
CSEET

Reference Reading Material - I

Business Communication

***Legal Aptitude and Logical
Reasoning***

***Economic and Business
Environment***



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

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(For MCQs, please refer CSEET Guide - I)

BUSINESS COMMUNICATION

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SYLLABUS

<i>S.No.</i>	<i>Lesson</i>	<i>Topics Covered</i>
1	English Grammar and its Usage	<ul style="list-style-type: none"> • Parts of Speech in English • Sentence Construction • Paragraph Construction • Prefixes and Suffixes • Combination Words • Punctuations
2	Enriching Vocabulary	<ul style="list-style-type: none"> • Choice of words • Synonyms • Antonyms • Homophone • Homonym • Single Word for Group of Words • Words Frequently Misspelled • Spellings and Pronunciation • Spelling Errors • Stress and Rhythm • Abbreviations • Idioms and Phrases • Proverbs • Foreign Words and Phrases
3	Comprehension of Passage and Art of Summarising	<ul style="list-style-type: none"> • Important Strategy to Solve Comprehension Passages • Examples
4	Concept of Business Communication	<ul style="list-style-type: none"> • Concept of Communication • Business Communication

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 - Importance of Communication
 - Communication Process
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7 Concept of E-Correspondence

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- What is Web?
- What is Browser
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- Ten Basic but Most Important Terms/ Words in Business English
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Lesson 1

**ENGLISH GRAMMAR
AND ITS USAGE**

GRAMMAR AND ITS USAGE

English language follows a set of rules like all other languages. Broadly speaking, the part of Grammar concerned with changes in the form of words by internal modification or by affixation is known as accidence and the manner in which these words are arranged in the form of a sentence is called syntax. For example, the root word 'contradiction' is a noun. It can be changed into different parts of speech. If you say 'contradict', it becomes a verb and if you say 'contradictory' it becomes an adjective.

Good dictionaries give all the changes that a root word can undergo.

Good to Know!!!

Some words may be used as different parts of speech without any change in their form.

For example, the word *beat* remains unchanged in the following sentences; though it is a different part of speech in each sentence :

- The angry mob was beating the thief mercilessly. (verb).
- The beat of the drum sent people into frenzy (noun)
- The beat generation (young people with unconventional dress and behaviour as an expression of social philosophy) has its own ethics. (Adjective)

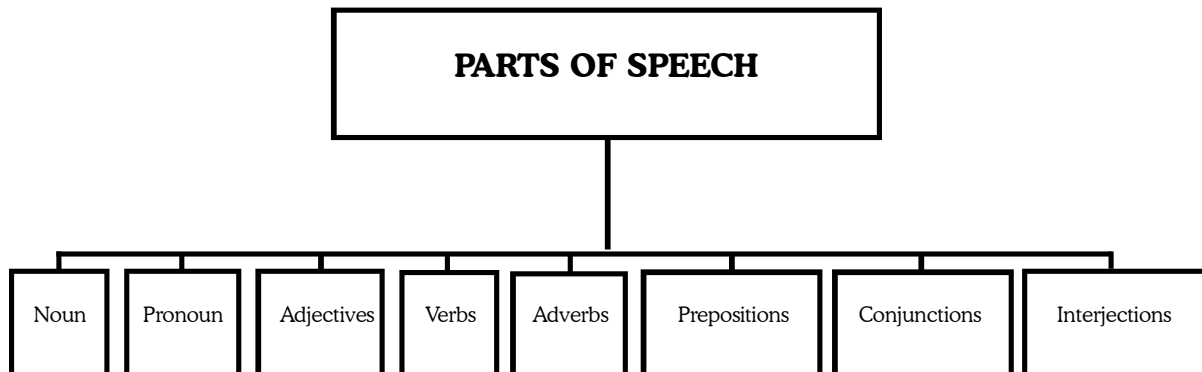
Sometimes it is possible to use the same word, with a slight modification, as a different part of speech:

For example, the root word *confirm* is used here as a noun in the first, as a verb in the second and as an adjective in the third sentence.

- We received confirmation of the order in writing yesterday. (Noun)
- The party confirmed the receipt of the consignment. (Verb)
- He is a confirmed defaulter. (Adjective)

Parts of Speech in English

Words are divided into eight classes according to the work they do in a sentence. They are as follows:



These word classes are called Part of Speech.

They are explained below:

Nouns

A noun is a “naming word”. It names somebody or something.

Rahul took the dog to the park.

The car makes a lot of noise.

Look at the example above. A noun is a name of a person (Rahul), animal (dog), place (park), thing (car) or idea (noise).

Kinds of Nouns

Nouns may be divided into (a) common nouns and (b) proper nouns.

Common nouns are the names given in common to all persons, places or things of the same class. For example, bank, shop, market, etc.

Collective noun : Common nouns include another class known as collective nouns. A collective noun names a group of people, animals or things regarded as a whole., e.g., batch, company, university, crowd, flock, etc.

Proper nouns are the names of particular persons, places or things. For example, India, Larsen and Toubro, Delhi, January, etc.

Pronouns

Pronouns are used in place of nouns. Pronouns may be Personal and Relative.

Personal Pronouns : To represent a person or things., e.g., I, we, you, she, he, it, him, us, them, etc.

Relative Pronouns : The most common relative pronouns are whom, which and that.

A relative pronoun acts as a pronoun and as conjunction at the same time.

This is the boy who saved my life.

Possessive Pronouns : These show possession, e.g., mine, ours, yours, their, its and hers.

Adjectives

A word used to describe or point out, a person, animal, place or thing which the noun names, or to tell the number and quantity is called an Adjective.

Rani is a clever girl (Girl of what kind?)

He gave me six books (How many books?)

Two or more words can be joined with a hyphen to form a Compound Adjective, e.g., *government-financed project*.

Verbs

A verb is a word that tells or asserts something about a person or thing. Verb comes from Latin Verbum, meaning a word. It is so called because it is the most important word in the sentence.

A verb may tell us :

1. What a person or thing does; as
Rohit *runs*.
The bell *rings*.
2. What is done to a person or thing; as
Ram is *beaten*.
The door is *broken*.
3. What a person or thing is, as
The boy is *hurt*.
The chair is *broken*
I feel *sad*.

Hence, a verb is a word used to tell or assert something about some person or thing.

Adverb

While **Adjectives qualify** or add to the meaning of nouns, **adverbs modify** the meaning not only of verbs, but also of adjectives, prepositions, conjunctions, etc.

The following sentences illustrate the varied use of adverbs:

Small investors find it very difficult to invest *wisely*.

(The first adverb *very* modifies the adjective *difficult*, and the second adverb *wisely* modifies the verb *invest*).

The CEO is an *exceptionally* sharp manager.

(The adverb *exceptionally* modifies the adjective *sharp*).

The cash counter is *right* behind you.

(The adverb *right* modifies the prepositions *behind*).

We have given this book to you only because you are a good reviewer. (The adverb *only* modifies the conjunction *because*).

Preposition

A **Preposition**, by definition, is placed before a noun or its equivalent in order to show its relationship in terms of time, place, etc.:

The space *above* the room houses the conference facility.

(The preposition *above* explains the relationship between the room and the conference facility).

There are hardly any rules governing the use of prepositions, some people feel that it is inelegant to put them at the end of a sentence since they are basically used as link-words. However, as Fowler points out, "Almost all our great writers have allowed themselves to end a sentence or a clause with a preposition." *The thumb-rule is that the sentence should read well.*

It is largely the usage that determines the choice of a preposition. Americans tend to drop them but it is largely colloquial. A wrong preposition certainly changes the intended meaning. Therefore, we have to learn the use of prepositions carefully. All standard dictionaries list the root word along with different prepositions or adverbial phrases and also show the difference in meaning.

For example:

The root word get conveys italicised meanings when used with:

...**about**, *move or spread*

...**across**, *be understood*

...**ahead**, *make progress*

...**along**, *manage*

...**at**, *gain access to*

...**away**, *escape*

...**over**, *forget*

...**round**, *persuade*

Conjunction

Conjunctions join words or even sentences conveying related ideas. Two commonly used conjunctions are:

- *and*
- *but.*

We received your letter and telegram *but* regret our inability to attend the meeting.

Conjunctions may also be used in pairs, e.g. *neither-nor, either-or, not only-but also, both-and, whether-or* etc.

Such conjunctions are known as **Correlative Conjunctions**.

Interjection

Interjections are words which are used in a sentence to express strong emotion or feeling. They may not form a part of its grammatical structure. Some of the common interjections are: *Hi !, Alas !, Oh !, etc.*

Types of Voices

As a general rule, we should use **Active Voice** in our sentences. Such sentences are shorter, direct and emphatic.

For example

Please place the order within sixty days of the receipt of the quotation.

An exception is however made when sending out negative messages or fixing responsibility.

For example, out of the two responses given below, the latter is likely to be received better:

You have failed to place the order in time.

Unfortunately the order has been delayed.

Passive Voice is also found more suitable while drafting legal formulations as no identifiable subject can be mentioned.

For example:

Follow the traffic rules, while driving. (Active Voice)

The traffic rules should be followed while driving. (Passive Voice)

Articles

The words a or an and the are called Articles. They come before nouns. A or an is called the Indefinite Article, because it usually leaves indefinite the person or thing spoken of; as,

A doctor; that is, any doctor.

The is called the Definite Article because it normally points out some particular person or thing; as,

He saw the doctor; meaning some particular doctor.

The indefinite article is used before singular countable nouns, e.g., A car, an apple, a table.

The definite article is used before singular countable nouns, plural countable nouns and uncountable nouns, e.g., The pen, the milk, the idea.

The article 'an' is used when the noun to which it is attached begins with a vowel sound (a, e, i, o and u). It is the vowel sound and not the vowels that determines the use of 'a' or 'an'. Vowels with consonant sound take 'a' and not 'an'. For example,

Bring me an apple.

He walks like an Egyptian.

She has planted a eucalyptus tree.

He is an honest man.

He has joined a union.

I have lost a one-rupee note.

Usage

Usage implies the manner in which the native speakers of a language use it. The "body of conventions governing the use of a language especially those aspects not governed by grammatical rules", "habitual or customary use" often lays down new standards of acceptance.

For example, 'It is me' is generally accepted on grounds of usage even though 'It is I' is considered grammatically correct.

Usage may be learnt by reading standard texts and listening to educated speakers of a language.

Tenses

"In Grammar – a set of forms taken by a verb to indicate the time (and sometimes the continuance or completeness) of the action in relation to the time of the utterance"; is the meaning that the Concise

Oxford Dictionary assigns to the word 'Tense'. The word tense comes from Latin word tempus, meaning time.

Read the following sentences.

1. I write this letter to my mother
2. I wrote the letter yesterday.
3. I shall write another letter tomorrow.

In sentence 1, the verb write refers to the present time. Hence a verb that refers to the present time is said to be in the Present Tense.

In sentence 2, the verb wrote refers to the past time. Hence it is said to be in Past Tense.

In sentence 3, the verb shall write refers to a future time. Therefore, it is said to be in the Future Tense.

Read these sentences :

1. I read a book. (simple present)
2. I am reading a book. (Present continuous)
3. I have read a book. (Present Perfect)
4. I have been reading a book. (Present Perfect Continuous)

The verbs in all of these sentences refer to the present time, and are therefore said to be in the present tense.

In sentence 1, however, the verb shows that the action is mentioned simply, without anything being said about the completeness or incompleteness of the action.

In sentence 2, the verb shows that the action is mentioned as incomplete or continuous, that is, as still going on.

In sentence 3, the verb shows that the action is mentioned as finished, complete or perfect, at the time of speaking.

The tense of the verb in sentence 4 is said to be Present Perfect Continuous, because the verb shows that the action is going on continuously, and not completed at this present moment.

Thus we see that the tense of a verb shows not only the time of an action or event, but also the state of an action referred to .

Just as Present Tense has four forms, the Past Tense also has the following four forms :

1. I jumped from the window. (Simple Past)
2. I was jumping from the window. (Past Continuous)
3. I had jumped from the window. (Past Perfect)
4. I had been jumping from the window. (Past Perfect continuous)

Similarly, the Future Tense has the following four forms :

1. I shall/will jump (Simple Future)
2. I shall/will be jumping. (Future Continuous)

3. I shall/will have jumped. (Future Perfect)
4. I shall/will have been jumping. (Future Perfect Continuous)

Hence, we may define Tense as that form of a verb which shows the time and the state of an action or event.

Sentence Construction

Various Purposes of a Sentence

A group of words, which makes complete sense, is called a sentence.

Grammar also lays down rules for arranging words in a certain order to form meaningful sentences. Sentences may be formed to:

- Make a statement : The government has decided to disinvest its stake in Air-India.
- Pose a question : Would this step enable them to turn this PSU around?
- Give a command : Bring about a change of ownership.
- Make an exclamation: What a way to bridge the fiscal deficit!

A sentence consists of two parts:

Subject : The part which names the person or thing we are speaking about is called the subject of the sentence.

Predicate : The part which tells something about the subject is called predicate.

A **Phrase** is a group of words, which neither has a finite verb nor makes any sense by itself. Depending on its place in the sentence, it may be a:

- Noun
- Adjectival or
- Adverbial Phrase.

Examine the following pair of sentences.

- (i) Raj is a wealthy man.
- (ii) Raj is a man of *great wealth*.

In the first sentence, the word *wealthy* described the noun *Raj*.

In the second sentence of *great wealth* also tells us what sort of man *Raj* is. It qualifies the noun just as an Adjective does. Hence, it is called an *Adjective Phrase*.

Adverb Phrases

Just as the work of an Adjective is often done by a group of words called an Adjective Phrase, so the work of an Adverb is often done by a group of words. Examine the following pair of sentences.

- (i) He answered rudely. (How?)
- (ii) He answered in a very rude manner. (How?)

Since the phrase *very rude manner* does the work of an Adverb, it is called an *Adverbial Phrase*.

Noun Phrase

A Noun Phrase is a group of words that does the work of a Noun. For example,

- (i) *My demat account* has been closed.
- (ii) *To win a prize* is my ambition.

In the above sentences, italicized phrases are noun phrases because they are doing the work of a noun.

Types of Sentences

The basic knowledge of grammar helps us understand different sentence structures or patterns so that we can communicate in a clear, concise and correct manner.

A group of words that form a part of a sentence, and has a subject and a predicate of its own, is called a *clause*.

The clause that makes good sense by itself, and hence could stand by itself, as a separate sentence is called a *Principal or Main Clause*.

A clause which cannot stand by itself and makes good sense but not complete sense is called a *Dependent or Subordinate Clause*.

A sentence which has only one finite verb and one independent clause is called Simple sentence. *For example,*

This courage won him honour.

A *compound sentence* is made up of two or more independent clauses. For example, Night come on and rain fell heavily and we all got very wet.

A complex sentence has an independent clause and atleast one dependent clause.

For example,

The human brain never stops working until you stand up to speak in public.

Sentences can be constructed using different structures or patterns. The simplest sentence may have:

- a noun or a pronoun in the beginning,
- a verb in the middle,
- another noun or its equivalent in the end.

For example

The budget affects the stock market.

This sentence structure may also be shown as:

Subject + verb + object

The structure of an imperative sentence is different. Here the subject is understood.

For example,

Mail this letter, is the shorter form of (You) mail this letter.

It is important to use varying sentences structures in your writing so that the interest of the reader is not lost.

Sentence Construction is based on the kind of writing in question.

Sentences are also constructed on the basis of complexity of writing.

Loose sentences are suited to simple style of letter writing and are closer to the spoken form. They begin with the main statement and develop it to its logical conclusion.

For example

The Reserve Bank of India intervened in the forex market as there were strong rumours about an intense speculative activity caused by the spurt in imports.

Periodic Sentences are decorous and emphatic but more difficult to write. The order is reversed and the main statement is made at the end.

For example

As there were strong rumours about an intense speculative activity caused by the spurt in imports, the Reserve Bank of India intervened in the forex market.

Sentence Construction on the basis of Length

The length of a sentence is also an important factor in sentence construction.

Shorter Sentences are easier to write as well as understand. But a long sequence of short sentences may not make very pleasant reading:

Thank you for the order. The goods will be sent soon. The duplicate copy of the bill is enclosed. The payment must be made early.

Longer Sentences are prone to grammatical errors and need careful thought and planning. Such efforts at constructing marathon sentences should be avoided.

It may be a good idea to mix the shorter and longer sentences to sustain the interest of the reader.

For example

The conference opens on the tenth of June in Simla. More than two hundred company secretaries will take part. The purpose is to deliberate on the merits of the new Companies Act, 2013 and propose amendments. The discussions are likely to go on for three days.

Paragraph Construction

The construction of a paragraph is equally important. If a good sentence should focus on a single thought, a good paragraph should restrict itself to a single topic or idea. The topic sentence of a paragraph sums up its central idea and develops it further. It is usually at the beginning or the end of the sentence; though, in some cases, it can be written somewhere in the middle too. Shorter paragraphs should be preferred because they enable the reader to follow the writer's plan.

Prefixes and Suffixes

An affix "is an addition to the base form or stem of a word in order to modify its meaning or create a new word".

(The Concise Oxford Dictionary, Tenth Edition).

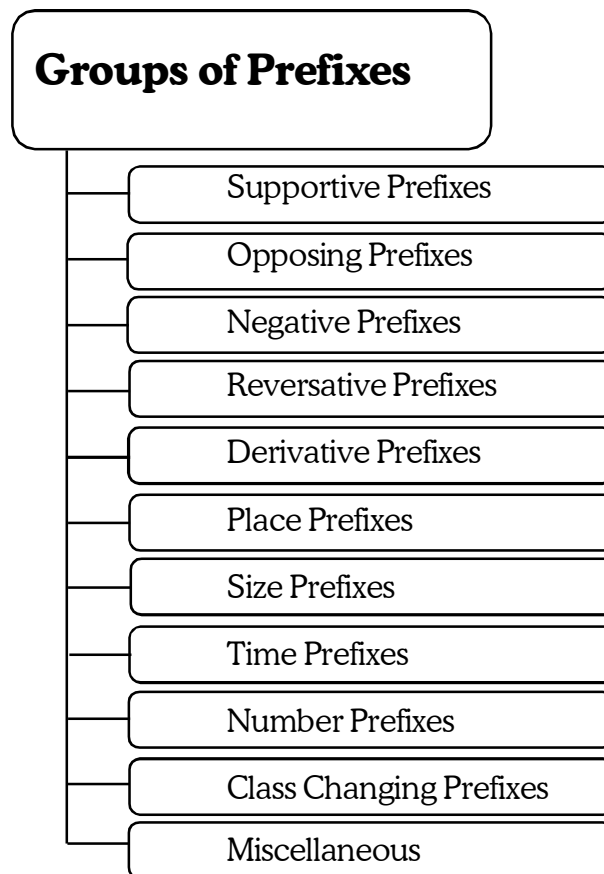
Prefix

If the affix or addition to the root word comes at the beginning, it is called a prefix.

The word 'prefix' in itself is an apt example of a prefix as it is made up of the root word 'fix' - 'to join or fix', with the affix 'pre' - meaning 'before', added to it.

Groups of Prefixes

Prefixes fall into a number of distinct groups such as:



Supportive Prefixes are prefixes that support or are for the root word.

*Pro is used with the meaning favouring/supporting as the prefix. Pro, as a prefix has other meanings too, such as 'in substitute of' or 'before in time, pace or order'.

Examples of Pro as a supportive prefix are Pro-choice, Pro-market, Pro-life.

Opposing Prefixes are prefixes that are opposed to the action denoted by the root word.

Anti (against) - antibody, antibacterial, antibiotic, anticlockwise, antidote, anti-inflammatory, antioxidant, etc.

(Spurious) - antihero, antiChrist, antiself (affected person)

Contra (against) - contraception, contraindicate, contravene, contramundum

(Contrasting) - contraflow, contra-active, contradict, contradistinction

Counter (opposition/retaliation) - counteract, counter-example, counter-attack, counterblast, counterbalance, counterclaim, counterculture, counter-in-surgency, countermeasure, counterproductive, etc.

Negative Prefixes are prefixes that denote the absence of distinguishing features of the root word.

(The prefixes marked with * can convey different meaning besides those specified herein.)

