative, leading to a contraction in **employment, incomes and profits**.

- ▶ **Recession** can be defined as : “**significant decline in economic activity** lasting more than a few months, which is normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales”.

- ▶ In Economics , the term **recession** generally describes the reduction of a country's **Gross Domestic Product (GDP)** for at least two quarters.
 - ❑ Fall in economic activities
 - ❑ Fall in investment sets in reverse motion of multiplier
 - ❑ Fall in income & output
 - ❑ Workers are rendered unemployed
 - ❑ Wages fall due to unemployment
 - ❑ Prices begin to fall & fall in profits also
 - ❑ Contraction of bank credit
 - ❑ Demand of the consumers for various goods fall
 - ❑ Feeling of fear & doubt

DEPRESSION

A slump or a depression is a prolonged and deep recession leading to a significant fall in output and average living standards

- ❑ A depression is a state where real GDP falls by more than 10% from the peak of the cycle to the trough
- ❑ Level of output & income is low
- ❑ Unemployment increases
- ❑ Wages, interest & other costs decline
- ❑ Price level falls
- ❑ Volume of profit falls rapidly
- ❑ No demand for credit
- ❑ Overall decline in investment
- ❑ Pessimism feeling

RECOVERY

The upswing part of the cycle is recovery. The turning point from depression to expansion is termed as recovery.

- ❑ Replacement investment result into increase in income and output
- ❑ Employment increases
- ❑ Rise in demand
- ❑ More profits
- ❑ Cost increase relatively less
- ❑ Investment increases
- ❑ Demand for loan also increases
- ❑ Feeling of optimism

FEATURES OF DIFFERENT PHASES OF BUSINESS CYCLE

features	Boom / Peak	Recession	Depression	Recovery
Employment	Increases	Suddenly falls	Very low	Slowly rises
Output	Increases	Falls	Falls very low	Slowly rises
Wages	Rise	Fall	Fall very low	Begin to rise
Prices	Rise	Fall sharply	Fall very low	Begin to rise
Interest	High	Begin to fall	Very low	Begins to rises
Bank credit	Expands	Suddenly falls	Falls low	Begins to expand
Cost of production	Rises	Falls	Falls very	Begins to rise
Stocks	Large	Fall	Fall very low	Begin to rise
Feeling	Optimism	Doubt & fear	Pessimism	Optimism

- ❑ Meaning and Importance of National Income
- ❑ Concepts of National Income
- ❑ Measurement of National Income
Methods and difficulties
- ❑ Circular flow of Income- two sector model



Needs or Importance for the study of National Income

- To measure Economic Welfare (Living Standard)
- To assess the effectiveness of macroeconomic policies.
- To trace the trend or speed of the economic growth in relation to previous years as well as to other countries.
- To know the structure and composition of the national income in terms of various sectors and the periodical variation in them.
- To help business firm in forecasting future demand for there product.



Simon Kuznets



Meaning

National Income is the flow of goods and services which became available to a nation during an accounting period generally one year.

National Income is the money value of all finale goods and services produced by a country during a period of one year.

- Goods are measured in different physical units like cloth in meters, milk in liters, wheat in kilo grams,
- For all these goods common measuring term is money



Definition

According Marshall

“National Income is the net aggregates of the commodities and services produced annually in a country. ”

According National Income committee of India

“A national income estimate measures the volume of commodities and services turned out during a given period, without duplication.”



Features of National Income

- ❑ National Income is the value of all final goods and services produced in a country.
- ❑ It refer to a the money income of a country.
- ❑ It presents the income of a country for a particular period of time (1 year)
- ❑ The value of intermediate goods are not included in the estimation of national income.
- ❑ There should be no duplication or double counting o the income produced.
- ❑ Depreciation should be deducted from national income



Concepts of National Income

- GDP - Gross Domestic Product
- NDP - Net Domestic Product
- GNP - Gross National Product
- NNP - Net National Product
- PCI - Per Capita Income
- Personal Income
- Disposable Personal Income





929

GDP

क्या है

prime **time** ये जीडीपी होती क्या है?

GDP- Gross Domestic Product

GDP is the money value of all final goods and services produced in the domestic territory of a country during an accounting year.

- Territory lying within the political frontiers, including territorial waters of the country.
- Goods and services produced by resident as well as non-residents in the domestic territory but does not include net factor income earned from abroad.

$$\text{GDP} = C + I + G + (X - M)$$

C- Consumption I- Investment

G- Government expenditure (X-M)-Export- Imports



➤ GDP at Current Price

If the domestic product is estimated on the basis of the prevailing prices it is called gross domestic product at current price.

➤ GDP at Constant Price

If GDP is measured on the basis of some fixed price, that is prices prevailing at a point of time or in some base year it is known as GDP at constant prices or real gross domestic product.

➤ GDP at Market Price.

It includes the indirect taxes and subsidies. GDP at market price is arrived at by adding net indirect taxes to GDP at Factor cost.

$$\text{GDP}_{\text{MP}} = \text{GNP}_{\text{MP}} - \text{net factor income from abroad}$$

➤ GDP at Factor Cost

It includes only the compensation to the factors used in the production of goods.

$$\text{GDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Indirect taxes} + \text{Subsidies.}$$



NDP- Net Domestic Product

$$\text{NDP}_{\text{MP}} = \text{GDP}_{\text{MP}} - \text{Depreciation Cost of fixed assets}$$

In the production of gross national product of a year, we consume or use up some fixed capital i.e., equipment, machinery, etc. The capital goods, like machinery, wear out or fall in values as result of its consumption or use in the production process. This consumption of fixed capital or fall in the value of fixed capital to wear and tear is called depreciation.





GNP is defined as the total money value of the final goods and services produced by the nation not only within the country but even outside the country.

$$\text{GNP} = C + I + G + (X - M) + (R - P)$$

- (R-P) – The net income earned in abroad by the nation i.e. difference between income received and income paid.

$$\text{GNP}_{\text{MP}} = \text{GDP}_{\text{MP}} + \text{Net Factor Income from Abroad (NFIA)}$$



NNP- Net National Product

It can be derived by subtracting depreciation allowance from GNP.

$$\text{NNP}_{\text{MP}} = \text{GNP}_{\text{MP}} - \text{Depreciation cost}$$

$$\text{NNP}_{\text{FC}} = \text{NNP}_{\text{MP}} - \text{Indirect taxes} + \text{Subsidies}$$



PER CAPITA INCOME



Per capita income or average income measures the average income earned per person in a given area in a specified year. It is calculated by dividing the area's total income by its total population.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Total population}}$$

Per capita income can be used to determine the standard of living and quality of life of the population.

Personal Income (PI)

Personal Income is the sum of all incomes actually received by all individuals or households during a given year.

Personal Income = National income – Social Security Contributions – Corporate Income Taxes – Undistributed Corporate Profits + Transfer Payments.

- Social Security Contributions are payment made towards provident fund, insurance etc.
- Transfer Payments are old-age pensions, unemployment compensation relief payments, interest payments on the public debts etc.



DI - Disposable Income

Whole personal Income actually received by the people are not available to them for consumption. Because government impose some personal taxes such as income tax, person property taxes. After a part of personal income is paid to the government in the form of tax what ever remains of personal income is called disposable income. Which can be either saved or consumed.

$$\text{Disposable Income} = \text{Personal Income} - \text{Personal Taxes}$$

$$\text{Disposable Income} = \text{Consumption} + \text{Savings}$$