*a (not, without) - amoral, ahistorical, atheist, asymmetric

*an (not, lacking) - anaesthetic, anaemic, anaerobic

*dis (not) - disloyal, disable, disarm, dishonest, distrust, disadvantage

*in (not) - injustice, inactive, inconsiderate, inconsonant, incomprehensible, incomplete, incompetent, inconsecutive

*il (this is another variation of the prefix 'in' and is used before a word beginning with 'l') - illegal, illiterate, illegible, illegitimate

*im (this is a variation of the prefix 'in' which is used before a word beginning with 'b', 'm' or 'p'.) - imbalance, immaterial, immeasurable, immobile, immovable, impassable, impatient, impossible, imperfect

*ir (this too is a variation of the prefix 'in' which is used before a word beginning with 'r') - irreplaceable, irregular, irresistible, irrational, irrecoverable, irreconcilable, irredeemable, irreducible

non (not) - non-aggressive, non-interference, nonconformist, nonentity, nonsense, nontoxic, non-stop (not-regarded as) - non-person, non-event

* These prefixes also have other meanings in which they can be used in, besides those specified herein

un (not) - unproductive, unacademic, unselfish, unavoidable, unaware, unbearable, unbroken, unburnt

Reversative Prefixes are prefixes that denote the act of undoing the previous act that the root word denotes as being done.

de* (reverses the meaning) - decriminalise, dehumidify, deselect, decontaminate

dis* (reverses the meaning) - disqualify, dishonest, disinvite

un* (reverses the meaning) - untie, unscramble, unlock

Derivative Prefixes are those that denote the meaning of removing something or depriving something or someone.

de (remove something) - debug, defrost

de (depart from) - deplane, detrain, decamp

dis (remove something) - disarm, disillusion, disambiguate

un (remove something) - unleaded, unmark, unhouse, uncap, uncover

Pejorative Prefixes are those that express contempt, disapproval, bad or wrong.

mis (badly/wrongly) - miscalculate, misgovern, misspell, mismanage, misalign, misapply, misbelief

Place Prefixes are prefixes that indicate a place or placing of things, situation, etc.

ante (before) - antecedent, antechamber, anteroom

circum (around) - circumvent, circumnavigate, circumlocution, circumbulate, circumlunar

cis (on this side) - cisalpine, cisatlantice, cislunar

extra (outside/beyond) - extracurricular, extrasensory, extraordinary, extraterrestrial

fore (front/before) - forefinger, forecourt, forearm, forebear, forebrain, forecheck, forefront, foregather

in, il, im, ir (in) - indoors, in-patient, inside, indebt

inter (between) - interbreed, interfere, interject, interracial, international, interdisciplinary, internet

intra (inside/within) - intravenous, intramural, intranet

intro (inwards) - introvert, introspect

post (after/behind) - post meridiem (P.M.) postpone, postgraduate, posthoc, postscript

pre (before)-prearrange, preface, precaution, prefabrication, preamble

out (outside)-outdoor, out-patient, outhouse

(surpass)-outrun, outdistance, outbid, outnumber

over (outer/above)-overthrow, overshadow, overcoat

retro (backwards)-retrograde, retrospection, retrospect

sub (below)-subway, subsoil, subconscious, submerge

(secondary)-sub-inspector, sub-editor, sub-committee, subtitle, sublet

(below the norm)-substandard, subhuman

super (above)-superstructure, superimpose

(beyond the norm)-superhuman, superstar, superpower

(excessive)-superconfident, supersensitive, supernatural

supra (above)- suprasegmental, supranational

sur (above)-surcharge, surtitle, surtax

trans (across)-transatlantic, transnational, transcontinental

ultra (beyond/extreme)-ultraviolet, ultra-thin, ultra-modern, ultramarine, ultramicroscopic, ultrasonic, ultra vires

under (below/too little/subordinate)-underground, undercharge, underpay, undercook, undersecretary

underclass, underrepresent, undersell, undersigned

Size Prefixes denote size. They are -

mega (very large)-megaphone, megastar, megalith, megawatt
 midi (medium)-midi-computer, midibus
 mini (small)-minibus, miniseries, minicab, minimarket

Time Prefixes denote time. They are -

ante (before)-antenatal, antedate
 ex (former)-ex-wife, ex-president, ex-student
 fore (before)-forenoon, foresee, foretell, forecast
 neo (new, recent)-neo-conservative, neoplasia, neophyte
 post (after)-post-war, post-modernism, postdate
 pre (before)-prepay, pre-existing, predate, preschool
 re (again)-reprint, reapply, replay, renew

Number Prefixes are those that denote number. They are -

mono (one/single)-monorail, monochrome, monopoly
 uni (one)-unidirectional, unilateral, unicycle, unity
 bi (twice/double)-bicycle, bilateral, bilingual
 di (two, twice)-dioxide, dichromatic
 duo/du (two)-duologue, duplex
 tri (three)-triangle, triplicate, tripartite
 quadri/quadr (four)-quadrilateral, quadrangle
 tetra/tera (four)-tetrachloride, terameter
 penta/pent (five)-pentagon, pentacle
 sex (six)-sextant, sextile, sextuple
 hexa/hex (six)-hexapod, hexagram
 hepta/hept (seven) heptagon, heptameter
 octo/oct (eight)-octopus, octuple
 deca/dec (ten)-decade, decalogue,
 decinaldeci (a tenth)-decibel, decimal
 demi (a half)-demigod, demitasse
 hemi (half)-hemisphere, hemistock
 semi (half)-semiconductor, semidetached

hecto/hect (hundred)-hectogram, hectare
 kilo (thousand)-kilogram
 milli (thousand)-millisecond, millipede
 mega (a thousand)-megahertz, megabuck, megabit
 poly (many)-polytechnic, polygon

Status prefixes are those that denote a status.

co (joint)-copartner, coauthor, cofounder
 pro (deputy)-proconsul, pro-vice chancellor
 vice (deputy)-vice president, vice admiral, vice chancellor

Class Changing Prefixes have the effect of changing the word class, like making transitive verbs from nouns, adjectives, an intensifying force of the verbs used, etc.

be-besiege, bewitch, besmear, bewail, belittle, befoul, beribboned
 en/em-encode, endanger, ensure, enlist, enroll, embark, embitter, enrich

Miscellaneous : Some of the common prefixes that do not fall into the above categories are

eco (abbreviation of ecology)- eco-friendly, ecosystem
 Euro (abbreviation of European)- Eurorail, Eurocurrencies
 para (ancillary)- paramilitary, paralegal, paramedic
 para (beyond)- paranormal
 quasi (like)- quasi-intellectual, quasi-judicial
 self- self-motivating, self-denial, self-satisfaction.

Suffix

It is a morpheme (minimal meaningful language unit) added at the end of a word to form a derivative. In other words, an addition to the end of a word to form a derivative of the root word is a suffix.

Groups of Suffix : Suffixes fall into the following categories:

- Noun Suffixes – Adjective Suffixes
- Verb Suffixes – Adverb Suffixes

Noun Suffixes are as follows:

acity (indicates a quality and state of being)-audacity, capacity
 ant (denoting attribution of an action or state)-appellant, informant, arrogant, (denoting an agent)-deodorant, oxidant
 al (verbal action)-betrayal, dismissal, deferral
 age (denoting an action or its result/function/state or condition/set of place or abode/aggregate number of) leverage, spillage, homage, bondage, baggage, postage, vicarage, mileage

ation/ion (denoting an action or its result)-collaboration, exploration, evolution, exaltation, inhalation, communion, oblivion, objection

cle, cule, ule (indicates small size)-miniscule, particle, molecule, capsuleic-lyric, mechanic

ist (denotes a member of a profession, who uses something, etc.)-dentist, flautist, novelist, atheist

ity (quality/condition/degree of)-responsibility, technicality, publicity, humility

ling (smallness or lesser stature)-duckling, seeding, hiring

ment (means or result of an action)-arrangement, embarrassment, curtailment, bewilderment

ness (a state or condition)-usefulness, carelessness, willingness, kindness, wilderness

ship (quality or condition, status, tenure, skill, etc.)-scholarship, companionship, citizenship, workmanship, membership

tude (indicates condition or state of being)-exactitude, longitude.

Verb Suffixes are as follows:

fy/ify (indicates or becoming)-beautify, purify, gratify, electrify, pacify, personify

ise, ize (quality, state or function)-capitalize, modernise, popularise, terrorise, expertise

Adjective Suffixes - Some of them are as follows:

able/ible (inclined to, capable of, causing)-audible, uncountable, readable, reliable, terrible, peaceable, profitable

al/ial (kind of)-tidal, accidental managerial, musical

ed (having, affected by)-cultured, heavy-handed, talented

ful (having the qualities of)-sorrowful, powerful, careful, resentful, fretful, forgetful

ic-Arabic, aristocratic, dramatic

less (free from, without)-careless, harmless, restless, flavourless

oid (resemblance)-ovoid, humanoid

some (a tendency)-meddlesome, awesome

y (having quality of/inclined to)-messy, funny, sleepy, choosy

Adverb Suffixes : Some of them are as follows:

ly (forms adverbs from adjectives)-amiably, candidly, surprisingly, greatly

wise (of manner or respect or direction)-clockwise, notewise, taxwise, anticlockwise.

Combination Words

These are word elements or combining forms that can be combined with other words that already exist to form new words. These combining forms have a singular form and a clear and consistent meaning, which is probably because they are of fairly recent origin. Many of them are also technical and therefore their meanings are less susceptible to change. Most combining forms are of Greek or Latin origin. Some of them are:

arch (chief)-archbishop, arch-rival

auto (self)-autograph, autopilot

bio (life)-bio-diversity, biology, biography

crypto (concealed)-crypto-fareast, cryptogram, cryptocrystalline, cryptonym

mal (improper/inadequate/faulty)-malpractice, malnutrition, malpractice, maladminister, maladjusted, maladaptive, malfunction, maltreat

macro (large)-macro-organism, macroeconomics

micro (small/minute)-micro-organism, micro-computer, microsurgery, microgram, microscope

mid (middle)-midfield, midair, midway, midsection, mid-afternoon, midwinter, midnight

tele (at a distance)-telescope, television, telephone, telephoto, telecommunications.

Punctuations

The marks, such as full stop, comma, inverted commas, hyphen and brackets are used in writing to separate sentences and their elements and to clarify meaning, are called punctuation marks.

The importance of punctuation in writing can be compared to the importance of pause, intonation and emphasis used in the spoken word.

Therefore, one can state that the chief purpose of using punctuation is to make the meaning of a written passage clear. The punctuation marks remove ambiguities, if any.

Punctuation can also serve other purposes such as:

- introducing delicate effects in style.
- altering the flow of a sentence.
- highlighting certain words.
- bringing about modulations in sentence.

Some aspects of punctuations are rule-governed, i.e., those that you have to follow, but usage of some becomes a matter of choice and judgment.

The various punctuations used in the English language are:

- | | | | |
|-------------------|--------------------|-------------------|--------------|
| – capital letters | – colon | – underline | – space |
| – full stop | – dash | – quotation marks | – italics |
| – hyphens | – stroke | – bold emphasis | – apostrophe |
| – asterisk | – ellipsis | – question mark | – semicolon |
| – paragraph | – comma | – abbreviations | – numbers |
| – brackets | – exclamation mark | | |

Uses of Punctuation Marks

Let us see how some of these punctuation marks are used.

Space is the most basic form of punctuation which separates words, sentences, paragraphs and chapters.

Usually one alphabet space is used between words and punctuation, and also after sentences, unless it is the last sentence of a paragraph, when the rest of the space on that line is left blank.

Space of one line or more is left between paragraphs to distinguish them and at times a slight indentation is also used on the first line to distinguish the beginning of a new paragraph.

The amount of spacing used would depend on individual style and taste or a pattern followed in an organisation or the type of writing, e.g., a letter, a presentation, a book, etc.

The Full Stop (.) also known as a stop, point or period (in American English) is used to end a declarative sentence, a sentence which is not a question or an exclamation.

Full stops are also used to end a request politely framed as a question such as:

Would you kindly fix an appointment with Mr. Sharma.

A full stop may also be used after initials or after a shortened form of a word to indicate an abbreviation.

For example

Mr.	Prof.	Etc.
B.A.	Fig.	
a.m.	A.P.J. Abdul Kalam	

However, increasingly the full stop after initials of names is being done away with, though both usages are correct.

A full stop is also used at times to denote abbreviated numerals, such as a date or a number, though at times full stop, slash or hyphen is also used to denote date, such as:

10.11.19, 10-11-19, 10/11/19

However this can be interpreted in two ways as 10th November 2019 by the Britishers and 11th October 2019 by the Americans. Therefore, it is advisable to always write the month and the date in words, e.g. 10th November 2019 or 10 November 2019

Full stop is also used before decimal and between units of money:

10.50 per cent; Rs. 33.50

Omission of Full Stop

In the following cases the full stop is omitted:

- after addresses that head letters and on the envelopes
- after dates
- after name that ends letters
- after title of books, newspaper headlines, chapter headings, sub-headings, page numbers
- after acronyms which are pronounced as one word. For example:

AIDS (Acquired Immune Deficiency Syndrome)

GST (Goods and Services Tax)

- in between alphabets of the abbreviations that are a series of letters. For example:
WTO (World Trade Organisation)
GMT (Greenwich Mean Time)
BBC (British Broadcasting Corporation)
- in shortening of words where the first and last alphabets of the word are present.
Mr., Mrs., Dr., Rd., Ltd.
though it is correct to use a period after these words, the general practice today is to omit the full stop.
- space is used for the initials of personal names instead of a full stop.
A K Singh, D S RAJAN
- abbreviations for measures, chemicals elements, etc. are used without a full stop.
Kg (Kilogram), s (Second), Hz (Hertz)
Sq (Square), km (Kilometer), m (minute)
amp (ampere), O (oxygen), H (Hydrogen)
- If a sentence ends with an exclamation mark, question mark, or an abbreviation that is followed by a period for the abbreviation the full stop is not used.

Comma(,) is easily the most important punctuation mark within a sentence. Commas separate or enclose subordinate clauses and phrases in sentences. Its most typical use is to separate two main clauses that are linked by a conjunction. Here the comma mark appears just before the conjunction.

The house was almost in ruins, but the tree-studded avenue was lovely.

He is not rich yet he is very generous.

Uses of Comma

Some other uses of comma are as follows:

- To separate main clauses even when they are not linked by a conjunction:

The higher the price, the better the quality of goods.

- Before tags/questions and comments:

You were late for the meeting, weren't you? (tag)

I was just joking, you see. (comment)

- To denote words left out:

Romeo loved Juliet; Majnu, Laila. (Here the comma denotes the word loved.)

- Enclose additional thoughts, qualification or information. Here the commas are used in pairs and they separate parenthetical elements in a sentence.

My son, Ajith, is the head boy of the school.

The movie was, I believe, well picturised.

- To set off direct speech:

To quote Confucius, “He who learns but does not think, is lost. He who thinks but does not learn is in great danger”.

- “I’m tired”, he replied, “However, I will complete the work before leaving”.
- To set off comparative or contrasting statements.

The more he kept repeating that he did not steal the chain, the less the police believed him.

- To separate adjectives, numbers into units, names, and title or honour, or degree, day, month and year in a date, etc:
 - He is a smart, reliable, sincere and hard-working student.
 - 1,25,000.
 - Angelina Thomas, B.A., M.A., Ph.D.
 - Shri Ram Nath Kovind, The President of India.

Hyphen (-) is used between words to clarify meaning. It also links words to form a compound word.

The use of hyphen varies in different places; therefore there are no complete set of rules that can be applied to the use of hyphen.

Therefore, only some general guidance on the use of hyphens is given here. It is advisable to consult a good dictionary when one is in doubt to find out whether the word to be used should be hyphenated or not. A hyphen is usually used in these cases:

- After a few prefixes or other word elements.
- ex-partner, half-truth, quasi-judicial, semi-government, self-appointed. (We have already read about prefixes).
- Before a few suffixes where the last alphabet of the first word and the first alphabet of the second word are the same, in order to avoid an unattractive sequence.
Bull-like, get-together, profit-taking, self-financing, water-resistant.
- When the main part of a word begins with a capital letter.
un-American, neo-Darwinism, neo-Nazism, anti-Indian.
- When the prefix is repeated.
Sub-subcommittee.
- When a noun and a verb are combined to form a word.
hand-operated, hand-pick, hand-held.
- When an adjective and a noun are combined to form a word.
blue-pencil, loose-leaf, long-grained open-air, simple-minded, middle-aged, community-oriented, high-fibre.

- When two adjectives are combined to form a word.
old-fashioned, short-sighted, red-blooded.
- When compound words express an 'and' relation.
bitter-sweet, deaf-mute, socio-economic, secretary-treasurer.
- When compound numbers between 21-99 are spelt out. This practice is gradually fading.
fifty-five(55), six hundred and thirty-one(631).
- It is also used to link the starting and ending point of a series.
The Delhi-Jaipur Highway.
- When a word has to be broken at the end of a line of print or writing.
- To avoid confusion or ambiguity.
an Indian-history teacher/an Indian history-teacher.
- To prevent confusion between a new formation and a conventional word with the same prefix.
re-creation (recreation), re-formed (reformed).

Semi colon (;) is used to separate two or more independent clauses that are placed together and which are of equal importance in the sentence. The use of semicolon emphasises or adds weight to the second clause.

To err is human; to forgive divine.

Semi colons are also used to:

- join words, group of words, sentences.
- separate word groups that already contain commas:

Those present at the function included Mr. and Mrs. Jain, their children Usha, Amit and Raghu; Paul and Joe Thomas; Raj and Ravi Malhotra; Colonel and Mrs. James, and their children Jyotsna, Julie and James Junior; etc.

- To provide pauses before certain adverbs such as none the less, however, etc.
He worked very hard; however, he did not succeed in his endeavour.
- To emphasise contrasts:
It is a superb car; however, it is very expensive to maintain.

Colon (:) is a punctuation mark that has three major functions:

- To introduce some kind of explanation.

They did not sleep last night: they must be tired.

- To introduce examples.

Today they face another threat to their survival: starvation.

- To introduce quotations or direct speech.

Functions of Colon

Some of the other functions of the colon are:

- To point the reader’s attention forward.

This function can be best explained through the words of the grammarian Henry Fowler. He says that the function of a colon is “that of delivering the goods that have been invoiced in the preceding words”. What he meant by goods here might be a conclusion, summary, a list or a contracting statement.

- To introduce a number of items listed separately.

The conference hall facility has everything: furniture, mikes, amplifier, projector, screen, generator backup, catering, dining hall and even a huge parking lot.

- To present a conclusion.

After sixty years in the business, Mr. Rajan realised that there was only one certainty in life: the inevitability of change.

- To introduce a question.

They all agreed that the essential issue was simply this: Will making an investment in Sweatland Limited be a mistake or not?

- To link contrasting statements.

Man proposes: God disposes.

- To substitute a conjunction.

Another Monday morning: and it is pouring.

- After headings in correspondence.

Subject:

Reference:

- To introduce subtitles.

Credit cards: Power of Plastic; Past Promises: Failure to deliver.

- In bibliographical references, colon can be used after the place of publication.

(Delhi: 2010).

An Apostrophe (’) is used

- (i) to denote possession and other kinds of relationship.

This is Walter’s book.

- (ii) contractions of words.

It was the court’s order.

Isn’t (is not) it a great day?

Can’t (cannot) you come today?

O’er (over) the hills.

Possession and other kinds of relationship

When apostrophe is used to denote possession and other relationships, the basic rules to remember are:

- The apostrophe comes before the 's' if the noun is singular.

The girl's dresses (dresses belonging to one girl).

- The apostrophe comes after the 's' if the noun is plural.

Girls' dresses (dresses belonging to many girls).

However, possessive personal pronouns ending in 's', e.g. its, ones, theirs, etc. do not take on an apostrophe.

- Indefinite pronouns, except for 'each' take on an apostrophe, anyone's, either's, one's, someone's nobody's, etc., when denoting possession or some relationship.
- In contractions of words, the use of an apostrophe is required. Though words are generally contracted in informal writing and speech, it should be avoided in formal writing.
- The apostrophe takes the place of the missing letter or letters.
is not-isn't (o is the missing letter)

The apostrophe is also found in the contraction of some single words.

- 'of' is sometimes contracted especially in certain phrases:
will-o'-the-wisp, seven o'clock
- certain words that are in common use:
ma'am (madam)
- The apostrophe is at times used to denote the omission of part of some number:
the swinging '60s (1960s).

Generally, nowadays the use of an apostrophe in these cases is omitted.

- To denote certain names especially of Celtic origin:

O' Connor, O' Sullivan.

It comes from the Irish O'-which means a grandson or descendant.

Mc' Donald.

Here again, Mc is the contraction of Mac which means 'son of.'

- It is important to remember that 'its' and 'it's' are differently used.

'Its' is a personal pronoun and does not need an apostrophe. Whereas 'it's' is a contraction of either 'it is' or 'it has' and therefore it takes an apostrophe.

The child wants its (personal pronouns) toy.

It's (it has) been a wonderful day.

Quotation Marks (“ ”/ ‘ ’) also known as quotes or inverted commas are used to enclose material that is introduced into a text from outside it, such as quotations or words used by other people.

For example

The motto of the market was “Let the buyer beware”; now it is “Customer is king.”

There are two types of quotation marks single and double.

One can use either single or double quotation marks in enclosing introduced material. However, if you begin the quotation using double quotation marks, you have to close it also with the same and vice versa.

Both quotation marks are used in a single sentence when another quotation is inserted in the main quotation.

For example

She asked, “Did he say ‘diseased’ or ‘deceased’?”

Some of the other functions of quotation marks are:

- to enclose cited words or expressions:

What is the difference between an “order” and a “decree”?

- to enclose expressions that the author does not take responsibility for:

In ‘good old days’ the women in this village walked several kilometers to fetch drinking water.

Brackets also known as parentheses are of two kinds:-

- Crescent shaped ()
- Square shaped [].

Brackets are used to enclose certain contents, which the writer sets out apart so that the flow of the sentence is not interrupted.

The contents set apart may be in the form of added information, like an explanation, an after thought, a clarification, a comment, an illustration, or an expression of doubt, etc. For all these only round or crescent shaped brackets are used.

A number of (unsuitable) candidates had sent in their applications.

On the basis of their usage, brackets have been divided into three types. They are:

Crescent brackets

Crescent brackets are used in the following:

- to enclose an abbreviation that is subsequently used in the text, e.g.

The Department of Company Affairs (DCA) issued a circular on the matter.

- to enclose a translation or equivalent expression, e.g.

The agreement was void ab initio (from the beginning).

- to enclose references from other topics in a text, e.g.

Example

As depicted in (Fig. 1.1) it is obvious that the process of communication is quite complex.

- To enclose bibliographical references (square brackets can also be sometimes used in such cases).

Square Brackets are used to enclose words that are not usually intended to be the part of a sentence, but only as an editorial or authorial interjection. They are also used at times to enclose parentheses within another parentheses.

For example

I appreciate it [the honour], but I must refuse.

We have not received [Sic] your letter (editorial interjection).

Sarah and Tanisha [Sarah's sister (as mentioned earlier)], went for a movie.

Other Brackets : The other types of brackets are:

**Brace brackets* { } Example: Select your animal {goat, sheep, cow, horse} and come to the market.

**Angle brackets* < > Example: I found it on Games.com <<http://www.games.com/>>.

These brackets are used only in specialised texts, mathematics and technical works.

Summary of Punctuations	
Full Stop	(.)
Comma	(,)
Hyphen	(-)
Semi colon	(;)
Colon	(:)
Apostrophe	(')
Quotation Marks	(" " / ' ')
Crescent brackets	()
Square Brackets	[]
Brace brackets	{ }
Angle brackets	< >

Lesson 2

**ENRICHING
VOCABULARY**

INTRODUCTION

Vocabulary is a person's own knowledge of words. It may be anyone, not necessary to be a just language user and it is really very useful to have a good vocabulary because today we can't keep up without any good treasury of words in our minds.

There are really many benefits that an enriched vocabulary can give to someone. The biggest benefit is the impact on others. When you use a language with good words, it makes a positive impact on others. There are many reasons why it is important to enrich your list of vocabulary words. Some of them are as follows:

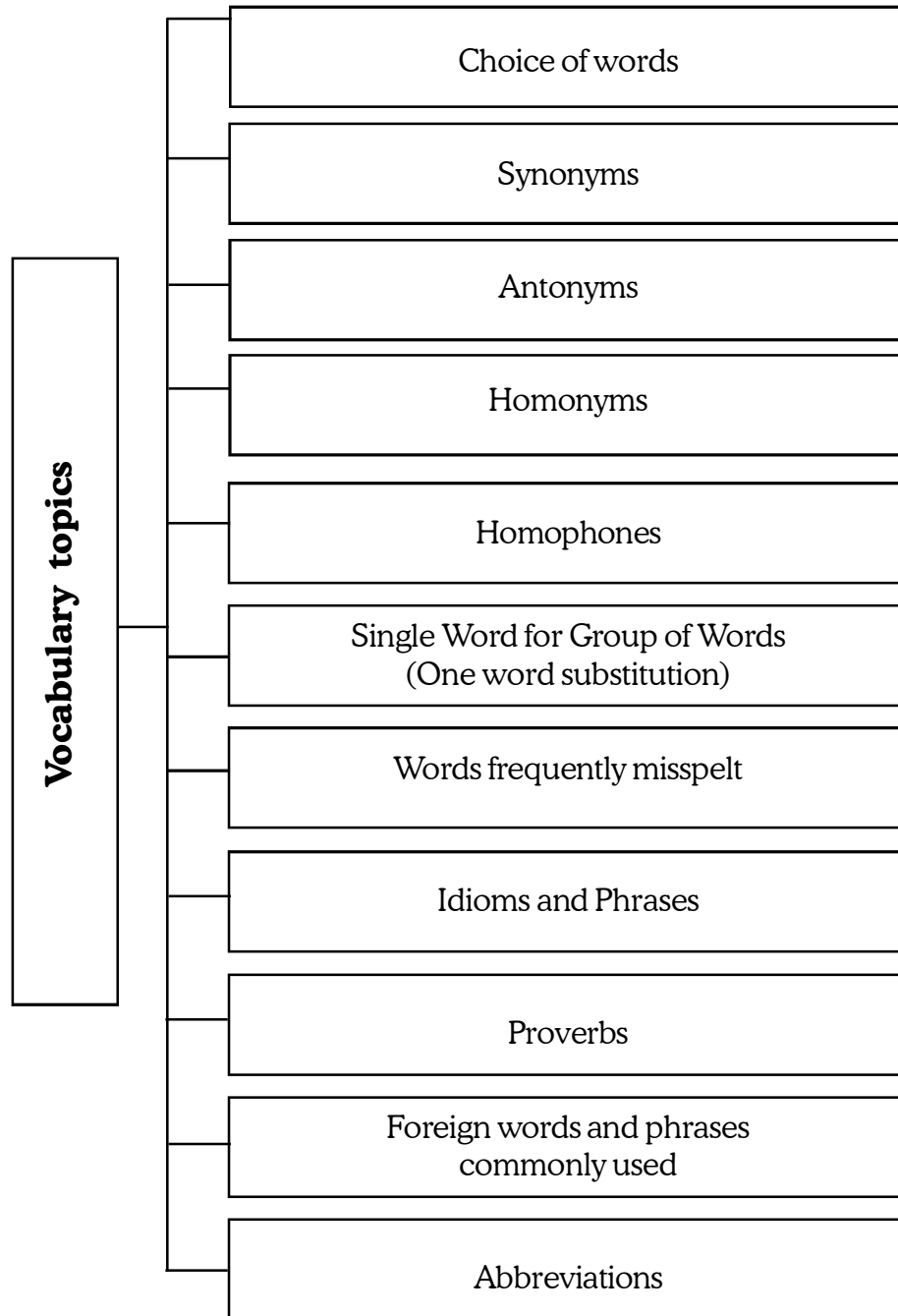
- Building your vocabulary is important in reading comprehension.
- Building your vocabulary will improve your communication skills- verbal and written communication skills will improve and you may be able to better understand another individual.
- Building your vocabulary may help improve your personal life, social life and professional life.

Good to know!!!

We should know the exact meaning of the words we propose to use. Many words, which are listed as synonyms or words with the same meaning have subtle differences. Consulting a good dictionary regularly helps in building a good repertoire of vocabulary. It is equally important to learn in what context a particular word can be used and what is its exact meaning, e.g., "erudite" means "having or showing knowledge or learning".

You can say Mr. X was an erudite speaker, but you cannot say that Mr. X's speeches were erudite.

To enrich one's vocabulary following topics are discussed in details below:



1. Choice of Words

The words you would choose to communicate with someone depend on the following factors:

- The range or repertoire of your vocabulary - Unless you know a word, you would not be able to use it.
- Your audience or person you are communicating with - Firstly, you must assess the literacy level of the audience or person. Then try to find out what kind of situation you are in – whether the audience or person is senior or junior to you; whether you are formal or informal with them, etc., these considerations will help you greatly in the choice of words.

You could hardly use slang or a code word in describing a colleague in an official memo, Can you?

- Type of communication - Whether it is formal or informal, oral or written, these factors will also influence your choice of words.
- The message you intend to convey - The urgency, disappointment, the level of accuracy required, etc. can also be conveyed through the apt words. Therefore, these too will influence your choice of words.
- Context and usage - Certain words can only be used in a particular context, and if they are used otherwise, they would convey the wrong sense; hence influencing the choice of words.
- Regional or national differences in language or connotation also influence your choice of words - 'Liberal' in Britain has a positive meaning. It means generous and open minded, whereas in America it is used as a term of political abuse.
- Improving Vocabulary – Try and understand the root/etymology of the words. Good dictionaries give all the changes that a root word can undergo.

To choose words that communicate clearly and with the appropriate tone, you should learn everything possible about those with whom you wish to communicate and take into account any prior correspondence with them. Then you should word your message so that it is easy for them to understand it and respond favorably. Tailoring your message to your readers is not only strategically necessary, it is also a sign of consideration for their time and energy. Everyone benefits when the message is clear and appropriate to the correspondent's situation.

Adaptation - The Best Strategy for Effective Wording

As with every other element of your messages, your choice of words needs to be guided by the audience and its purpose. For example, knowing that your writing should be "clear and concise" is not enough; What this means will depend a great deal on the situation. As we have suggested above, what is clear for one person may not be clear for at all for another. People occupy different language domains, and anything outside their domains will not be clear unless it is explained in their language. As for conciseness, you must be careful not to sacrifice effectiveness for brevity. If you cut your communications too short for your readers- for example, by omitting important details in a persuasive message or critical information in a report- you have written an incomplete, not a concise message.

Tips for choosing the right words

However, some general points to remember in communication are:

- **Simplicity** : Simple language produces the best and the quickest response from everyone. But one must try not to sacrifice precision or dignity. However, there are occasions when easy

comprehension must take a back seat. At times, long and unusual words have to be used because they are more precise. For example, legal language is far from simple. Hence the legal draftsman has to keep the complexity of the situation in mind. He may end up using complex language.

Using familiar words does not mean using colloquial English. Colloquial English is perfectly polite and acceptable in informal conversation, but is avoided in formal writing. For example, haven't, won't and can't have no place in prose, unless you have reproduced the text of a conversation.

Apart from colloquialism, there is no set rule for using familiar words. The important thing is to avoid a show of pedantry (an ostentatious and inappropriate display of learning) and undesirable complexity.

- **Use familiar words** : Use familiar words i.e., the words with sharp and clear meanings in the mind. As words which are familiar to some people may be unfamiliar to others, so you will need to select familiar words with care.

Specifically, using familiar words means using the language that is used by most of us in everyday conversation. We should avoid stiff, more difficult words that do not communicate so precisely or quickly. For example, instead of using the more unfamiliar word endeavor, use try. Instead of using terminate use end.

The suggestion to use familiar words does not rule out the use of some more difficult words. You should use them whenever their meanings fit your purpose best and your readers understand them clearly. The mistake that many of us make is to overwork the more difficult words. We use them so much that they interfere with our communication. A good suggestion is to use the simplest words that carry the meaning without offending the readers' intelligence.

- **Jargon** : Jargon is a language that is unique to a particular field of knowledge, e.g., science, technology, art, trade or a profession. There is for instance legal jargon, military jargon, and political jargon. For e.g. the word 'Operation' takes on different meanings depending on the context in which it is used.

Should we avoid all jargon in our writing? The question is not easy to answer. Jargon has two parts: One is the private language that only the persons in that particular field can understand. The other is wider acceptance of certain words and phrases in the general language used by the public. There cannot be any objection if this kind of jargon is used in writing.

- **Avoid using superfluous words/Verbosity** : Verbosity (an expressive style that uses excessive or superfluous words) or using more words than necessary is a common weakness. The speaker/writer uses more words than needed in the hope of diverting/retaining audiences. This tendency is seen in writing too. It has been well defined as an extension of Parkinson's Law-words increase in number to fill the quantity of paper available. More words do not necessarily lead to greater clarity. Nor do difficult and high sounding words lend weight to the argument. They obscure meaning and tire the reader out.
- **Choose short words** : According to studies of readability, short words generally communicate better than long words. Of course, part of the explanation is that short words tend to be familiar words. But there is another explanation i.e. heavy use of long words, even long words that are understood, leaves an impression of difficulty and hinders communication.

The suggestion that short words be chosen does not mean that all short words are easy and all long words are hard. Many exceptions exist. Thus, you should concentrate on short words and use long words with caution. Use long words only when you think your readers know it.

- **Select words for precise meaning** : Writing requires considerable knowledge of the language being used. But beyond basic familiarity with vocabulary, good writers possess a sensitivity to words' shades of meaning.

Knowledge of language enables you to use words that carry the meaning you want to communicate. For example, fewer and less means the same to some people. But careful users select fewer to mean "smaller numbers of items" and less to mean "reduced value, degree or quantity". Similarly, careful writers use continual to mean "repeated but broken succession" and continuous to mean "unbroken succession".

- **Use Gender-neutral words** : All too prevalent in today's business communication are words that discriminate by gender. Although this form of discrimination can be directed against men, most instances involve discrimination against women because many of our words suggest male superiority. This problem has evolved because our language developed in a society in which it was customary for women to work in the home and for men to be breadwinners and decision makers. As a result, our language displays this male dominance. For the reason of fair play and to be in step with today's society in which gender equality is the goal, you would do well to use gender-neutral words. For example, the word Chairman refers to both sexes, yet it does not sound that way. More appropriate and less offensive substitutes are chair, presiding officer, moderator and chairperson.

In business today, men and women, the young and the old and people of all races work side by side in roles of mutual respect. It would be unfair to use words that discriminate against any of them.

2. Synonyms

Synonyms are words that have very nearly the same meaning, for example:

- (i) easy, simple, light, effortless, facile, smooth.
- (ii) effort, exertion, pains, trouble,
- (iii) elastic, flexible, supple, springy, resilient.

It is extremely difficult, if not impossible, to find two words in English which have exactly the same meaning and usage. Words that seem to be identical on a closer examination can be distinguished by some shade of meaning or some manner of usage. Therefore, most of the time they cannot be interchanged. Finding and knowing synonyms is helpful in the sense that it enhances your vocabulary by increasing your stock of words. Moreover, it helps you to pick and choose the appropriate word which alone can convey the proper meaning.

Begin, commence, start and initiate, are all synonyms which mean 'to set something going or in progress'. *Begin* is the most common word, *commence* is used on formal occasions, for court proceedings, religious and other ceremonies and military operations; *start* suggests a setting out from a particular point on a journey, course, etc., often but not necessarily after an action or waiting; *initiate* implies taking of the first step or steps as in a process.

You can say:

They started from their home. The ship has set out on its voyage.

If you use any other synonym in the place of 'set out' it would take on a different meaning. Two words may look alike and yet there may be a slight shade of difference in their meaning.

Some examples –

Word	Synonym	Word	Synonym
Adept	proficient, skilled	Abstain	refrain, withhold
Abridge	shorten, curtail	Abundant	plentiful, ample, copious
Accessory	additional, auxiliary	Achieve	accomplish, execute, gain
Adept	proficient, skilled	Adequate	sufficient, satisfactory
Adherent	follower, disciple	Admiration	praise, approbation
Brisk	lively, agile	Callous	hard, unsympathetic
Cordial	gracious, congenial	Captious	ensorious, hypercritical
Cogent	valid, convincing	Deteriorate	degenerate, decline
Dexterity	skill, deftness	Didactic	moralising, preach
Effete	exhausted, worn-out	Ephemeral	transient, short-lived
Extravagant	excessive, wasteful	Fabricate	concoct, contrive
Fatal	deadly, disastrous	Fastidious	messy, fussy
Gaiety	festivity, merriment	Gigantic	colossal, huge
Hazardous	dangerous, risky	Inadvertent	careless, unplanned, unintentional
Insidious	astute, cunning	Judicious	sensible, prudent, wise
Malice	ill will, spite	Morbid	morose, sickly
Negligent	careless, lax	Obtuse	dull, stupid, blunt
Onerous	burdensome, oppressive	Panegyric	eulogy, encomium
Penury	want, poverty	Reticent	silent, reserved
Ruinous	destructive, wreckful	Sterile	barren, infertile
Thrive	prosper, flourish	Urbane	cosmopolitan, suave, cultured
Wholesome	healthy, sound, healing	Yearn	crave, pine
Zenith	summit, culmination		

3. Antonyms

Antonym is a word opposite or contrary in meaning to another word.

As has already been noted that there are no true synonyms, that is, no two words mean exactly the same thing. There is often some shade of difference in the meaning. In most cases exact meaning or appropriateness of a word depends upon the context in which it is used. It being so, a word may have more than one antonym.

Example : The antonym of soft that comes at once to mind is hard. But there are many other possibilities.

Soft drinks against *hot* drinks

Soft colour against *bright* colour

Soft tones against *weird* tones

Soft texture against *rough* texture

Soft light against *glaring* lights

Similarly the opposite of

A *slender* cane would be a *thick* cane,

A *slender* man would be a *fat* man,

A *slender* chance would be a *bright* chance.

Some examples of Antonyms:

Word	Antonym	Word	Antonym
Ability	Inability	Able	Unable
Abnormal	Normal	Accurate	Inaccurate
Bankrupt	Solvent	Economical	Extravagant
Diligent	Dilatory/lazy	Economical	Extravagant
Emigrant	Immigrant	Explicit	Implicit
Exit	Entrance/Enter	Fact	Fiction
Flattery	Criticism	Flexible	Rigid
Fresh	Stale	Genuine	Spurious
Growth	Decline/Stagnation	Haste	Slowness
Hope	Despair	Humble	Proud
Idle	Busy	Import	Export
Inferior	Superior	Loud	Quiet/Soft
Meager	Plentiful	Narrow	Broad
Native	Foreign	Omission	Addition/Inclusion
Oral	Written	Original	Duplicate
Outward	Inward	Peace	War
Quick	Slow		

4. Homophone

The word, homo, means “same,” and phone means “sound.” Homophones are two words that sound the same, but have different meanings. For example, the words two – too, ate – eight, there-their, in-inn, ring-wring or more difficult, like principal-principle, stationary stationery, except-accept. These are called homonyms. These words have to be cautiously used while writing.

Some more examples:

(1) Access, Excess

Access : The workers could access the manager freely. (approach)

Excess : The production is far in excess to the target. (more than)

(2) Advice, Advise

Advice is a noun the end-sound is-s.

Anyone can offer *advice*.

Advise is a verb and the end sound is-z.

My father *advised* me to work hard.

(3) Ate, Eight

Ate is the simple past tense of the verb “to eat.”

I *ate* an entire pizza and now I’m really full and tired.

Eight is noun, the number after seven and before nine.

Charles will wake up at *eight* o’clock tomorrow morning.

(4) Bare, Bear

Bare (adjective): If something is bare, it means that it’s not covered or not decorated.

Tom likes to walk around his house in bare feet. He says it’s more comfortable than wearing shoes.

Bear (noun): A large mammal.

When you go camping, you should be careful to not leave any food or anything with a scent in your tent because they can attract *bears*.

(5) Cell, sell

Cell (noun): A cell is a small area or room, usually in a prison. A cell can also be one of the smallest divisions of a living organism.

The prisoner spent 10 years in his *cell*.

To **sell** (verb): To exchange a product or service for money. Like “buy,” it was probably one of the first verbs you learned.

We would like to *sell* our car, but we don't think we'd get very much money for it.

5. Homonym

There's another word that begins with homo-, which speakers often confuse with homophone is known as homonym. Again, the word homo- means "same," but -nym means "name." A homonym is a single word (with one spelling) that has more than one meaning.

An example of a homonym is the word "bear." You probably know about the animal called a "bear," but the word "bear" can also be a verb that means to tolerate. For example, "I'm so nervous about watching this game, I can't bear to watch the last minute!"

Some more examples:

Address – Address

I can give you the address of a good attorney.

That letter was addressed to me.

Band – Band

The band was playing old Beatles songs.

She always ties her hair back in a band.

Bat – Bat

I am afraid of bats.

It's his first time at bat in the major leagues.

Match – Match

If you suspect a gas leak do not strike a match or use electricity.

Her fingerprints match those found at the scene of the crime.

Mean – Mean

What does this sentence mean?

He needed to find a meaning between frankness and rudeness.

Right – Right

I'm sure I'm right.

Take a right turn at the intersection.

6. Single Word for Group of Words

The skill to substitute a single word for many helps the speaker/writer express himself/ herself better. Some examples are:

Greed - Inordinate desire to gain and hoard wealth

Avarice

That which cannot be taken by force

Impregnable

One who learns a subject as a hobby

Amateur

That which can be easily broken.

Fragile

To show indecision/to sway to and fro in a decision	<i>Vacillate</i>
Pleasant sound	<i>Euphony</i>
Deliberate killing of whole community or race	<i>Genocide</i>
The place where an aeroplane is housed	<i>Hangar</i>
A person who is dissatisfied and is inclined to rebel	<i>Malcontent</i>
To pretend to be sick in order to avoid work	<i>Malingering</i>
One of a race or tribe who has no fixed location and wanders from place to place	<i>Nomad</i>
The study or collection of coins, bank notes and medals	<i>Numismatics</i>
A blood feud started by murder-seeking vengeance	<i>Vendetta</i>
A person who deliberately damages private or public property	<i>Vandal</i>

7. Words Frequently Misspelled

According to the Oxford Dictionary, spelling is hard and misspellings are not only common, but also awkward in professional contexts.

When you receive an email or document with spelling errors, it is difficult to trust the person sending it. Correct spelling used in written communication shows the attention as well as level of education of the person sending it.

There are a lot of tricky spelling rules in the English language. Following is a list of some of the most commonly misspelled words.

Some examples:

<i>Correct word</i>	<i>Commonly misspelt as</i>
absence	abcense, absance
accommodate	accomodate
achieve	acheive
calendar	calender
liaison	liason
receipt	reciept
tomorrow	tommorrow, tomorrow

Spellings and Pronunciation

English is an infamously difficult language to spell and pronounce. Students are often bewildered by the seemingly anarchic sound/spelling system of English. There often seem to be more exceptions than the rules, and the mastery of accurate spelling and pronunciation appears a daunting and demotivating task.

Though there is a relationship between a sound and the way it is expressed in writing, the same sound is often conveyed through different spellings.

For example

The sound in the middle of words 'steep' and 'breach' is the same and phonetically shown as [i] in the dictionary.

The letter 'a' may be pronounced in several different ways. In words like brag, flap, grab, have, etc, the sound is phonetically shown as [æ], in barge, false, half, ask, etc. as [a:], in words may, tray, stay, way, etc. as [ei], and in call, flaw, raw, talk, etc. as [o:].

Good dictionaries also have a phonetic chart, which helps to learn the correct pronunciation of different words.

Specialized dictionaries of pronunciation are also available for consultation.

Spelling Errors

Adequate care should be taken to spell words correctly in all communications so that you are able to communicate effectively and impressively.

Spelling errors are common when :

- (i) certain alphabets/letters are repeated in a word. For example, tomorrow, occasion, beginning, profession, etc.
- (ii) one has to sometimes choose between 'ei' and 'ie'. For example, receive and believe. It is interesting to note that we always use 'ei' after 'c' (conceive, deceive, perceive, etc.) and 'ie' in the rest (achieve, chief, convenience, etc.)
- (iii) 'e' can be either dropped or retained when changing the root word. For example, true changes into truly but sincere changes into sincerely.
- (iv) an extra letter at times alters the meaning of the word. For example, lose and loose.
- (v) when noun and verb forms of the same word have different spellings. For example, advice/advise or practice/practise.
- (vi) words have the same pronunciation but different spellings. For example, whether/weather, brake/break, there/their.
- (vii) when a choice has to be made between ise(merchandise, enterprise, franchise, etc.) and 'ize' (size, prize, etc.). Some words are spelt differently by the Britishers and Americans, the latter prefer 'z' over 's',
e.g. criticise/criticize, realise/realize, recognise/recognize, etc. Though both the spellings are acceptable, one should stick to either 's' or 'z' for the sake of consistency.
- (viii) when a word similarly spelt has two variants with different meanings in past and past participle forms. For example:

Lie-lied-lied

Lie-lay-laid.

Stress and Rhythm

A syllable is the minimum rhythmic sound of a spoken language. A word may have one or more syllables. For example, there is only one syllable in fame, name, claim, train, etc., two in address, confess, redress, transgress, and three in credentials, sacrifice, tarpaulin, etc., four in retribution, satisfaction, transatlantic and even five in words like conglomeration.

Good to know!!!

Dictionaries generally show the main stress marks by putting the symbol // above and before the stressed syllable e.g. re'port. It is also important to know that the same word when used as a noun, is stressed differently e.g. 're port. Only one syllable in a word carries the main stress; other syllables are unstressed.

In order to achieve good and clear speech, we must learn to recognize the stressed syllable in a word.

Abbreviations

Abbreviations are the shortened form of a word, phrase or text.

Usually one uses abbreviations of words or names in private letters, while taking notes in between lectures or noting down some important points, thoughts, etc., as a means of saving time and also to be able to understand text at a later time.

However, in formal writing it is best to use only well-known abbreviations that are understood by all and are infrequent practice.

For example:

Etc. is the widely used abbreviation for 'etcetera', whereas someone may be in the habit of using 'eta' as an abbreviation for the same word, which only that person would understand to mean 'etcetera'. Hence, such practice in formal writing should be avoided.

Types of Abbreviation

- the first letters of two/three words or names are used to form an abbreviation. For example:

M.A. (Master of Arts)

P.M. (Post Meridiem)

BBC (British Broadcasting Corporation)

In the examples given above abbreviations can be used without the full stop also, according to the emerging trend.

Ms (Manuscript)

However, a shortening of a word can be used with a full stop at the end Prof., Capt., Maj., Gen.

- Acronyms are words formed from the initial letters of other words. UNICEF (United Nations International Children Emergency Fund)

FICCI (Federation of Indian Chambers of Commerce and Industry)

Note that these acronyms do not take on full stops in between and are frequently pronounced as a word.

Some abbreviations can be used with or without a full stop at the end, e.g.

- the first and last letters of a single word.

Mr./Mr (Mister)

Dr./Dr (Doctor)

- Scientific terms

Weights and measures are used both in full form as well as in abbreviated form.

Kg, lb, m, amp, ft, yd, mph.

- Chemical symbols

Abbreviated words are also used as chemical symbols, such as:

Ca (Calcium), H (Hydrogen), NaCl (Sodium Chloride), H₂O (Water).

Plural in Abbreviations

- The general rule to make an abbreviation plural is to repeat the same alphabet, such as: P-page, pp-pages
- It can be made plural by adding an 's' if the abbreviation is of more than one alphabet, such as: MAs,MPs, Capts

However, there are some exceptions to these rules, e.g.:

- 'Mr.' which is 'Messrs' in plural and cannot obviously become Mrs.
- Abbreviations of scientific terms denote both singular and plural in the same form, for example:
1Kg, 4Kg., etc.
- To introduce a possessive relationship in an abbreviation apostrophe 's' is added to the abbreviation.
For example:

M.P.'s or MP's-These should not be mistaken as the plural of MP.

Idioms and Phrases

A simple word like go is a part of a child's vocabulary, so much so that the primitive bushman had an equivalent for it in his language. But look at the following sentences:

- (i) Ever got a Mumbai number at first go?
- (ii) He is always on the go.

'Go' is no longer a simple word from a child's vocabulary.

Take '*fall-the sparrow's fall*, and the Roman Empire's *fall*, and so on. Now combine 'go' with another simple word '*down*'. Look at '*the boxer going down* on the first count. In the company of '*down*', 'go' has changed beyond recognition. There is more to it. Think of Churchill who would *go down* in history as the man who saved England from total collapse. This time the meaning has changed without 'go' forming a new alliance.

A literal translation of this two-word combination '*go down*' will not help. And this happens very often with many words in English. '*Go down*' has to be understood in its own right and in its particular context. This is an 'idiom' which the dictionary defines 'as the form of expression peculiar to a language.'

As such idioms are not peculiar to English language alone, they are found in other languages as well. But, as already said, they cannot be transliterated [*to change (letter, words, etc.) into corresponding characters of another alphabet or language*] from one language to another. All such combinations of words used in a peculiar fashion are called idiomatic expressions.

A **Phrase** is a group of words, a part of the sentence which does not make a complete sentence, but has an independent meaning and makes some sense: *on the hill, about town, under the tree*, etc.

A phrase is quite often equivalent to an adjective, adverb or noun. We would here, however, confine ourselves to phrases which are used *idiomatically*.

In the language itself, therefore, idioms are the source of sparkle and polish. Very often an idiomatic expression has no exact equivalent in the language itself. Take for example, 'bring up'. We know by long usage what it means. And yet the dictionary meaning 'rear' is at best a poor substitute for it.

The list below is by no means exhaustive. Even so it is fairly long. A glance at them will brush up your memory. You would come across these expressions, and need them yourself, quite often in your career. Use of idiomatic expressions in writing enriches your language.

Some Verbal Idioms

We shall begin with idioms, each consisting of a verb and a preposition. A single verb can give us a number of idiomatic expressions by attaching different prepositions to itself. For example, turn out (to expel), turn up (to appear at some place), turn down (to reject some request or appeal), etc. You may have become familiar with the usage of most of the verbal idioms. To refresh your memory here are just a few:

1. Beat back (compelled to retreat) The firemen were beaten back by the flames and the building was reduced to ashes.
2. Boil down to (to amount to) His entire argument boiled down to the fact that he would not join the movement unless he saw some monetary gain in it.
3. Cast aside (to reject, to throw aside) People normally cast aside truth and honesty for immediate gains.
4. Cut off with a shilling (to give someone a mere trifle in the will) The father was so angry with the son over his marriage that he cut him off with a shilling.
5. Gloss over (to ignore) Even if you are an important person your faults cannot be glossed over.
6. Labour under (to suffer from some disadvantage or distress) Let us not labour under the delusion that our friends will come to our aid in times of difficulty.
7. Play off against (to set one party against another for one's own advantage). It best serves the interests of the super powers to play off one poor nation against another.
8. Pull one through (to recover, to help one recover) Armed with the latest medicines, the doctor will pull him through.

Idiomatic expressions in which the principal word is the verb

1. Cast a slur upon (by word or act cast a slight reproach on someone) Many a man cast a slur on their own good name by some mean act.
2. To catch a Tartar (to encounter a strong adversary) When Hitler marched on to Russia he hardly knew that he would catch a Tartar in the tough people of that country.
3. To cut the Gordian knot (to remove a difficulty by bold or unusual measures) The Indian Parliament threw out the Bill for Abolition of Privy Purses. The Government cut the Gordian knot by abolishing the purses through a Presidential Ordinance.
4. To fall to someone's lot (to become someone's responsibility) It has fallen to the lot of the eldest brother to pay off the debts of the father.

5. To get the upper hand or to get the better of (to prevail over) Hari got the better of Suresh in the Degree Examination.
6. To give someone the slip (to dodge someone who is looking for you) The police had nearly arrested the dacoits when the latter gave them the slip and hid himself in the Chambal ravines.
7. A give and take policy (a policy of mutual concessions) A give and take policy alone can restore peace between India and Pakistan.
8. To go to rack and ruin (reach a state of despair through neglect) If a big war comes, our economy will go to rack and ruin.
9. To have a bone to pick with (to have a difference with a person that has not yet been fully expressed) The extreme leftists have a bone to pick with the police and if ever they come to power.
10. To have the whip hand (to have a position of power or control) Even after the split in the party he has the whip hand in the party.
11. To have too many irons in the fire (to have so much work in hand that some part of it is either left undone or done very badly) His performance is poor because he has too many irons in the fire.
12. To have the right ring (to be genuine) The Americans' pronouncements of world peace do not usually have the right ring.
13. To have an axe to grind (have personal interests to serve) Bigger nations supply arms to the smaller ones primarily because the former has their own axe to grind.
14. To keep a thing to oneself, to keep one's own counsel (to be silent about one's intentions) A great leader must ultimately keep his own counsel.
15. To keep the wolf from the door (to keep away extreme poverty and hunger) Lakhs of people in India still have to fight daily to keep the wolf from the door.
16. To make short work of (to bring to a sudden end) The locusts made short work of the standing ripe corn.
17. To make amends (to compensate or make up for a wrong doing) By being polite today, he has made amends for his past insolence.
18. To make common cause (to unite in order to achieve a shared aim) During the elections the princes made a common cause with the rightist parties. Both went down.
19. To make a virtue of necessity (Pretend or believe that something which one is obliged to do or accept is good for one's character, moral development, etc.) When a Minister knows that he is going to be booted out of the cabinet he makes a virtue of necessity and resigns 'on health grounds'.
20. To make much ado about nothing (to make a great fuss about a trifle) Crying over the loss of ten rupees is really making much ado about nothing.
21. To make a cat's paw or a tool of someone (to use someone as a means of achieving one's goal) The super powers have made a cat's paw of the smaller nations of Asia in their game of power politics.
22. To put the cart before the horse (reverse the proper order or procedure) Preparing the blue print of a project without analysing market potential is like putting the cart before the horse.
23. To rise to the occasion (show the daring, imagination etc., which fits a particular occasion) A flood threatened to burst the reservoir but the villagers rose to the occasion and did not relax till they had made all secure.

24. To set store on (to consider to be of a particular degree of importance) India did set much store on the Indo Soviet Treaty of friendship.
25. To set one's own house in order (to arrange one's affairs harmoniously) Let Pakistan set his own house in order before talking about the welfare of the Kashmiris.
26. To take the bull by the horns (deal decisively with a difficult or unpleasant situation) The doctor had to take the bull by the horns by deciding to amputate the patient's leg in order to save his life.
27. To take a leap in the dark (take a risky action/step in the hope that it is right) You took a leap in the dark in going into partnership with that man.
28. To throw cold water upon (to discourage someone from doing something) The doctor threw cold water upon my plans for a world tour by declaring that I would not be able to stand the strain of it.
29. To throw in the sponge/towel (to give up a contest/acknowledge defeat) Faced with stiff competition from big companies, many small companies throw in the sponge.
30. To turn the tables (gain an advantage after having been at a disadvantage) Pakistan started with a blitzkrieg but the superior tactics of our armed forces soon turned the tables on them.

Miscellaneous Idiomatic expressions formed with the help of verbs

1. To cook or doctor an account/a book (to tamper with or falsify the facts of figures/ accounts) From the balance sheet presented to the shareholders, the company seemed to be flourishing, but later on it turned out that the management had cooked the accounts.
2. To bear the brunt of (to bear the main force or shock of) The infantry forces have to bear the brunt of a battle.
3. To beard the lion in his den (to oppose or challenge someone in his stronghold place) The Indian Army broke through strong Pakistan fortifications, and in the Shakargarh area bearded the lion in his own den.
4. To blunt the edge of (to make something less effective) Time blunts the edge of grief.
5. To burn the candle at both ends (to make too great a demand on one's physical or mental resources by overwork or overindulgence in some activity) In any kind of job, especially academic, you cannot afford to burn the candle at both ends, if you want to be productive every day.
6. To cross the Rubicon (to take an important action or step that cannot be reversed) The Government will have to think of many things before nationalising the textile industry for once they cross the Rubicon there will be no going back.
7. To curry favour (to win favour by gifts or flattery/try to flatter) He was trying to curry favour with the boss by offering him an expensive gift.
8. To flog a dead horse (waste one's energies on a lost cause) We will be flogging a dead horse if we try to make Sanskrit the national language of India.
9. To feather one's nest (to provide for oneself through dishonest means) Many bureaucrats feather their own nest while they have the opportunity.
10. To eat humble pie (to have to humiliate oneself) Since no one came to his support he had to eat humble pie and give in to their demands.
11. To eat one's words (to retract one's assertions under compulsion) It is hard for a haughty man to have to eat his words.

12. To throw down the gauntlet, to take up the gauntlet (to issue a challenge, to accept a challenge). In order to defend his title the young Brazilian wrestler threw down the gauntlet.
13. To run the gauntlet (to undergo severe criticism or ill treatment) Most books have to run the gauntlet of the literary critics.
14. To burn one's fingers (to get oneself into trouble through miscalculation/ foolishness) If you've never played the stock market in the past this is not the time to start, as you are likely to burn your fingers.
15. To force one's hand (to compel one to do something unwillingly or earlier than when one wished to do it) The Government wanted to do all that it could to meet the workers' demands. But the violence by the strikers forced their hands to declare a lockout.
16. To haul over the coals (reproach/reprimand someone severely) If your bad habits become known, you will get hauled over the coals and you richly deserve it too.
17. To let the grass grow under your feet (to unnecessarily cause a delay in taking action) The authorities should listen to students' grievances. If they let the grass grow under their feet the situation would turn from bad to worse.
18. To lord it over someone (to behave in a superior or domineering manner with someone) The intoxication of power is so strong that when a man gains it he begins to lord it over his fellows.
19. To mind one's P's and Q's (to be punctiliously careful about one's speech or behaviour) The manager suspects his chief clerk of dishonesty, and if the clerk does not mind his P's and Q's, he will soon find himself out of job.
20. To pass muster (to be accepted as satisfactory) Though my work in college was not as good as it could have been, it passed muster and I got good results.
21. To pay one back in one's own coin (to give tit for tat; to retaliate) Howsoever revengeful you may be, unless you are strong enough you cannot pay him back in his own coin.
22. To plough a lonely furrow (to work without help or support) In the organised society of today no individual or nation can plough a lonely furrow.
23. To rest on one's laurels (to rest satisfied with one's achievement and make no further efforts) Even if he wins the biggest award, a film star will never rest on his laurels. He will try to reach greater heights of stardom.
24. To harp on the same string (to keep repeating the same things over and over again) This gentleman keeps harping on the same string that he is from Oxford and deserves the best.
25. To rise like a phoenix from its ashes (the phoenix is a mythical Arabian bird. It had no mate but when it was about to die, it made a funeral pile of wood and aromatic gums and burned itself to ashes on it. From the ashes a young phoenix is believed to have risen; to rise up to former glory after being totally destroyed) Germany was completely decimated in the Second World War. But it has risen like a phoenix from its ashes.
26. To rule the roost (be the one who directs others in a business, community, household, etc.) In rural areas, it is normally the Sarpanch who rules the roost.
27. To scatter to the winds (to waste (i) to scatter) Whatever we had gained by independence we scattered to the wind.
28. To see which way the wind blows (to observe what influence, whether it is favourable or adverse,

- is likely to affect the existing state of things) In party-politics people sitting on the fence keep on watching which way the wind is blowing before deciding whom to support.
29. To see a thing through coloured spectacles (to regard something unfavourably because of one's prejudices)
 30. Pakistan has for long looked at India through coloured spectacles and never trusted even the most genuine of her peace moves.
 31. To see through something (to understand the true nature of something beneath deceptive appearances) They saw through the game of the enemy.
 32. To speak volumes about (to have abundant evidence about something) The success of democracy in India speaks volumes about the maturity of her people.
 33. To split hair (quibble or argue on minor points) As the drought played havoc in Bihar, the authorities were busy splitting hair trying to decide whether there was 'scarcity conditions' or 'famine'.
 34. To steal a march on (to do something so as to gain an advantage over another) While we were still debating the desirability of joint ventures with foreign concerns, Singapore and Malaysia stole a march over us and opened their gates to foreign investment in a big way.
 35. To stick at nothing (behave in an unscrupulous way to get what one wants) An ambitious politician will stick at nothing if that serves high ends.
 36. To strain every nerve (to use one's utmost efforts) We have to strain every nerve to get over the poverty line.
 37. To stretch a point (to extend a regulation/definition to cover something not included in it) Targetting small bakeries as part of the drive to move polluting industries from residential areas to industrial ones is stretching the point a little too far.
 38. To strike while the iron is hot (to take immediate advantage of an opportunity) By going in for general elections immediately after the war, the Congress struck while the iron was hot.
 39. To talk shop (to discuss matters connected with one's trade or profession) During tea breaks at any seminar you will always find the participants talking shop.
 40. To tie somebody's hands (to restrict somebody's activities) Although the management was aware about the severe financial crisis one of their employees was going through, it could not pass the loan for its hands were tied by the Company's policy.
 41. To throw mud at (to talk ill of) Some people specialise in throwing mud at others.

Idiomatic phrases formed by the combination of a noun and an adjective each, noun phrases and adverbial phrases

1. Bad blood (ill will towards each other, enmity) There has been bad blood between India and Pakistan since 1947.
2. A bone of contention (subject of dispute) Kashmir continues to be a bone of contention between India and Pakistan.
3. A bosom friend/pal (A very intimate and trusted friend) Bosom friends never betray one another.
4. Like a bull in a China shop (someone who is too clumsy, rough, coarse, etc. to suit his/her surroundings and company or to handle a delicate situation) Don't let him handle the labour problem, with his short tempered nature he will only be like a bull in a China shop and worsen the situation.

5. A cold comfort (inadequate consolation) The mere promise of a better future is only cold comfort to the frustrated youth of today.
6. Creature comforts (material comforts that contribute to physical ease and well-being) A poor labourer is more concerned about creature comforts than spiritual development.
7. A dog in the manger (a person who prevents others from having things that he does not need himself) The affluent nations follow a dog in the manger policy. They would rather destroy what they can't use themselves than give it to the poor nations of Asia and Africa.
8. Elbow room (adequate space to move or work in) Too many rules and red-tapism hardly gives one elbow room to try out new methods that might prove more profitable for an organisation.
9. A fair-weather friend (a friend who deserts you in difficulties) A fair-weather friend disappears the moment your money disappears.
10. French leave (absence from work or duty without permission) Don't take too many French leaves now, it will mar your chances for a promotion.
11. Good offices (influence) One can get a good job only through the good offices of someone in power.
12. A herculean task (a job requiring greater effort) Eradication of poverty is a herculean task requiring the collective efforts of the entire country.
13. Lynch law (Mob law, law administered by private individuals and followed by summary execution) In African countries they often resort to lynch law to punish criminals.
14. A maiden speech (the first speech of a new member in a public body as in Town Hall or in Parliament) Every MP looks forward to his maiden speech because it is an opportunity for him to make a good impression.
15. A nine-day wonder (a person or event that attracts a lot of notice for a short time but is soon forgotten) The controversy of the match-fixing charges in the cricket match was but a nine-day wonder.
16. The rising generation (the young people). The rising generation is quite techno-savvy.
17. Scot free (without suffering any punishment or injury) Because he had influential connections, the culprit went scot free.
18. A sheet anchor (a dependable person, or thing relied upon in the last resort) In times of immense strain and problems, one's family and friends are one's sheet anchor who keeps one from giving in.
19. Tall talk (boastful language) If we have no real accomplishments, we indulge in tall talk to delude ourselves and others too.
20. A white elephant (something expensive to maintain) I had to dispose off the car as it turned out to be a white elephant.
21. A white lie (a harmless lie told to avoid hurting someone's feelings) His white lie that everything was alright with him, helped soothe his agitated mother, who had heard that he had met with an accident.
22. A wild-goose chase (a useless search, investigation or enterprise) The hoaxer had sent the police on a wild-goose chase.
23. An apple of discord (a subject of dispute/rivalry) Kashmir continues to be the apple of discord between India and Pakistan.

24. The gift of the gab (eloquence, fluency in speech) The gift of the gab invariably makes for a successful politician.
25. The ins and outs (the full details, intricacies, complications of a thing) We are yet to learn the ins and outs of the Mao-Nixon agreement.
26. The lion's share (an unfairly large share) The big nations continue to have the lion's share of world trade.
27. The three R's (mastery in reading, writing and arithmetic) The three R's have been the main focus of primary education for many decades now.
28. Penelope's web (a work which seems to be going on and yet never comes to an end) A housewife's chores are a Penelope's web.
29. The powers that be (any governmental, legislative, managerial body) Unless you agitate against powers that be, they will never do anything for your welfare.
30. The pros and cons (various points or arguments for and against someone or something) Before taking a major decision it is always best to weigh its pros and cons.
31. By the skin of one's teeth (narrowly escape or avoid by a small margin) The storm broke up the ship but the sailors escaped by the skin of their teeth.
32. A storm in a tea cup (a great fuss over a trifle) The commotion over the bomb explosion turned out to be a storm in a tea cup; it was a Diwali cracker burst by an urchin.
33. Null and void (invalid, valueless, no longer in force) The court declared the appointment of the managing director by 'X' limited null and void.

Prepositional and other Phrases in English used with the verb "to be"

1. To be worth its weight in gold (extremely valuable) In the desert a bottle of water is often worth its weight in gold.
2. To be Greek or double Dutch to one (unintelligible, incomprehensible language) He spoke so fast that all he said was double Dutch to the audience.
3. To be at sea (confused, uncertain) I am quite at sea as for as economics is concerned.
4. To be at sixes and sevens (in a state of confusion or disarray) I haven't had time to arrange everything, so I'm all at sixes and sevens.
5. To be at one's wits end (be completely at a loss as to what to do) With the master shouting from the bathroom and the mistress from the kitchen the servant was at his wits end as to who to attend first.
6. To be in the doldrums (feeling depressed; in low spirits or depression) He has been in the doldrums ever since his wife left him.
7. To be on the wane (becoming weaker or less vigorous) After the Second World War, the British rule was on the wane.
8. To be on the carpet (being severely reprimanded by someone in authority) The unpunctual clerk was repeatedly on the carpet.
9. To be on one's last leg (near the end of life, usefulness or existence) With the increasing use of computers in offices, it seems the typewriter is at its last leg.

Idiomatic expression belonging to particular subject**(i) Money, debt, business, etc.**

1. Ready money or cash (money immediately available for use) Earlier it was time consuming to withdraw cash. Today ATMs provide ready money in no time.
2. Bad debts (debts regarded as irrecoverable) Every year the company compiles a list of bad debts and writes them off.
3. In short supply (not easily available) Sugar is in short supply because of the strike in sugar mills.
4. To bring a thing under the hammer (to sell something by auction) If a person goes insolvent, his creditors bring everything that he owns under the hammer to recover their money.
5. To drive a hard bargain (insist on the best possible price when negotiating with somebody) The Sheikh drove a hard bargain while selling oil to western countries.
6. To pay one's way (earn enough to cover one's expenses) While at college, he paid his way by working as a newspaper vendor.

(ii) Warfare

7. To take something by storm (to capture a place by sudden and violent attack) The men mounted an all out attack from air and land and soon took the enemy country by storm.
8. To strike one's flag or colours or to show the white (to surrender) After the army surrounded their hiding place, the terrorists showed the white and were thereafter captured.

(iii) Sea and ships

Many of the expressions belonging to this group are used metaphorically, i.e., in areas other than that to which they belong.

9. To weather the storm (to come out of a crisis successfully) In a crisis it is unity which helps a nation to weather the storm.
10. To sail before the wind (sail in the direction in which the wind is blowing or act in a safe way) An opportunist is one who sails before the wind (Its opposite is to sail close to the wind, i.e., behave or operate in a risky way).
11. To cast anchor (to settle in a place for the time being) After travelling around the world, he finally cast anchor in Paris because he liked the city.
12. To give a broadside (a naval phrase meaning to charge at once at an enemy by arranging all the guns along one side of a ship. Metaphorically it means to make a vigorous attack upon an opponent) The Prime Minister bore all criticism with patience and then gave a broadside that silenced all criticism.
13. To be in the same boat (be in the same difficult circumstances as others) In a nuclear war, the rich and the poor nations will be in the same boat. None will be able to protect itself.
14. To take the wind out of one's sails (upset or disturb an overconfident or pompous person) Before he goes any further, confronts him with the evidence of his wrongdoings and take the wind out of his sails.

(iv) Fire, light, candles

15. The game is not worth the candle (the advantage or enjoyment to be gained is not worth the time spent in gaining it) Journey to the moon is an elaborate and costly affair and some people with a pragmatic approach feel the game is not worth the candle.
16. Not hold a candle to something or someone (be inferior to someone) She writes quite amusing stories but she can't hold a candle to the more serious novelists.

(v) Death

All the phrases given below mean, 'to die a natural death' as opposed to a violent or sudden death (from murder, in accident or in battle-field, etc.). These phrases also apply to death after a long illness.

To pass away, to go the way of all flesh, to breathe one's last, to be gathered to one's fathers, to join the great majority, to kick the bucket.

Proverbs

Proverbs contain home truths as well as universal truths. Naturally, therefore, they are translatable-so far as their meaning goes from one developed language to another. Their appeal is direct. Many of them had their origin in folk literature; hence they are simple and unadorned. They point out the incongruities (inappropriateness) of situations in life, throw light on the diversity in human life and character, and contain a grain of advice to the wayward, the forlorn and the common folk. They are everyman's philosophy. Every one of them tells a story in a single sentence. In fact, most of them have some history- legendary or real-behind them. Some of them are gems from the works of great masters, like Shakespeare, Dryden and Aesop, the Greek fable writer. Others go back to antiquity. Many of them come out of the Bible. Their meaning, often enough, is quite clear. Here are some proverbs with their meanings:

1. Hope springs eternal in the human breast (one never loses hope).
2. Better late than never.
3. Fools rush in where angels fear to tread. (Said of reckless persons).
4. There is no fool like an old fool. (An aged lover).
5. A fool and his money are soon parted.
6. Example is better than precept. (Precept means moral instruction).
7. He who pays the piper calls the tune. (One has to act according to the wishes of one's master).
8. You cannot make a silk purse out of a sow's ear. (Said of something impossible).
9. A bird in hand is worth two in the bush.
10. Birds of a feather flock together. (People of like character come together).
11. A little knowledge is a dangerous thing.
12. One man's meat is another man's poison. (What is good for one may be harmful for another person).
13. Out of the frying pan into the fire. (From one trouble to another bigger trouble).
14. It never rains but pours.

15. The last straw breaks the camel's back. (The smallest addition to an already heavy task or burden makes it intolerable).
16. Fore-warned is fore-armed. (A prior warning should prepare one for the contingency).
17. To err is human; to forgive, divine.
18. Out of sight, out of mind. (Once you lose sight of a thing, you forget it altogether).
19. Distance lends enchantment to the view. (Things look nice and beautiful when they are not within reach).
20. Render unto Caesar what is Caesar's. (Be revengeful).
21. Haste makes waste.
22. Look before you leap. (Do not be reckless and impulsive).
23. Make hay while the sun shines. (To make full use of the given opportunity).
24. Never look a gift horse in the mouth. (There can be no choice about things given in charity or gift).
25. Beggars can't be choosers.
26. Nearer the Church, the farther from God. (The more opportunities you have the less you benefit from them).
27. Two heads are better than one.
28. None but the brave deserve the fair.
29. All is well that ends well.
30. To rob Peter to pay Paul. (To harm one person [or side] in order to benefit the other).
31. Rome was not built in a day. (Things take time to complete and to mature).
32. One swallow does not make a summer.
33. You can't have the cake and eat it too.
34. Every man for himself and God for us all.
35. To hit the nail on the head.

Foreign Words and Phrases

English has borrowed generously from other languages, more so from Latin, Greek, French and German. Many of the borrowed words have been anglicised and today are an integral part of English vocabulary in their original or modified form, e.g., restaurant, rapport, viva voce. There are many other expressions which are liberally used in English and yet continue to retain their foreign flavour. They are still outsiders and, in print, are italicised.

Some examples given below are of a technical nature pertaining to law, philosophy, politics and 'officialdom'. The language of origin is indicated after the word or phrase within brackets. Here 'L' stands for 'Latin'; 'F' for 'French' and 'G' for 'Greek'.

ab initio (L) : from the beginning

ab origin (L) : from the origin

addenda(L) : list of additions (addenda to a book)

ad libitum (L) : speak or perform in public without advance preparation. (Extempore)

ad valorem (L) : according to value

- ad hoc* (L) : a body elected or appointed for a particular work (ad hoc committee)
- ad infinitum* (L) : to infinity, endlessly, forever
- alma mater* (L) : a school or a college which one has attended
- a la carte* (F) : according to the card/list (A la carte dishes are available here)
- a la mode* (F) : according to the fashion
- alter ego* (L) : the other self; alternative personality; intimate friend (He is my alter ego - we go everywhere together)
- amende honorable* (F) : a public or open apology, reparation
- amour propre* (F) : self-love; self-esteem
- ancient regime* (F) : the former order of things, a political or social system that has been displaced by a more modern one.
- a posteriori* (L) : empirical, from effect to cause
- a priori* (L) : from cause to effect (presumptive) Every science cannot be taught a priori.
- apropos* (L) : with reference to (apropos our talk)
- au courant* (L) : fully acquainted with matters, well-informed, up-to-date
- au fait* (F) : expert, having detailed knowledge
- au revoir* (F) : until we meet again (to say au revoir at parting)
- avant-propos* (F) : preliminary matter, preface
- avant-garde* (F) : new, unusual or experimental
- beau ideal* (F) : the ideal of perfection
- beau monde* (F) : the world of fashion
- beaux esprits* (F) : men of wit
- bete noire* (F) : a special aversion (India has always been bete noire for Pakistan)
- bona fide* (L) : genuine sincere (He is a bona fide citizen of India).
- bizarre* (F) : strange, unknown
- bon voyage* (F) : have a good journey
- casus belli* (L) : that which causes or justifies war
- cause celebre* (F) : a famous case in law, controversial well-publicised issue
- chargé d'affaires* (F) : a deputy to the Ambassador/a diplomatic representative to a minor country
- chef d'oeuvre* (F) : masterpiece (Mona Lisa is Vinci's chef d'oeuvre.)
- circa* (L) : approximately ('circa 1930')
- confere* (F) : colleague
- contretemps* (F) : a minor dispute or disagreement

corrigenda (L) : a thing to be corrected (in a book)

coup d'état (F) : violent change in government (There was a coup d'état in Cambodia and the King was overthrown.)

coup de grace (F) : a finishing stroke (The coup de grace of the Russian Revolution brought about the total annihilation of the Czar family.)

cul-de-sac (F) : a blind alley (The failure of the policy of non-alignment in 1962 saw our foreign policy reach a cul-de-sac.)

debacle (F) : an utter failure or disaster (debacle of opposition in the election)

de facto (L) : actual or in fact (de facto recognition to a state)

de jure (L) : from the law, by right

de novo (L) : anew, again (trial of a case)

de nouement (L) : the end of a plot or narrative (in a play)

de profundis (L) : a heartfelt appeal or feeling

dernier ressort (F) : last resort

détente (F) : easing of strained relations especially between countries

dramatis personae (L) : characters of a novel, play or narrative

elite (L) : select group or class (The elite of town)

enfant terrible (F) : child who asks awkward questions; person or thing causing embarrassment by unruliness

entrepreneur (F) : a person who sets up business taking greater financial risk

en masse (F) : all together (They took leave en masse.)

en rapport (F) : in harmony

entourage (F) : group of people accompanying a dignitary (P.M.'s entourage)

errata (L) : list of errors

esprit de corps (F) : the animating spirit of a particular group like a regiment

et cetera (L) : and the rest

eureka (G) : I (have) found it !

ex-officio (L) : by virtue of his office/status/position

expose (F) : a report in the media that reveals something discreditable

ex post facto (L) : with retrospective action or force

fait accompli (F) : a thing already done/accomplished fact

faux pas (F) : a social blunder

gauche (F) : unsophisticated/socially awkward

hoi polloi (G) : the common people

impasse (F) : a deadlock (Talks reached an impasse.)

in extenso (L) : in full

in memoriam (L) : in memory of

in toto (L) : entirely/as a whole (The Committee's recommendations were accepted in toto.)

ipso facto (L) : by that very fact or act

laissez-faire (F) : a policy of non-interference

mala fide (L) : in bad faith (opposite of bona fide)

malapropos (F) : ill-timed/inappropriately

modus operandi (L) : a way of doing something (of a gang, group, etc.)

mutatis mutandis (L) : with the necessary changes (Rules will come into force mutatis mutandis.)

noblesse oblige (F) : privilege entails responsibility

nota bene (L) : note well (Abbreviation-N.B.)

par excellence (F) : better than the others of the same kind

paripassu (L) : side by side, equally or equivalently *per se* (L) : by itself

piece de resistance (F) : the important feature of a creative work or meal, etc.

poste restante (F) : a department in the post office that keeps letters for a period till called for

post mortem (L) : examination/analysis made after death/or an event has occurred

prima facie (L) : at first view of consideration (It is prima facie a good case.)

pro bono publico (L) : for the good of the public

pro forma (L) : denoting a standard document or form

pro rata (L) : according to rate or proportion

protégé (F) : one under the protection/guidance of another older or experienced person (South Vietnam was U.S.'s protegee.)

quid pro quo (L) : a favour or advantage given in return for something

raison d'etre (F) : the most important reason for a thing's existence

resume (F) : a summary or curriculum vitae

sanctum sanctorum (L) : holy of holies (temple, church, etc.)

seriatim (L) : point by point

sine die (L) : without a day being appointed (The meeting was adjourned sine die.)

status quo (L) : the existing condition (status quo on the border should be maintained)

ste t(L) : let it stand, do not deter

subjudice (L) : under judicial consideration and therefore prohibited from public discussion (The case is sub judice.)

subrosa (L) : confidentially/done in secret

sui generis (L) : in a class by itself

summumbonum (L) : the chief good

terra incognita (L) : an unknown territory

tour de force (F) : a notable feat of strength or skill

ultra vires (L) : beyond one's authority

verbatim (L) : word for word

vice versa (L) : conversely

videlicet (L) : namely, more formal term for viz.

vis-à-vis (F) : in relation to, as compared with, in a position facing one another

viva voce (L) : an oral examination

voxpopuli, vox Dei (L) : the voice of the people is the voice of God

Zeigeist (G) : the defining spirit of a particular period or age.

Abbreviated Form of Words

An abbreviation is a short way of writing a word or a phrase that could also be written out in full. The word "abbreviation" comes from the Latin word abbreviate (to shorten) which is related to brevis (short). While some people disagree, all methods of shortening words or phrases are subsets of abbreviation. Abbreviations when used properly can enhance communication because they act as 'short-hand' and therefore increase the efficiency of communication. In other words, more meaning is conveyed in less time and fewer words.

Abbreviation is defined as:

A shortened form of a word or phrase used for brevity in its place consisting of the first letter, or the first few letters of the word, followed by a period (full stop).

Abbreviations are very rarely used in formal writing. Frequent use of unnecessary abbreviations makes the text irritating and complex to read. It is far more important to make the writing easy to read than to save a few seconds in writing out the complete word or phrase.

The rule about using these abbreviations is very simple: don't use them. Their use is only appropriate in special circumstances in which brevity is at a premium, such as in footnotes. It is a very poor style to spatter your pages with abbreviations. Moreover, it could be disastrous to use them without being quite sure of what they mean. If you do use one, make sure you punctuate it correctly. Here is an example.

The recommended form is this:

Several British universities were founded in the Victorian era; for example, the University of Manchester was established in 1851.

The following version is not wrong, but it is a bad style:

Several British universities were founded in the Victorian era; e.g., the University of Manchester was established in 1851.

But this next version is disastrously wrong, because the punctuation has been omitted:

Several British universities were founded in the Victorian era e.g. the University of Manchester was established in 1851.

Using an abbreviation does not relieve one of the obligations of punctuating the sentence. Again, if one avoids abbreviations, one will not get into this sort of trouble.

Observe it is usual to write abbreviations in italics, but this is not strictly essential, and generally people don't do that.

Things to remember while using abbreviations:

Do not use an abbreviation if it can easily be avoided.

In an abbreviation, use full stops and capital letters in the conventional way.

Do not forget to punctuate the rest of the sentence normally.

Latin Abbreviations

A.D. Anno Domini : Used to date years by reckoning the date of Christ's birth, as opposed to B.C., the years "Before Christ." Anno Domini means "In the year of the Lord."

c. circa.: Used by historians to show that a date is approximate. The word means "around," and it is sometimes abbreviated as "ca."

etc. et cetera. : "And so on." This is one abbreviation most students already know, and the one they tend to veruse. Note that, since etc. already means and, it is redundant to write, "and etc."

Eg : e.g. exempli gratia. : "For example." Literally, "free as an example."

Eg : "We have numerous problems to deal with before implementing welfare policies, e.g., the trade deficit, medicare, and social security."

i.e. id est. : "That is more precisely." It is commonly used to refine a general statement or provide additional information.

Eg : "Karan's wife always managed to turn the conversation toward a job, i.e., the possibility of working after marriage."

sic : Indicates a misspelling or error in a quoted source, in order to verify to the reader that the researcher did not create a typographical error, but instead exactly reproduces the way the word or statement appeared in the original material.

Eg : There are, according to the writings of seven-year old Mohit, "Manee wayes of riting words" [sic].

Ph. D. Philosophiae Doctor. : “Doctor (or Doctorate) of Philosophy.” It can refer to the individual as a title, or to the degree itself. Note that it is redundant to write, “Dr. Aggarwal is a Ph. D.”

Eg : “Vijay Aggarwal earned his Ph. D. in art history.”

vs. versus. : “Turned against.” Often used in abbreviations for legal trials-though “v.” is more common.

Eg : “In the case of *Roe v. Wade*, the Supreme Court eventually decided that abortion was a medical right.”

a.v. ad valorem. : “In proportion to the value of [something else].”, “To the value.”

Eg : “The monetary worth of the rupee is figured a.v. the price of gold.”

i.a. in absentia. : “In absence.”

Eg : “With further evidence *i.a.*, it is impossible to provide a definitive answer.”

MS. manuscriptum. : A document, particularly an ancient or historical manuscript, that was not printed, but rather drawn or written.

P.S. post scriptum. The abbreviation indicates a last-minute addition to a letter or document.

Eg : “That’s all for now. Take care. Love, Tarun. P.S. Don’t forget to write me back!”

Don’t Abbreviate the following :

In formal academic prose, it is undesirable to abbreviate words simply to save space, time, or energy. In the following cases, abbreviations should be avoided:

- Words such as through (thru), night (nite).
- Days of the week or months of the year (in the normal flow of text).
- Words at the beginning of a sentence.
- People’s names, unless those abbreviations have come to be accepted as nicknames for those particular individuals.
- Courses such as eco (for economics) or pol sc (for political science).

Lesson 3

**COMPREHENSION
OF
PASSAGE AND ART
OF
SUMMARISING**

INTRODUCTION

The word comprehension means the ability to understand what you listen or what you read. It is an exercise which aims at improving or testing one's ability to understand a language. In a comprehension test, you are given an unseen passage or a paragraph or two. These paragraphs show the idea or mood, concerning issues and their solutions that the author provides. Your main task is to answer the questions asked from the passage.

Important Strategy to Solve Comprehension Passages

- Read the passage as fast as possible.
- Get thoroughly involved with the paragraph to understand it.
- Underline important lines or parts of the passage to answer the questions. It will also help to understand the main idea of the passage or the tone or mood of the author.
- Try to translate a complex line in an easy one in your own words and your own language. This will help you in analyzing the main idea of the paragraph and in seeking the cause and effects of the passage.
- Underline or mark the keywords. These will help you to discover the logical connections in the passage and help in understanding it better.
- Try to understand certain unfamiliar words by reading the line thoroughly. The theme of the line will make you understand the meaning of the words.
- Determine the main idea, tone or mood, inferential reasoning, and other details from the paragraph.
- Do not assume anything based on your personal belief.
- Look back at the paragraph when in doubt.
- Read the questions and all the alternatives provided and choose the most appropriate one.

Things to remember



Thing to remember

1. Find the central idea in the passage
2. Focus on Details
3. Logical structure
4. The Tone of the passage

1. Find the central idea in the passage

This is important to get an overall understanding of the passage and to mentally make a note about the category it belongs to. The topic should be obvious to you in the first five lines of the passage. This helps since when you solve the questions, it becomes easier to eliminate options that are, in a way, not consistent with the central theme of the passage.

2. Focus on Details

Sometimes, questions in reading comprehension might be related to extremely specific details in the passage. In such a situation, questions are often direct and can be easily attempted. However, to do this, one must be able to sort such details of the passage without wasting too much time on skimming or reading the passage again. So, it is advisable to note down some points that may feel important to you. You can do this while reading the passage. You will get a better hold of what is important and what is not as you practice more.

3. Logical structure

Sometimes, questions are asked about the passage. Having a proper understanding of the passage is essential for such questions. Always pay attention to the way certain words shape the passage. Moreover, questions such as “What should be the most apt title for the passage?” are much easier to answer if you have an overall idea about the structure of the passage.

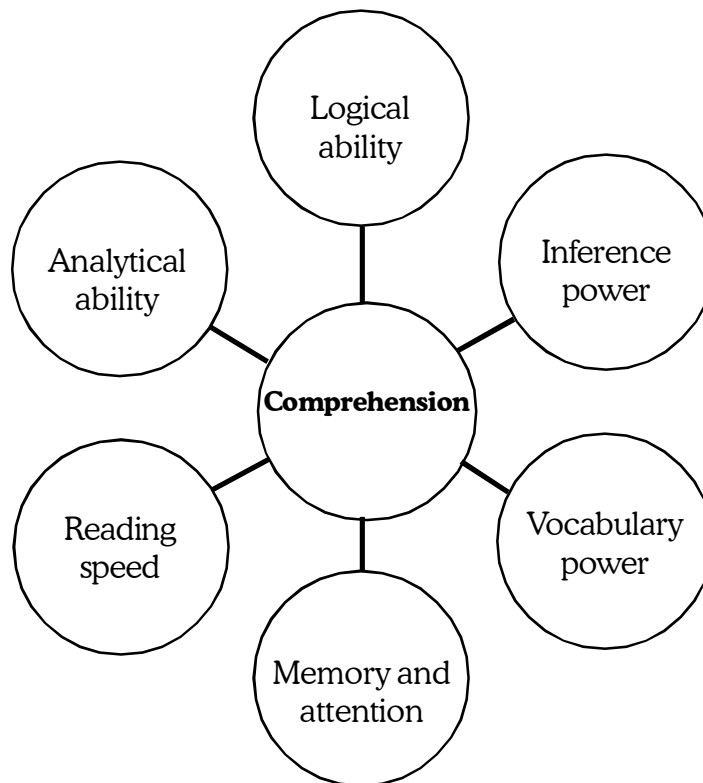
4. The Tone of the passage

This is perhaps the most difficult aspect of the passage. But there are certain ways to solve questions like these. Firstly, recognize words that have a positive or negative connotation, used by the author. Look for descriptive phrases. Secondly, study and understand the various tones there are. Some of the most common tones are acerbic, biased, dogmatic, optimistic, humorous, grandiose, and introspective (these are only a few, tones are many) sometimes, authors may have a neutral tone and sometimes mixed.

Requisite Skills

To develop a better level of comprehension one requires certain skills like:

- Logical ability
- Fluency
- Inference Power
- Analytical ability
- Reasoning ability
- Sentence construction and cohesion
- Reading speed
- Vocabulary power
- Working memory and attention

**Key Takeaways**

- Analytical ability, fluency, and vocabulary skills are key to reading comprehension.
- Being able to connect ideas within and between sentences helps in understanding the whole text.
- Reading aloud and talking about experiences can help build reading skills.
- Reading speed should be fast in order to scan and skim to summarise the major points of the passage.
- Paying attention while reading allows taking in more information from the text and working memory allows them to hold on to that information and use it to gain meaning.

Examples

1. Directions (1-10): Read the given passage carefully and attempt the questions that follow.

It is an old saying that knowledge is power. Education is an instrument which imparts knowledge and therefore, indirectly controls power. Therefore, ever since the dawn of our civilisation, persons in power have always tried to supervise or control education. It has been handmaid of the ruling class. During the Christian Era, the ecclesiastics controlled the institution of education and diffused among the people the gospel of the Bible and religious teachings. These gospels and teachings were no other than a philosophy for the maintenance of the existing society. It taught the poor man to be meek and to earn his bread with the sweat of his brow, while the priests and the landlords lived in luxury and fought duels for the slightest offence. During the Renaissance, education passed more from the clutches of the priest into the hand of the prince. In order words, it became more secular. Under the control of the monarch, education began to devise and preach the infallibility of its masters, the monarch or king. It also invented and supported fantastic theories like "The Divine Right Theory" and that the king can do no wrong, etc. With the advent of the industrial revolution, education took a different turn and had to please the new masters. It now no longer remained the privilege of the baron class, but was thrown open to the new rich merchant class of the society. The philosophy which was in vogue during this period was that of "Laissez Faire" restricting the function of the state to a mere keeping of laws and order while on the other hand, in practice the law of the jungle prevailed in the form of free competition and the survival of the fittest.

1. What does the theory "Divine Right of King" stipulate?
 - (a) The king are God
 - (b) That the right of governing is conferred upon the king by God.**
 - (c) They have the right to be worshipped like Gods by their subjects.
 - (d) That the right of king are divine and therefore sacred.
2. Who controlled education during the Renaissance?
 - (a) The common people.
 - (b) The prince**
 - (c) The church and the priests.
 - (d) None of the above.
3. What did the ruling class in the Christian Era think of the poor man?
 - (a) That he is the beloved of God.
 - (b) That he deserves all sympathy of the rich
 - (c) That he should be strong and lord over others.
 - (d) That he is meant for serving the rich.**

4. Who controlled the institution of education during the Christian Era?
 - (a) The secular leaders of society
 - (b) The church and the priests**
 - (c) The monarchs
 - (d) The common people.
5. What does the word “infallibility” mean?
 - (a) That every man is open to error
 - (b) Sensitivity
 - (c) The virtue of not making mistake**
 - (d) That some divine power is responsible for determining the fate of the man.
6. What do you mean by the “sweat of his brow”?
 - (a) Very hard work
 - (b) The tiny droplets of sweat on the forehead
 - (c) The wrinkles visible on the forehead
 - (d) The sign of innocence.
7. What does the policy of “Laissez Faire” stand for?
 - (a) Individual freedom in the economics field**
 - (b) State control over law and order in society
 - (c) Joint control of the means of production by the state and private enterprise
 - (d) Decontrol over law and order by the ruling class.
8. Which of the following describes the writer?
 - (a) Concerned**
 - (b) Unconcerned
 - (c) Aggressive
 - (d) Frustrated
9. Choose the correct synonym out of the four choice given:
Gospels
 - (a) Chitchat
 - (b) A teaching or doctrine of a religious teacher**
 - (c) Rumour
 - (d) Guidance.

10. Choose the correct synonym out of the four choices given:

Vogue

(a) Uncertain

(b) Out-dated

(c) The prevailing fashion or style

(d) Journey.

2. Read the following passage and answer Q. no. 1 to 5 based on the passage.

India loses grain crops worth crores of rupees every year because of pests. In fact, the increased food production made possible by modern technology and agricultural research would become more evident if farmer is able to effectively combat the various pests and insects that destroy crops. While some of the crops are destroyed after harvesting, a large quantity of grains is destroyed in the fields. True that Indian farmer today is better able to combat these destroyers of grains, for he made available to him better storing facilities for the harvested crops, and modern chemical aid like insecticides with which he may spray the growing crops in his fields. But, one has to remember that not all insects are harmful. The common earthworms, for instance, is a friend of man, because it works like a dustman by breaking up the dead leaves and wood from plants and mixes them with the soil, thus making the soil richer. Therefore, when a farmer sprays his field with chemicals that kills insects, he destroys his friends with his enemies.

1. A large part of the increased food production is lost because of:

(a) The lack of irrigation facilities

(b) The inadequate rainfall in the country

(c) The destruction caused by the harmful insects

(d) Bad eating habits of the people

2. The function of the insecticide is:

(a) To protect the growing crop

(b) To nourish the growing crop

(c) To harvest the growing crop

(d) To store the harvested crop

3. When the farmer sprays his field with chemical that kills insects:

(a) He spoils his growing crop

(b) He kills good as well as bad insects

(c) He fertilizers the soil

(d) He decreases his food productions

4. The common earthworm:

(a) Is the greatest destroyer of crops

- (b) Reduces the grain to dust
- (c) Breaks up the leaves on the crop

(d) Makes the soil more rich

5. After harvesting what the farmer needs is:

- (a) A good supply of seeds
- (b) Ability to combat the weather

(c) A safe place for storage

- (d) A lot of chemical fertilizers

3. Read the following passage and answer Q. no. 1 to 9 based on the passage.

In the second century of the Christian era, the empire of Rome was the most fair part of the earth, and the most civilized portion of mankind. The frontiers of that extensive monarchy were guarded by ancient renown and disciplined valour. The gentle but powerful influence of laws and manners had gradually cemented the union of the provinces. Their peaceful inhabitants enjoyed and abused the advantages of wealth and luxury. The image of a free constitution was preserved with decent reverence: the Roman senate appeared to possess the sovereign authority, and devolved on the emperors all the executive powers of government. During a happy period of more than fourscore years, the public administration was conducted by and depended on the virtue and abilities of Nerva, Trajan, Hadrian, and the two Antonines.

The principal conquests of the Romans were achieved under the republic; and the emperors, for the most part, were satisfied with preserving those dominions which had been acquired by the policy of the senate, the active emulations of the consuls, and the martial enthusiasm of the people. The seven first centuries were filled with a rapid succession of triumphs; but it was reserved for Augustus to relinquish the ambitious design of subduing the whole earth, and to introduce a spirit of moderation into the public councils. Inclined to peace by his temper and situation, it was easy for him to discover that Rome, in her present exalted situation, had much less to hope than to fear from the chance of arms; and that, in the prosecution of remote wars, the undertaking became every day more difficult, the event more doubtful, and the possession more precarious, and less beneficial. The experience of Augustus added weight to these salutary reflections, and effectually convinced him that, by the prudent vigour of his counsels, it would be easy to secure every concession which the safety or the dignity of Rome might require from the most formidable barbarians. Instead of exposing his person and his legions to the arrows of the Parthians, he obtained, by an honourable treaty, the restitution of the standards and prisoners which had been taken in the defeat of Crassus. On the death of that emperor, his testament was publicly read in the senate. He bequeathed, as a valuable legacy to his successors, the advice of confining the empire within those limits which nature seemed to have placed as its permanent bulwarks and boundaries: on the west, the Atlantic Ocean; the Rhine and Danube on the north; the Euphrates on the east; and towards the south, the sandy deserts of Arabia and Africa.

1. Arrange the following sentences from bottom to top.

- A. He bequeathed as a valuable legacy to his successors.
- B. The experience of Augustus added weight do these salutary reflection.
- C. The seven first centuries were filled with rapid succession of triumphs.
- D. Their peaceful inhabitants enjoyed and abuse the advantages of wealth and luxury.

- (a) **A,B,C,D**
(b) C,A,B,D
(c) B,D,A,C
(d) C,A,D,B
2. What is the antonym for 'legion'?
- (a) unlimited
(b) lavish
(c) **limited**
(d) none
3. What is the synonym for 'relinquish'?
- (a) **renounce**
(b) announce
(c) currencies
(d) B and C
4. Find word from the passage which means the same as senate
- (a) **assembly**
(b) argument
(c) fight
(d) none
5. What is the homophone of decent?
- (a) descent
(b) dissent
(c) disent
(d) **A and B**
6. Which of the following statement given below is not correct?
- (a) On the death of his emperor his testament was privately read in the senate.
(b) The principle conquest of the Romans were achieved under the Republic India.
(c) Instead of exposing his person and his legions to the arrows of the Parthians he obtained by honourable Treaty the restitution of standards and prisoners which had been taken in the defeat of Crassus.
(d) **A and B**
7. How is the passage?
- (a) Narrative

(b) Descriptive

(c) Interrogative

(d) None

8. Highlight the adverb form of the word luxury.

(a) legions

(b) luxurious

(c) possessing

(d) none

9. The above passage is related to.

(a) history

(b) geography

(c) law

(d) physics

- 4. Directions (Q. 1 – 6) : The questions in this section is based on the passage. The questions are to be answered on the basis of what is stated or implied in the passage. For some of the questions, more than one of the choices conceivably answer the question. However, you are to choose the best answer; that is, the response that most accurately and completely answers the question.**

Although the legal systems of England and the United States are superficially similar, they differ profoundly in their approaches to and uses of legal reasons: substantive reasons are more common than formal reasons in the United States, whereas in England the reverse is true. This distinction reflects a difference in the visions of law that prevails in the two countries. In England, the law has traditionally been viewed as a system of rules; the United States favours a vision of law as an outward expression of community's sense of right and justice.

Substantive reasons, as applied to law, are based on moral, economic, political and other considerations. These reasons are found both "in the law" and "outside the law" so to speak. Substantive reasons inform the content of a large part of the law: constitutions, statutes, contracts, verdicts, and the like. Consider, for example, a statute providing or purposes were explicitly written into the statute was to ensure quiet and safety in the park. Now suppose that a veterans' group mounts a World War II jeep (in running order but without a battery) as a war memorial on a concrete slab in the park, and charges are brought against its members. Most judges in the United States would find the defendants not guilty because what they did had no adverse effect on park's quiet and safety.

Formal reasons are different in that they frequently prevent substantive reasons from coming into play, even when substantive reasons are explicitly incorporated into the law at hand. For example, when a document fails to comply with stipulated requirements, the court may render the document legally ineffective. A Will requiring written witness may be declared null and void and, therefore, unenforceable for the formal reason that the requirement was not observed. Once the legal rule– that a Will is invalid for lack of proper witnessing – has been clearly established, and the legality of the rule is not in question, application of that rule precludes from consideration substantive arguments in favour of the Will's validity or enforcement.

Legal scholars in England and the United States have long bemused themselves with extreme examples

of formal and substantive reasoning. On the one hand, formal reasoning in England has led to wooden interpretations of statutes and an unwillingness to develop the common law through judicial activism. On the other hand, freewheeling substantive reasoning in the United States has resulted in statutory interpretations so liberal that the texts of some statutes have been ignored.

1. Which one of the following best describes the content of the passage as a whole?
 - (a) An analysis of similarities and differences between the legal systems of England and the United States
 - (b) A re-evaluation of two legal systems with the use of examples
 - (c) A contrast between the types of reasons embodied in the United States and English legal systems**
 - (d) An explanation of how two distinct visions of the law shaped the development of legal reasoning
2. It can be inferred from the passage that English judges would like to find the veterans' group discussed in the second paragraph guilty of violating the statute because
 - (a) not to do so would encourage others to act as the group did
 - (b) not to do so would be to violate the substantive reasons underlying the law
 - (c) the veterans failed to comply with the substantive purpose of the statute
 - (d) the veterans failed to comply with the stipulated requirements of the statute**
3. From the discussion on Wills in the third paragraph it can be inferred that substantive arguments as to the validity of a Will might be considered under which one of the following circumstances?
 - (a) The legal rule that a Will be witnessed in writing does not stipulate the formal of the
 - (b) The legal rule requiring that a Will be witnessed stipulates that the Will must be witnessed in writing by two people
 - (c) The legal rule requiring that a Will be witnessed in writing stipulates that the witnessing must be done in the presence of a judge
 - (d) A judge rules that the law can be interpreted to allow for a verbal witness to a Will in a case involving a medical emergency**
4. Which one of the following best describes the function of the last paragraph of the passage?
 - (a) It presents the consequences of extreme interpretations of the two types of legal reasons discussed by the author**
 - (b) It shows how legal scholars can incorrectly use extreme examples to support their views
 - (c) It corrects inaccuracies in legal scholars' view of the nature of two types of legal systems
 - (d) It suggests how characterisations of the two types of legal reasons can become convoluted and inaccurate
5. The author of the passage suggests that in English law a substantive interpretation of a legal rule might be warranted under which one of the following circumstances
 - (a) Social conditions have changed to the extent that to continue to enforce the rule would be to decide contrary to present-day social norms

- (b) The composition of the legislature has changed to the extent that to enforce the rule would be contrary to the views of the majority in the present legislative assembly
- (c) The legality of the rule is in question and its enforcement is open to judicial interpretation**
- (d) Individuals who have violated the legal rule argue that application of the rule would lead to unfair judicial interpretations
6. The author of the passage makes use of all of the following in presenting the discussion of the English and the United States legal systems except
- (a) Comparison and contrast
- (b) Generalisation
- (c) Explication of terms
- (d) A chronology of historical developments**

Para Jumbles, Sentence Correction, Sentence Arrangement and Sentence Completion

Para Jumbles

Para Jumbles are basically jumbled paragraphs. You are provided with a paragraph but the sentences are not in the right sequence. You have to rearrange the sentences so that they turn out into a meaningful paragraph.

Key skills required

- *Understanding the topic of the paragraph* : You should be able to understand what is being talked about in because it will help in establishing link with other sentences of the paragraph.
- *Understanding the information flow* : The next thing which is very important is the to identify that the information should be in a flow and to understand what exactly the paragraph is trying to convey.

A pre-requisite to both the above skills is to possess the qualities of good reader.

Examples

Direction (1-5) : The sentences given in each question, when properly sequenced, from labelled with a letter. Choose the most logical order of sentences from among the given choice to construct a coherent paragraph.

1.
 - a. People who start up their own business typically come from two extreme backgrounds: One is the business family background and the other is a steady professional family background.
 - b. Typically, people from different background face different kinds of basic problems.
 - c. The people from both the backgrounds find it very difficult to establish and manage an enterprise.
 - d. Starting up and managing a small business is no joke.
 - (a) d b c a
 - (b) b a c d
 - (c) d a c b**
 - (d) c d a b.

2.
 - a. venture capital is recommended as the ideal source of financing for a successfully small business.
 - b. Several companies including start-ups have been funded by dedicated venture funds during this decade.
 - c. Despite this, an average Indian entrepreneur understands and appreciation of venture capital concept has been woefully inadequate.
 - d. In the Indian context, though venture capital has been a relatively late entrant, it has already made a reasonable impact.
 - (a) a b c d
 - (b) a d b c**
 - (c) a c b d
 - (d) a d c b

3.
 - a. Progress in diagnosis, in preventive medicine and in treatment, both medicinal and surgical, has been rapid and breath taking.
 - b. Much in medicine which is not taken for granted was undreamt of even as recently as 20 years ago.
 - c. Presently small pox has been eradicated, poliomyelitis practically banished, tuberculosis has become curable and coronary artery disease surgically relievable.

- d. The dramatic surge in the field of molecular biology and research by immunologists and geneticists has succeeded in controlling parasitic disease like malaria and river blindness that affect millions of people round the world.
- (a) b d c a
(b) b a c d
(c) b c a d
(d) b d a c
4. a. Instead, many deaths and injuries result from failing objects and the collapse of buildings, bridges and other structures.
b. Earthquakes almost never kill people directly.
c. Fire resulting from broken gas or power lines is another major danger during a quake.
d. Spills hazardous chemicals are also a concern during an earthquake.
- (a) c a b d
(b) d a c b
(c) d c a b
(d) b a c d
5. a. The Winchester or hard disk drives can store much more data than what can be stored on a floppy diskette.
b. Hard disks come sealed and they cannot be removed or changed likes floppy diskettes.
c. Often floppy disk system is used in conjunction with the Winchester disk system.
d. This makes for an ideal system for secondary storage.
- (a) c a b d
(b) c b d a
(c) b a c d
(d) a b e d

Sentence Correction

Sentence Correction or Error Spotting is the one of the most scoring area of verbal section. A sentence is the basic unit of language. A sentence is a group of words that have a syntax and convey a certain meaning. A complete knowledge of a sentence and its structure is necessary to spot any error in the sentence and vice versa. In this exercise, one or more sentences are given. You are required to check if there is any error in the sentence or in the marked parts of it. Accordingly, you will choose the option, which is grammatically correct or incorrect.

6. Arrange the following sentences in the correct order.
- a. Till date it has no cure.

- b. Ebola outbreak is the most deadly virus in human history.
 - c. Research is still at large to find the cure.
 - d. It has taken numerous lives in Africa.**
- What is the correct order of the sentences?
- (a) b d e d
 - (b) a b c d
 - (c) a c b d
 - (d) b d c a
7. Arrange the following sentences in the correct order.
- a. I Got an expensive watch
 - b. Who is very loving
 - c. By my grandfather**
 - d. On my 22nd birthday
- What is the correct order of the sentences?
- (a) a b c d
 - (b) d c b a
 - (c) a d c b**
 - (d) b c d a
8. Arrange the following sentences in the correct order.
- a. The president is the head of the legislature.
 - b. Two houses Rajya Sabha and Lok Sabha
 - c. India has the largest democracy in the world.
 - d. It has a parliament which comprises of,
- What is the correct order of the sentences?
- (a) a b c d
 - (b) d c b a
 - (c) c d b a**
 - (d) b c a d
9. Arrange the following sentences in the correct order.
- a. While China and the US would see slower growth in coming years,
 - b. Earnings on Wall Street have risen to peak and the US economy might slip into recession.
 - c. India is expected to grow at a higher rate according to the IMF.
 - d. Further, concerns over global economic growth are rising.

What is the correct order of the sentences?

(a) a b c d

(b) c b a d

(c) d b a c

(d) b d a c

10. Arrange the following sentences in the correct order.

a. Put into a cylindrical mould, and fired in a kiln.

b. The core of a pencil is made of graphite, clay, and water.

c. Today, pencils are mass-produced by machines that cut down the wood, insert the lead, and stamp or print a design.

d. During the 17th century, the graphite and clay were grounded down by hand,

What is the correct order of the sentences?

(a) b d a c

(b) c b a d

(c) b a d c

(d) b c d a

Examples

In the following questions, a group of sentences about a single topic are given. One or more of the sentence(s) is/are grammatically incorrect. You have to identify the incorrect sentence(s).

1.
 - I. It began with acquisitions in information technology and related services sector.
 - II. In pharmaceuticals, Wockhardt has bought C.P. Pharma of the United Kingdom for \$ 10.85 million.
 - III. Tata Tea has taken over Tetley of the UK, the world's biggest tea bag maker, for \$ 430 million.
 - IV. With the processes, it has become the world's second largest tea company.
 - (a) II and IV
 - (b) IV only**
 - (c) II and III
 - (d) I, II and IV

2.
 - (I) There are two main reasons for that predatory mood.
 - (II) Having established a domestic presence, the component makers are now looking foran international presence.
 - (III) Second, having improved their productivity, quality and reliability, Indian companies feel more confident about spreading their wings abroad.
 - (IV) Various other factors are being attributed to this Indian penchant for the takeover game in all sectors.
 - (a) I only**
 - (b) I and II
 - (c) II only
 - (d) III and IV

3.
 - (I) Moving one by one step away from the expected with the graphics and photography can also create reader's interest.
 - (II) Try using a conceptual image or photo to highlight your main message versus very first thing to come to mind when thinking about your product of services.
 - (III) Another form of contrast is in the actual design.
 - (IV) An unusual fold in a brochure or direct mail piece can add excitement.
 - (a) I and II**
 - (b) II and III

- (c) I and IV
 - (d) No error
4. (I) The typeface that you choose for your print project is an important piece of the foremost overall design process.
- (II) First, narrow down your choice by selecting the tone you want to present.
 - (III) Typefaces can convey personality.
 - (IV) For instance, if you are in the banking industry you might choose a classic serif font, such as Garamond, to convey dependability.
- (a) I only**
- (b) II only
 - (c) III only
 - (d) IV only
5. (I) Readability is crucial.
- (II) Be sure of the font we choose is legible and logical.
 - (III) With all of the newest and interesting typefaces available today, it is tempting to pick one that you think looks “cool”.
 - (IV) This can work if you are going for an edgy look that will appeal to a young audience, but your copy still needs to be easily understood.
- (a) I and IV
 - (b) II only
 - (c) III only
- (d) II and III**
6. I. Harish told Raj to plead guilty
- II. Raj pleaded guilty of stealing money from the shop.
 - III. The court found Raj guilty of all crimes he was charged with.
 - IV. He was sentenced to three years in jail.
- (a) I only
 - (b) II and IV
 - (c) III and IV
 - (d) I and II
7. I. It was a tough situation and Manasi was taking pains to make it better.
- II. Slowly her efforts gave fruit and things started improving.

- III. Everyone complemented her for her good work.
- IV. She was very happy and thanked everyone.
- (a) I and IV only
- (b) II only
- (c) II and III
- (d) III and IV only
8. I. The college has organised a science fare.
- II. This is to notify that a leather wallet has been lost.
- III. Shortly blood donation will begin a camp.
- IV. The agenda of the meeting is available on the website.
- (a) Only I
- (b) Only II
- (c) I and III
- (d) II and IV
9. I. He restricted from all temptation.
- II. Mr. Dev died on the morning of 15th
- III. The teacher beat him black and blue.
- IV. I was taken ill yesterday.
- (a) Only I
- (b) Only II
- (c) II and III
- (d) III and IV
10. I. We got into the train at last.
- II. They fought to the last man.
- III. I don't remember to have met you before.
- IV. On entering the room I found the light quite dim.
- (a) Only II
- (b) I and II

(c) Only III

(d) III and IV

Sentence Arrangement

Jumbled Sentences are a must for good English. This is usually known by many names like rearranging of words, rearranging sentences, jumbled words, word order exercises, make a sentence with the word, put the words in the correct order to make sentences, sentence order, sentence formation etc. Rearranging the words in a meaningful sentence is an art. So below is an exercise on the same to help understand the topic.

Lesson 4

**CONCEPT
OF
BUSINESS
COMMUNICATION**

CONCEPT OF COMMUNICATION

The word 'communicate' has been derived from the Latin word 'Communis', which means to 'share'. Communication is a process by which information is exchanged between individuals through a common system of symbols, signs or behaviour. It is the expression of facts, opinions, ideas or feelings. A number of definitions have been given to the term "Communication". A few important ones are:

<p><i>"Communication in its simplest form of conveying of information from one person to another"</i></p> <p style="text-align: right;"><i>- Hudson</i></p>
<p><i>"Communication is the transfer of information from one person to another whether or not it elicits confidence"</i></p> <p style="text-align: right;"><i>- Koontz and O'Donell</i></p>
<p><i>"Communication is an exchange of facts, ideas, opinions or emotions by two or more persons."</i></p> <p style="text-align: right;"><i>-George Terry</i></p>
<p><i>"Communication is the sum of all things, one person does when he wants to create understanding in the mind of another. It is a bridge of meaning. It involves a systematic and continuous process of telling, listening and understanding."</i></p> <p style="text-align: right;"><i>- Allen Louis</i></p>

Communication is an essential condition of our existence and the most important activity of human beings. Communication is a two-way process. There must be at least two persons to allow the completion of the process. One takes up the role of a sender the other that of the receiver. Webster's dictionary states that "communication is the act of exchanging information and understanding from one person to another". For communication to be successful, the exchange of ideas and information must result in imparting and understanding its intended meaning. Its purpose is to effect desired changes in the behaviour of the receiver of the message. Thus communication is the transfer of information from one person to another person. Its goal is to have the receiver understand the message as it was intended. Whether we communicate through writing or speaking, language continues to play an important role. The increasing use of telephone, mobile, recording devices, such as dictaphone, answering machines, live broadcasting and telecasting, and video conferencing have nowadays, shifted the focus from writing to speaking.

Business Communication

When one communicates to transact some commercial activity, that is, providing goods or services, with the intention of generating profits, it is termed as business communication. According to Scott, "administrative communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting action which will accomplish organizational goals". The importance of communication to an organization, all the more so to a business organization, cannot be over emphasized. It links not only the various components of the organization but also its internal world with the external world. In order to be proficient in business communication, it becomes imperative to acquire skills of effective writing and speaking. In fact, lack of these may result in loss of business opportunities. Therefore, curriculums of most business schools the world over cover the subject of business communication extensively. It is also common for the prestigious companies to insist upon excellent communication skills as a requirement at the time of recruitment.

Features of Communication

- (1) Communication is essentially a two-way process. The success or the failure of communication is decided by the feedback we get. Hence, feedback is essential to communication.

- (2) Communication is an ongoing process. Communication is essential in all kinds of organizations and at all levels of management. No manager can be effective in his role unless he is able to communicate. Professional and result oriented organizations are always looking for managers who can communicate persuasively and competently.
- (3) Communication consists not only of facts but ideas and emotions too. Communication is much more than words. The tone and facial expressions often carry greater meaning than words. We can communicate a lot through signs, symbols and gestures. For example, a victory sign made by two fingers communicates better than words.
- (4) Communication is a dynamic process. It incorporates the changing shape of the participants and the environment.
- (5) Communication is a goal-oriented process. Communication can be effective if both the sender and the receiver are aware of the goal of communication and there is congruence of their goals.
- (6) Communication is an inter-disciplinary science. Knowledge derived from several sciences is used in communication. Anthropology (study of body language), Psychology (study of persuasion, perception and attitudes), Sociology and Political science (study of voting behaviour) have provided insights to make communication effective.

Importance of Communication

Effective communication has always been essential for success in business. In recent times, communication has become all the more essential due to the following reasons:

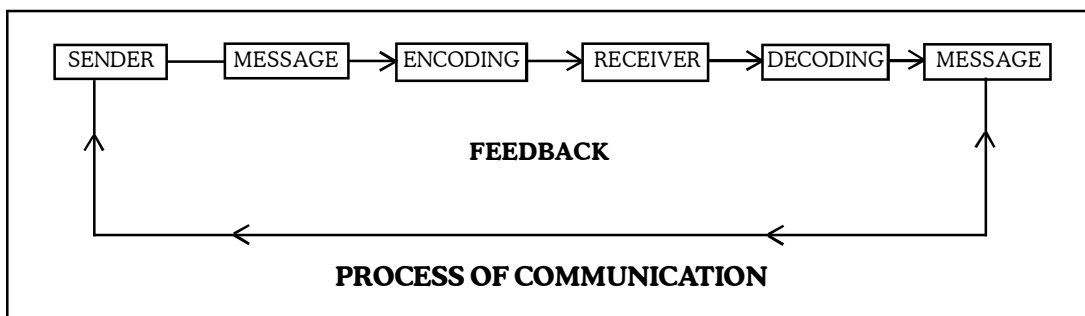
- (i) *Increase in Size* : Business firms have grown tremendously in the scale of operations. A large business firm today employs thousands of people and has operations in different parts of the world. An efficient system of communication is required to carry out its activities across successfully.
- (ii) *Growing Specialization* : Narrow division of work results in different activities being handled by different departments. Sound communication is essential for ensuring mutual cooperation and understanding among different departments without which no organization can function smoothly. If, for example, there is no communication between production and sales departments, the sales department might book such orders that the production department fails to supply.
- (iii) *Cut-throat Competition* : Liberalization and globalization have resulted in severe competition among public sector, private sector and foreign banks. Persuasive communication in the form of advertisements, personal contacts and publicity becomes essential to survive in the race of competition.
- (iv) *Trade Union Movement* : In organisations, employee's unions are very strong and powerful. Management must consult union leaders on several matters. Regular exchange of information and ideas between managers and union officials helps them to maintain healthy relations with one another.
- (v) *Human Relations* : Effective communication between management and employees is necessary to develop mutual trust and confidence. Participation of employees in the decision-making process and other activities helps to develop among them a sense of belonging and loyalty to the organization.
- (vi) *Public Relations* : Society expects a sense of responsibility from managers. Business has to keep the Government, distributors, suppliers, investors and other sections of society well-informed about its contribution to society. Public relations help business to improve their image in society, and big enterprises employ professional experts for this purpose.

- (vii) *Personal Asset* : Communication skill is essential for success in every job. Managers are required to deliver speeches, write documents and conduct interviews. Teachers, advocates, journalists, receptionists need a high degree of communication skills. The ability to communicate effectively is equally essential for promotion in career.

Communication Process

The communication process consists of a series of steps by which a sender reaches a receiver with a message. It involves six steps:

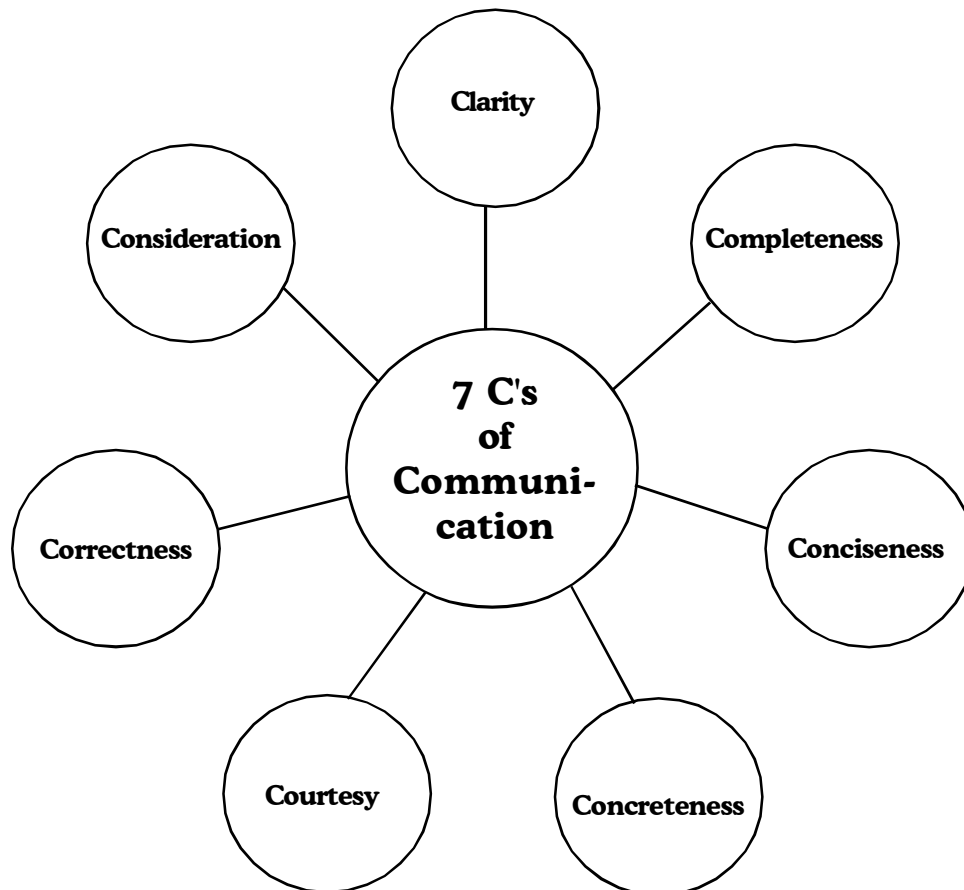
- (1) *Develop an Idea* : It is an idea or thought which the sender wishes to transmit. This is the key step. Unless there is a worthwhile message to communicate all further steps are rendered useless.
- (2) *Encode* : In this, the idea is encoded with suitable words, charts, or symbols for transmission. At this point, the sender determines the method of transmission.
- (3) *Transmit* : The finally developed message is transmitted by the method chosen. Senders also choose certain channels and communicate with careful timing, but they try to keep their communication channels free of barriers.
- (4) *Receive* : Clear reception of a message is a condition precedent to its effective interpretation, storage and use. In an interpersonal mode, it would involve attentive listening too.
- (5) *Decode* : Step five is to decode the message so that it can be understood. The sender wants the receiver to understand the message exactly as intended. But, due to different perceptions of two different people, the receiver sometimes does not understand exactly what the sender intends. Hence, the sender must before land assess the abilities of the receiver to make the communication happen.
- (6) *Feedback* : Feedback is the receiver's response to the sender's message. Feedback enables the sender to know whether or not his message has been received and interpreted correctly. The exchange of information through feedback can be very helpful in improving the communication process.
- (7) *Noise* : Most of the time communication failure is caused by noise. Noise is distracting and interferes with the communication process. If the channel medium we are relying upon is faulty the message may be at times encoded wrongly. Sometimes distortion in sound or a speech defect also hampers the process of effective communication. Besides noise, sometimes sender's attitudes, personal prejudices, certain assumptions, frame of mind or use of wrong tone interfere with the communication process. Similarly, on the other end the receiver's background, prejudices, his ability to understand the message as intended, influence the effective communication. Apart from these factors speech defects, distracting body language, illegible handwriting, etc. bring about the failure of communication.



Principles for Effective Communication

As the key to efficient business lies partly in communicating effectively, we must therefore make a conscious effort to master it. Effective communication depends mainly on three things: “understandable messages, credibility of the sender, and how the message is affecting the receiver.” Effective communication can be achieved by having a thorough knowledge of the communication process in an organisation. And also being aware of the various barriers that exist and taking relevant steps to overcome the same while keeping in focus the objective of the communication, whom it is meant for and under what circumstances it is being made.

The Seven C's of Effective Communication



- Clarity of expression,
- Completeness of information,
- Conciseness of message,
- Concreteness in presentation,
- Courtesy towards recipient,

- Correctness of facts, and
- Consideration for receiver.

1. *Principle of Clarity*

Communication should be clear so the recipient can understand what the sender really wants to communicate. The sender always desires how the recipient interprets the particular meaning while using the exact same meaning. For this, the sender ought to help to make the particular meaning free of ambiguity and also vagueness. The following tips are offered for making meaning clear:

- Picking out the brief, acquainted and also effortless words and phrases.
- Picking out conversational words and phrases rather than poetic types.
- Constructing successful paragraphs and also grammatical construction.
- Supplying illustrations, cases along with visual supports while appealing.
- Staying away from techie words and phrases and also jargon's.

2. *Principle of Completeness*

The communication must be complete. It should convey all facts required by the audience. The sender of the message must take into consideration the receiver's mindset and convey the message accordingly. A complete communication has the following features:

- Complete communication develops and enhances reputation of an organization.
- Moreover, they are cost saving as no crucial information is missing and no additional cost is incurred in conveying extra message if the communication is complete.
- A complete communication always gives additional information wherever required. It leaves no questions in the mind of receiver.
- Complete communication helps in better decision-making by the audience/readers/receivers of message as they get all desired and crucial information.
- It persuades the audience.

3. *Principle of Conciseness*

Conciseness means wordiness, i.e, communicating what you want to convey in least possible words without forgoing the other C's of communication. Conciseness is a necessity for effective communication. Concise communication has following features:

- It is both time-saving as well as cost-saving.
- It underlines and highlights the main message as it avoids using excessive and needless words.
- Concise communication provides short and essential message in limited words to the audience.
- Concise message is more appealing and comprehensible to the audience.
- Concise message is non-repetitive in nature.

4. *Principle of Concreteness*

Concrete communication implies being particular and clear rather than fuzzy and general. Concreteness strengthens the confidence. Concrete message has following features:

- It is supported with specific facts and figures.

- It makes use of words that are clear and that build the reputation.
- Concrete messages are not misinterpreted.

5. *Principle of Courtesy*

Courtesy in message implies the message should show the sender's expression as well as should respect the receiver. The sender of the message should be sincerely polite, judicious, reflective and enthusiastic. Courteous message has following features:

- Courtesy implies taking into consideration both viewpoints as well as feelings of the receiver of the message.
- Courteous message is positive and focused on the audience.
- It makes use of terms showing respect for the receiver of message.
- It is not at all biased.

6. *Principle of Correctness*

Correctness in communication implies that there are no grammatical errors in communication. Correct communication has the following features:

- The message is exact, correct and well-timed.
- If the communication is correct, it boosts up the confidence level.
- Correct message has a greater impact on the audience/readers.
- It checks for the precision and accurateness of facts and figures used in the message.
- It makes use of appropriate and correct language in the message.

7. *Consideration for Receiver*

Consideration implies "stepping into the shoes of others". Effective communication must take the audience into consideration, i.e, the audience's viewpoints, background, mindset, education level, etc. Make an attempt to envisage your audience, their requirements, emotions as well as problems. Ensure that the self-respect of the audience is maintained and their emotions are not at harm. Modify your words in message to suit the audience's needs while making your message complete. Features of considerate communication are as follows:

- Emphasize on "you" approach.
- Empathize with the audience and exhibit interest in the audience. This will stimulate a positive reaction from the audience.
- Show optimism towards your audience. Emphasize on "what is possible" rather than "what is impossible". Lay stress on positive words such as jovial, committed, thanks, warm, healthy, help, etc.

Apart from the above Principles, the following guidelines ensure effective communication:

Choose the right means and mode

It is most important to choose the right means and mode of communication. This would depend on, the organisation, its size, its policy, cost involved, urgency, distance, resources available, confidentiality, safety, security, necessity for an official record of the communication, the recipient and the resources available.

Own your messages

It is important to take responsibility for what we say. It is common to come across instances where the sender chooses vague or general terms to denote the sender. When you state that many shareholders are unhappy with the proposed merger of the company, you may or may not be speaking the truth. You do not specify who those shareholders are. Therefore the officials of the company may not accept your statement at face value. Your message may be taken seriously if you are willing to own it. So use personal pronouns to lend credibility to your messages. Long business reports, commercial terms and conditions or legal provisions are an exception since they may be drafted using passive verbs and employing a formal tone.

Offer complete and relevant information

Messages must offer complete and relevant information in order to become effective. Incomplete information makes it necessary to begin another cycle of communication to issue clarifications. For example, it is not enough to just say that the register will remain closed from 28th to 30th March. It does not become clear to the receiver which register we are talking about and why it will be closed. Our message must state clearly that the register of shareholders will remain closed in order to determine the names of the shareholders entitled to receive the dividend.

Obtain feedback

Feedback is the culmination of the communication process. It confirms that the receiver has correctly understood our message. We may get a feedback through an appropriate closing. The closing line of a business letter often invites such a response. When sending out a cheque, we often ask the receiver to acknowledge its receipt. Similarly, we ask the other party to confirm that the appointment is suitable for it when we proposed an important business meeting.

Think of the recipient

Effective messages are invariably "You-centered". We do not address the President of our company in the same manner as we speak to a fellow manager. The rank of the former demands careful thought and respect. Familiarity with the latter may make us feel more at ease. A doctor may discuss a case with a specialist in medical terms but switches over to a layman's language when talking to the patient. A lawyer does not use the legal jargon with a client: he reserves it for the court-room. Therefore, we must take into account the attributes of the receiver before drafting the message.

Verbal and Non-verbal congruence

As explained earlier, meanings are often communicated in more than one way. For example, our words as well as gestures simultaneously send out signals. A message of welcome should ideally be uttered with a smile. Angry words are spoken with a frown. To put it in another way, our words and facial expressions must send out the same message. A reprimand administered with a smile would send out wrong and conflicting signals. It will leave the receiver guessing whether the sender is actually annoyed or is just pretending to be so.

Repeat if necessary

Repetition is generally avoided in order to save time and space. However, in exceptional circumstances, repetition ensures that the crucial part of the message is not ignored or overlooked. Telegraphic messages, which by nature are brief, often use repetition to good effect. DO NOT REPEAT DO NOT DESPATCH GOODS TILL FURTHER NOTICE. In ordinary communication, we may state the same fact using different words to get the benefits of redundancy and ensure comprehension. Use of different channels of communication also ensures successful communication. For example, a telephonic message may also be sent in writing later just to confirm the same.

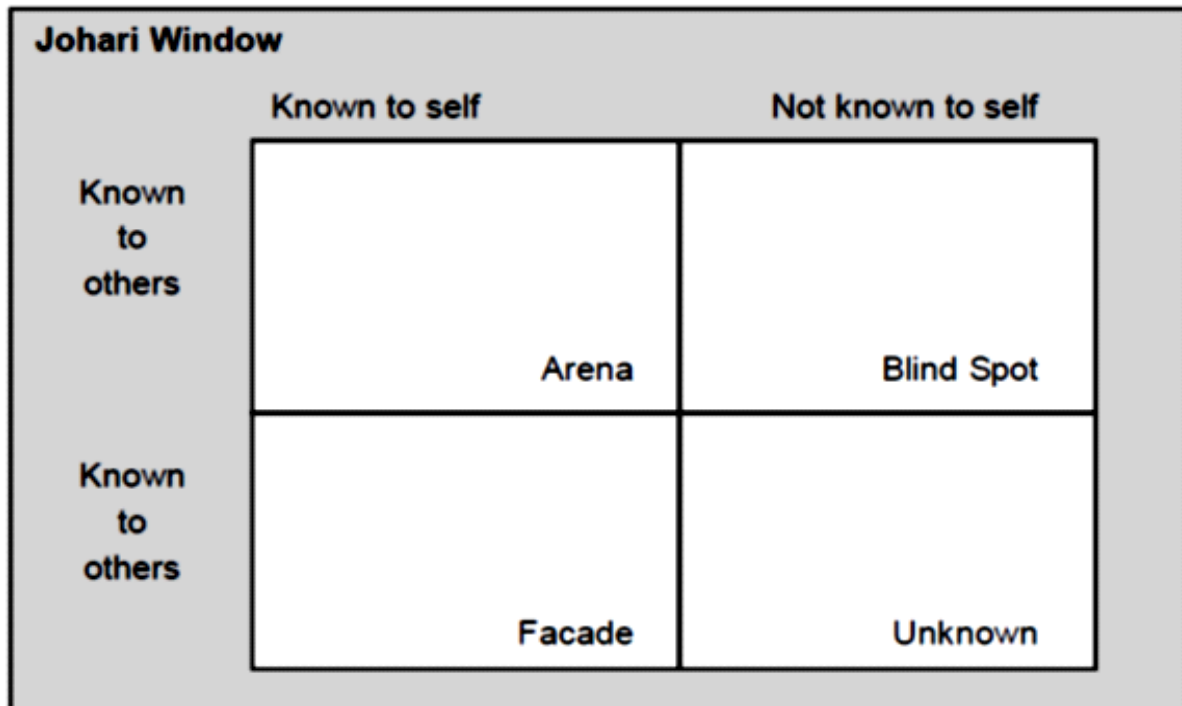
Do not judge

Unfavourable judgments provoke reactions and are better avoided. If a subordinate has not finished the work allotted to him on time, then the boss has two options. He may either point out this fact in a plain and matter of fact tone or may reprimand him for being lazy, good-for-nothing guy who should be fired immediately. The first option is clearly preferable and strengthens the credibility and trustworthiness of the sender.

Rely on facts

Facts lend credibility to our communication since it is not possible to refute them. If a candidate claims that he has a typing speed of fifty words per minute, then it is possible to verify this claim. Opinions on the other hand are subjective. A claim that one is a good typist is at best vague. It depends on what the claimant expects a good typist to be like. While it is not possible to exclude opinions from our messages, we can make them acceptable by quoting facts in their support. However, reliance on selective facts will only affect our trustworthiness.

Johari Window



The Johari Window, named after the first names of its inventors, Joseph Luft and Harry Ingham, is one of the most useful models describing the process of human interaction. A four paned “window,” as illustrated below, divides personal awareness into four different types, as represented by its four quadrants: open, hidden, blind, and unknown. The lines dividing the four panes are like window shades, which can move as an interaction progresses. In this model, each person is represented by their own window.

Adjectives selected by both the participant and his or her peers are placed into the Arena quadrant. This quadrant represents traits of the participant of which both they and their peers are aware. For example, I know my name, and so do you. It may also be called “open” quadrant.

Adjectives selected only by the participant, but not by any of their peers, are placed into the Façade quadrant, representing information about the participant of which their peers are unaware. It is then up to the participant whether or not to disclose this information. For example, I have not told you, what one of my favorite ice cream flavors is. This information is in my “Façade” quadrant. As soon as I tell you that I love “Ben and Jerry’s Cherry Garcia” flavored ice cream, I am effectively pulling the window shade down, moving the information in my façade quadrant and enlarging the arena quadrant’s area. Façade quadrant also called “hidden” quadrant.

Adjectives that are not selected by the participant but only by their peers are placed into the Blind Spot quadrant. These represent information of which the participant is not aware, but others are, and they can decide whether and how to inform the individual about these “blind spots”. For example, we could be eating at a restaurant, and I may have unknowingly gotten some food on my face. This information is in my blind quadrant because you can see it, but I cannot. If you now tell me that I have something on my face, then the window shade moves to the right, enlarging the arena quadrant’s area.

Adjectives which were not selected by either the participant or their peers remain in the Unknown quadrant, representing the participant’s behaviors or motives which were not recognized by anyone participating. This may be because they do not apply, or because there is collective ignorance of the existence of that trait. For example, I may disclose a dream that I had, and as we both attempt to understand its significance, a new awareness may emerge, known to neither of us before the conversation took place.

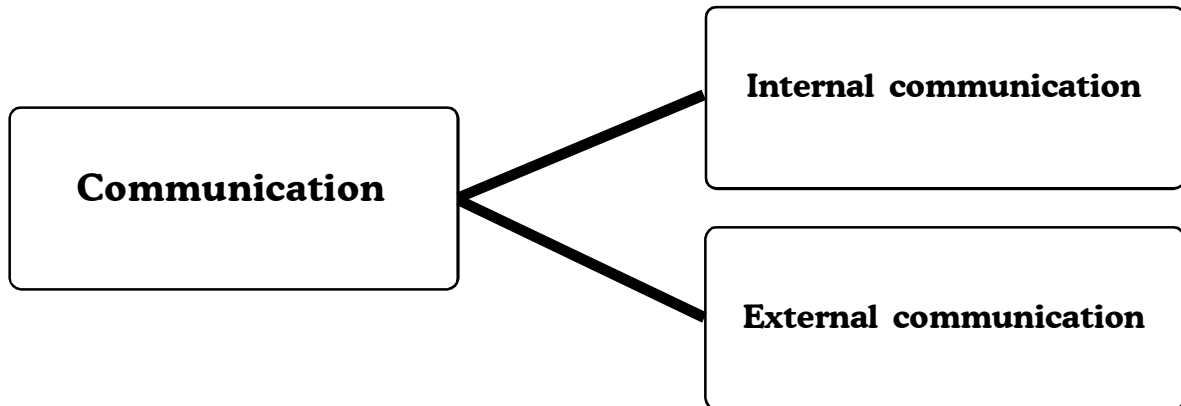
The process of enlarging the open quadrant is called self-disclosure, a give and take process between me and the people I interact with. Typically, as I share something about myself (moving information from my hidden quadrant into the open) and if the other party is interested in getting to know me, they will reciprocate, by similarly disclosing information in their hidden quadrant. Thus, an interaction between two parties can be modeled dynamically as two active Johari windows. For example, you may respond to my disclosure that I like “Cherry Garcia” by letting me know what your favorite ice cream is, or where a new ice cream shop is being built, kinds of information in your hidden quadrant.

A Johari Window consists of 55 adjectives used to describe the participant, in alphabetical order:

- able
- accepting
- adaptable
- bold
- brave
- calm
- caring
- cheerful
- clever
- complex
- confident
- dependable
- dignified
- energetic
- extroverted
- friendly
- giving
- happy
- helpful
- idealistic
- independent
- ingenious
- intelligent
- introverted
- kind
- knowledgeable
- logical
- loving
- mature
- modest
- nervous
- observant
- organized
- patient
- powerful
- proud
- quiet
- reflective
- relaxed
- religious
- responsive
- searching
- self-assertive
- self-conscious
- sensible
- sentimental
- shy
- silly
- spontaneous
- sympathetic
- tense
- trustworthy
- warm
- wise
- witty

Types of Communication

Communication may be divided into two types : Internal and External.



Internal Communication

When people within the organisation communicate with one another, it is said to be an internal communication. Employees of an organisation do so to work as a team and realise their common goals. Internal communication could be official or unofficial. It could be individual to individual, individual to group, group to individuals, department to department, etc. Most of the internal communication is in the oral form and the tone is generally informal.

People also communicate within the organisation at a personal level. This is known as informal communication. A good example is that of grapevine, which is present in some measure everywhere. If the atmosphere is secretive, it encourages the spread of rumors and half-truths. Intelligent managers use this human weakness to their advantage by sharing favourable information with the employees.

Of the various modes of visual communication, the most likely ones to be used in internal communication are slides, internet without use of multimedia and pager.

All modes of non-verbal communication may be used in internal communication.

Some of the modes of written communication are Memo, Report, Office order, Circulars, Staff Newsletter, Email, Fax, Notice, Agenda, Notes on Agenda, Minutes of Meetings, Manuals, etc.

Other than the Radio, all other modes of oral communication stated earlier, could be used in internal communication.

Internet with multimedia, video conferencing and presentations either electronic or with visual aids are the likely modes of audio-visual communication that can be used in internal communication.

External Communication

When the people in an organisation communicate with anyone outside the organisation it is called external communication. These people may be clients or customers, dealers or distributors, media, government agencies, general public, regulatory bodies, authorities, etc. Letters and circulars, Price-lists, Manuals, Purchase Orders, Customised reports, Brochures and service calls, Tender documents, Advertisements, Customer' feedback material are all external communication methods. Modern business houses spend considerable time, money and effort on improving their public image since they realise that they are dependent on external support. External communication has been mainly formal and largely documented,

but there is an increasing trend to make it informal.

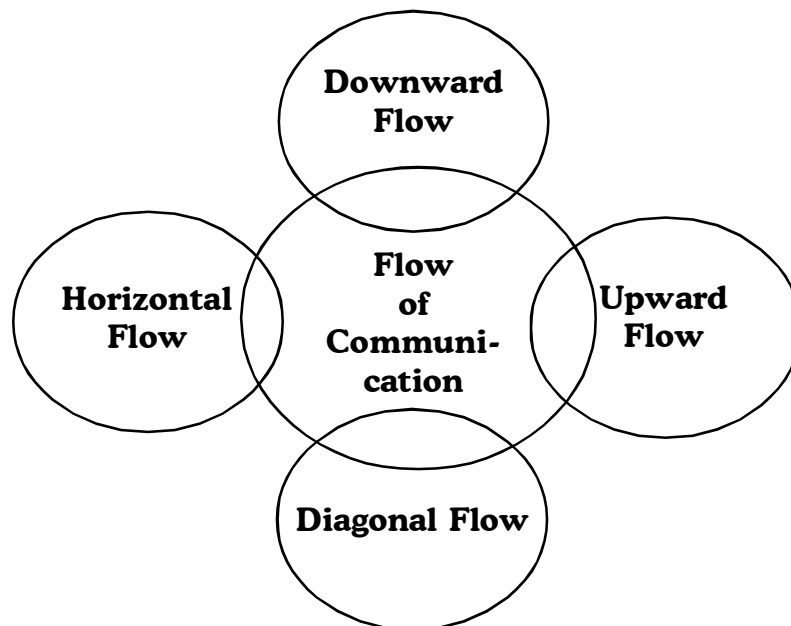
Some of the modes of written communication that may be used are Circulars, Graphs/Charts, E-mail, Fax, Form/Questionnaire, Letter, Advertisement, Customer Newsletter, Press Release, Invitation, Leaflet/Brochure/Handbills, Manuals, Telegram, etc.

Other than intercom, dictation, teleconferencing, brainstorming sessions and grapevine, all other modes of oral communication stated earlier can be used in external communication.

All modes of visual and audio-visual communication too may be used in external communication.

All modes of Non-verbal communication may also be used in external communication depending on the circumstances and means of communication chosen for the purpose.

Communication Flows



The flow of communication in an organisation depends on its size, structure and philosophy. Smaller organizations, with fewer levels of hierarchy and people may be having fewer communication problems. In larger organisation with many hierarchical levels, the process is more complicated. However, a comprehensive organisational chart will help in clearly marking out the lines or channels of communication. The flow or pattern of communication may be downward, upward, diagonal or horizontal.

Downward Flow

Traditional organisations have a vertical structure. All the important decisions are taken at

the top. These are communicated through different levels of hierarchy to the workers. The disadvantages of such a chain of command are many. Firstly, it creates an authoritarian atmosphere in the workplace. Secondly, the message is often distorted as it comes down through different levels. Thirdly, it also consumes a lot of time and leads to avoidable delays.

Upward Flow

With the passage of time, management styles have also undergone a change. The role of workers in the progress of industry has begun to be appreciated. Workers' empowerment and their participation in management are the buzz-words. It is natural for the workers to feel involved in their organisations once they realise that their interest coincides with that of the management. The result has been an increase in the flow of upward communication.

Diagonal Flow

Often there arise situations where tasks to be completed involving more than one department in the

organisation and there is more often no obvious line of authority. In such circumstances the insistence on the use of proper channels in communication may affect the efficiency of management and may cause undue delays in the completion of the task.

Sometimes, it is just not possible to give or seek crucial information only through the right channel. It has also been found that information is suitably distorted or filtered by superiors before it is allowed to reach the decision makers. Therefore, one has to enable people to talk to lower or higher ranks freely rather than wait indefinitely. Diagonal communication is based on cooperation, goodwill and respect between the parties concerned.

Horizontal Flow

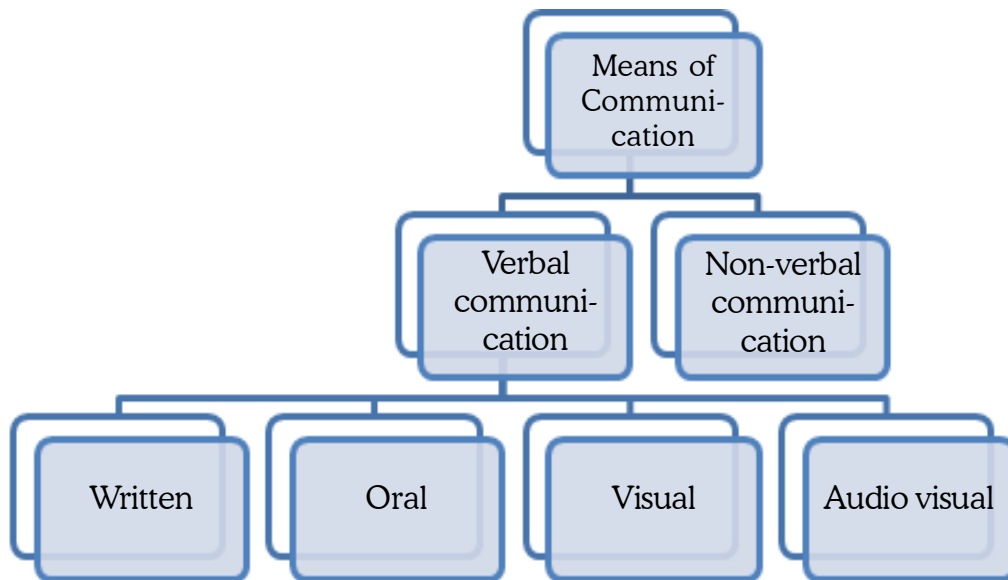
This type of communication flow usually takes place between people of the same status/level of hierarchy in the organization. However, as flatter organizational structures have now become the order of the day, people of different ranks now manage to converse with less reserve and formality. There are many advantages of such openness. Policy decisions are no longer shrouded in mystery. Workers are encouraged to ask questions and understand the compulsions of hard decisions. There is better understanding and coordination. However, it is important to continue to respect the authority, use appropriate language and show good behavior.

Means and Modes of Communication

Business communication is generally interpersonal since the discharge of business functions requires interaction with others.

Means of Communication

The means or methods of communication, as is evident from the Figure below, are broadly classified into (i)



verbal communication which entails the use of words to convey messages either in speech or through writing; and (ii) Non-verbal communication where messages are communicated through body language (i.e.) facial expressions and gestures. There are a variety of modes through which one can communicate most of which you may be familiar with and may have also used or been the recipient of at some point of time.

Verbal Communication

It is a written or spoken message that uses words to exchange ideas/ information. Words are selected in phrases, sentences and paragraphs depending upon the results the verbal communication is trying to achieve.

The means of verbal communication are:

- Written communication
- Oral communication
- Visual communication
- Audio-visual communication.

1. Written Communication

In the written form, it may require drafting of letters and circulars, proposals, memos and business reports of varying kinds and includes:

- Memo
- Report
- Office order
- Circulars
- Graphs/Charts
- Staff Newsletter
- E-mail
- Form/Questionnaire
- Letter
- Notice, Agenda, Notes on Agenda
- Minutes of Meetings
- Advertisement
- Customer Newsletter
- Press Release
- Invitation
- Leaflet/Brochure/Handbills
- Manuals

Advantages and Disadvantages of Written Communication

Written Communication has several advantages, although the disadvantages of written communication are equally serious.

Advantages

1. It allows us sufficient time for planning the document we propose to create, taking into account the purpose for which it is being written.
2. It also enables us to revise the contents if we find them unsuitable for the recipient from the point of view of clarity or interest.
3. To display what we have written, we have a variety of recent and traditional trends to choose from. There is also a scope to use tastefully designed stationery for the purpose.
4. The use of headings and bullets enables us to organise the material for better understanding.
5. Information in the written form may be filed or retrieved at our convenience. Its permanence facilitates prolonged correspondence.

Disadvantages

1. It takes much more time to compose a message in writing. Therefore it is expensive.
2. It also tends to suffer from the limitations of the sender, like the assumptions or prejudices, and the delayed feedback makes it worse.
3. The inadequacies of the first message may only be revealed when the reply arrives.
4. Communication in writing suffers from a lack of congruence with non-verbal communication

2. Oral Communication

Research studies have shown that 80% of communication by executives of a company is in the oral form. The modes of Oral Communication include:

- Telephone/Cellular phone
- Messages
- Intercom
- Face-to-face discussion
- Meetings/Conferences
- Presentation
- Dictaphone/Dictation
- Conversation
- Radio
- Teleconferencing
- Speeches
- Brainstorming sessions
- Grapevine
- Interview

Importance of Oral Communication in Business

Speech is one of the earliest as well as the widely used medium of communication. We can retrace our memory to the days of Socrates, Demosthenes and others who were great and renowned orators. In

fact, talking has achieved brought into being great institutions. The world-renowned insurance company Lloyds is the brainchild of some merchants and ship owners who used to meet and discuss the matters of mutual interest at a coffee house on the banks of the river Thames.

The Bank of England, the oldest in U.K. was born out of the deliberations the goldsmiths had amidst themselves. There were and there are great personalities who hold the audience spell-bound.

Everyday in business, people come into conversation-the superior with the subordinate, superiors among themselves, subordinates among themselves, the customers with the suppliers and suppliers with clients and so on and so forth. Effective oral communication is a passport to success in business. No fixed norms can be set for effective oral communication. Factors like the audience, size of audience, the degree of significance attached to the information to be spoken out, fear of the boss, fear of status, fear of one's own self-advancement, all affect oral communication. Often the Chief of a Corporation appearing on television or radio or at a meeting picks his words as if he is a tight rope walker knowing that a single word wrongly uttered may shatter his image or that of the corporation which he heads.

It is true that all business managers should be adept at communication since they have to communicate to various people at various places, various facts and figures, financial or non-financial, implications of which may have a significant impact upon the management of the business. Business communication itself is a difficult subject, it is also very difficult to separate it from every day activity of business people as it has acquired special significance in the life of the people in business. It is said a successful businessman should be first of all well conversant with the techniques and the art of communication in order to make his assignment a successful one.

In the early days, much time was spent in generating data of all kinds. However, not much attention was given to quality of transmission of information. It depends upon the presentation of information by using appropriate words and medium, which upgrades the value of the information by the receiver.

As stated earlier, oral communication is the most frequently used means of transmitting messages in business. It is resorted to more often than any other type of communication. The reasons for the popularity of oral communication are its advantages. They are:

1. Oral communication saves time. It is said time is money. Wherever and whenever action needs to be taken instantly or immediately, the best way to expedite action is to transmit necessary messages orally. Oral communication helps busy people to reassign their workload quickly by giving necessary instructions, guidance and providing information to subordinates. It thus saves time and quickens the action.
2. Oral communication provides the opportunity for feedback and clarification. This process of communication helps the sender of the message to clarify each and every point instantly. The receiver, at the same time, can also express his opinion, views or emotions on the spot. He can ask for clarifications wherever required and get himself satisfied. Thus, clarity is better ensured and makes the communication more effective and purposeful.
3. Oral communication helps to convey the message more appropriately with a suitable tone, voice and use of words. It can instantly make the receiver of the message understand the content of communication and significance thereof assigned to any particular matter of communication.
4. Oral communication is an effective tool of persuasion in management. It gives a personal touch to the communication. For this reason, supervisors and executives in all sorts of business enterprises prefer to communicate their views, ideas and opinion orally.
5. Oral communication is very effective in communicating with groups. It helps the speaker to establish personal contact with a group of people and make the group understand his opinion and views at a single point of time. The speaker can also hear about the group's reaction subsequently.

6. Oral communication is economic also. It saves manhours to be spent in preparing notes, explanation, circulars, etc. It also saves the stationery of the organisation.
7. Withdrawal of oral communication is comparatively an easy task. There are at times situations in business where oral communication is preferred to written communication for, the latter may create an official record which may be used as evidence against the person on any legal matters arising later in point of time.

Disadvantages of Oral Communication

The disadvantages of oral communication also deserve equal mention, as oral communication by itself, is not effective always. It mainly depends upon the attitude of the sender and receiver of messages. It should always be kept in view that communication is not a onesided activity. The communicator will have to use appropriate words to convey the message as well as develop an ability to receive and react to the communication spontaneously. The use of right words especially in oral communication makes the communication more effective. Saying the right word at the right time to the right person will receive the best possible response from the receiver. It is not what you say but how you say it that matters in oral communication, only the right word will get the right response. People especially in business should develop a habit to listen to the whole message with meanings, ideas, feelings, intentions and facts conveyed, including things that are unpleasant and unwelcome.

Oral communication is totally dependent on listening. Therefore bad or partial listening may affect the comprehension of the message. Since the feedback is instant, therefore the process may become extremely lengthy. Some meetings go on endlessly without producing proportionate results. Oral communication generally has no record or legal liability. Therefore, it is strongly recommended to confirm important oral messages in writing. Similarly, the economy of oral communication is dependent on control. Telephone calls, unless kept brief, may also cost a lot of money. Unfamiliar accents and pronunciation caused by regional variations and mother-tongue interference often lead to temporary difficulties for the recipients. In short, it is important to exercise control in order to derive the benefits of oral communication.

3. Visual Communication

Visual communication could be with words or pictures or a combination of both and includes:

- Graphs
- Tables/charts
- Maps
- Models
- Demonstrations
- Slides
- Flipcharts
- Neon Hoardings
- Printed/Painted Pictures (Posters etc.)
- Internet without use of multimedia

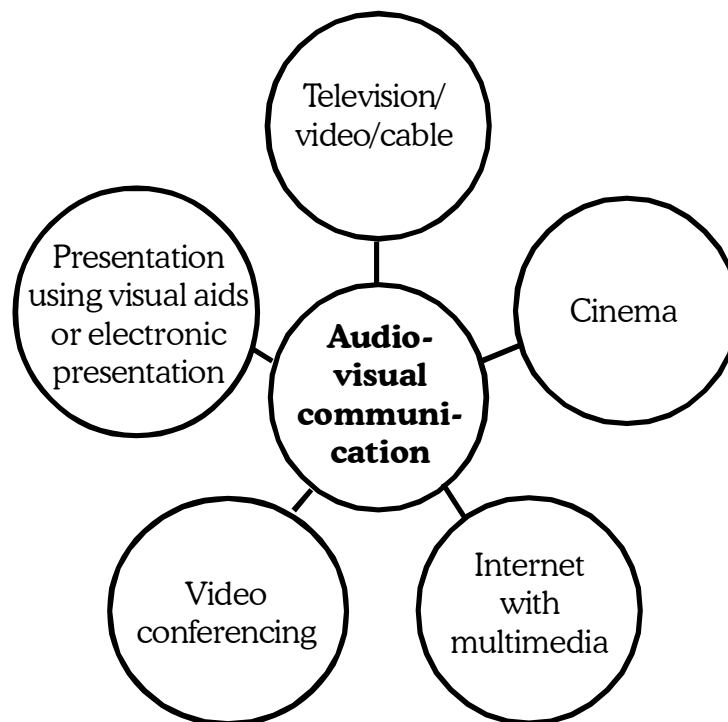
The modes of visual communication are useful tools for conveying information in a manner that makes the data and any relationship between variables clearer and easier for the receiver to follow. They can be used on their own. But the maximum benefit can be gained from them if they are used as a complement to the main message because they are more capable of attracting and retaining the attention of the receiver than speech or written words.

The main advantage of using visual communication is that the message conveyed using this mode is easily remembered by the receiver and for a long period too. However, using this mode is also expensive which is its major disadvantage.

4. Audio-visual Communication

The rapid advancements taking place in the field of information technology have brought about unprecedented changes in the communication systems the world over. In this scenario the modes of audio-visual communication assume more importance.

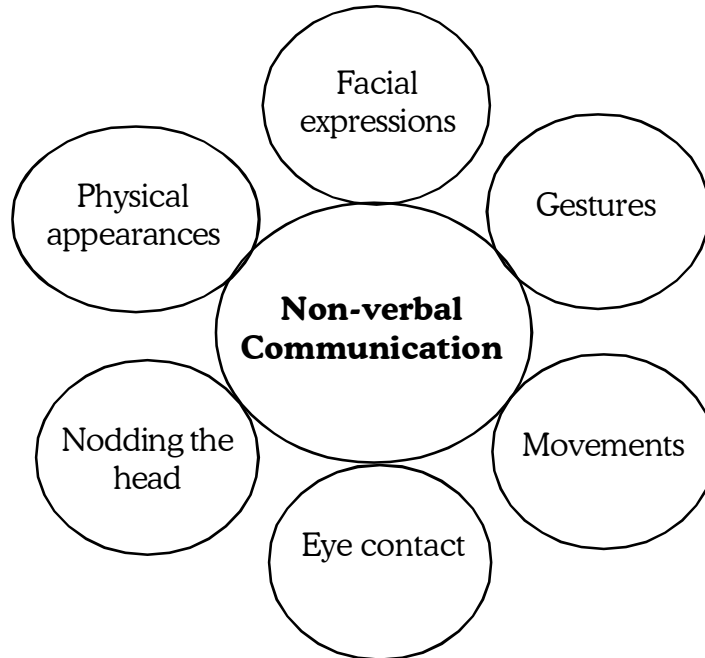
The means of audio-visual communication include:



The greatest advantage of this mode is that it aims at stimulating the senses of both sight and hearing simultaneously and thus enhances the effectiveness of the message. The other advantages are its wider reach and the fact that the message is remembered for a much longer time than it would be if it had been conveyed by any other mode of communication. Here again the high cost factor involved is its greatest disadvantage.

Non-verbal Communication

Non-verbal Communication includes:



It is an unspoken or unwritten message that uses body language. This may be used by itself e.g., frowning or smiling at someone or along with oral communication. In a situation involving the use of oral communication, non-verbal signs play an equally important role. While listening to someone, one may also be looking at the person. Their facial expressions such as a smile or a frown may strengthen the verbal message. The entire body language, from large gestures to proximity with the listener, may help emphasise the contents of the message.

Alternatively, if non-verbal communication is absent, it leaves the recipient guessing. The “British stiff upper lip” which looks down upon display of emotions in public is a good example. Similarly in the case of verbal and non-verbal incongruence, the result may be confusion and even a communication failure. It is important to note two things. In simple situations, non-verbal communication may suffice in itself. For example, it will be perfectly in order to smile at a guest and escort him in without speaking a word. Second, this form of communication has a strong cultural content. The Arabs and Latin Americans are prone to move closer to the listener as well as maintain more eye-contact than the Europeans do. Similarly, physical contact is considered a powerful tool of communication. But touching an acquaintance, the handshake excepted, is almost taboo among the British, insignificant in America and common in Latin America.

Choice of Means and Mode of Communication



Choosing the right means and mode of communication plays a vital role in the effectiveness of the message being communicated and such choice depends on various factors such as:

1. *Organisation size and Policy*

If the organisation is small, probably more communication will be oral, than in larger organisations where it may be in writing. The policy for communication also would play a major part in influencing one's choice of mode of communication.

2. *Cost Factor*

The main point to be considered here would be to evaluate whether the cost involved in sending the message would be commensurate with the results expected.

3. *Nature of Message*

Whether the message is confidential in nature, urgent or important etc., and whether a matter would require hand-delivery or be sent by registered post etc. also influences the choice of mode and means of communication.

4. *Distance Involved*

Where the message is to be sent is also another vital factor that could influence the choice of means and modes of communication. For example, if a letter is to be sent to a partner in a joint venture in Japan and it is urgent, you would not think of sending someone to personally deliver it.

5. *Resources*

The resources available to both the sender and receiver would also influence your choice. You can only send a fax if the other person/organisation has a fax machine.

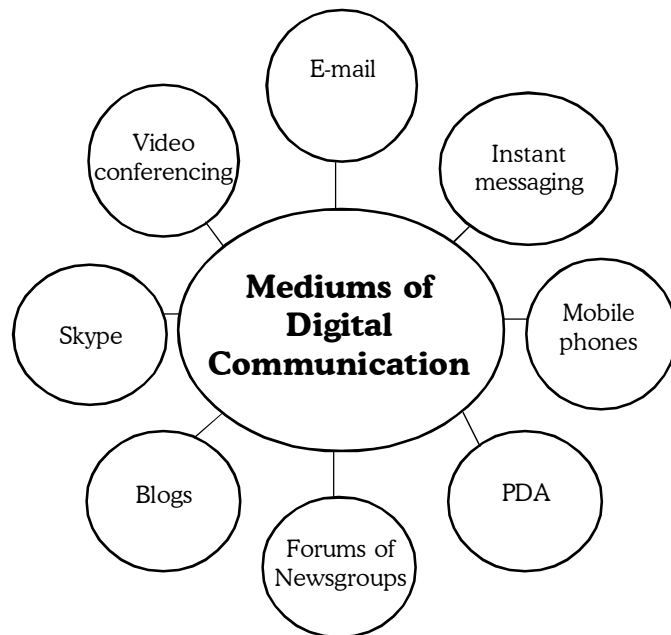
Therefore we can see that the choice of a particular mode and means of communication will depend on a case to case basis and is influenced by various factors.

Mediums of Digital Communication

We are living in the Information Age, and the digital technologies have revolutionized communication in the modern world. The Internet and cell phones are two of the most prominent examples of the influence of the Information Age, but there are many other types of digital communication technologies used nowadays. There are many different ways of communicating digitally. Most of them are used in everyday situations. Some of the most common mediums of digital communication are:

Electronic mail (or e-mail)

It is a method of creating, sending, storing and receiving messages over an electronic communication system. It uses a protocol (a rule) for sending messages called Simple Mail Transfer Protocol (SMTP for short). One can send e-mail over an internet connection or



over an intranet (a collection of computers within a specific area like an office building). E-mail users can communicate with each other by sending and receiving messages. Sometimes you want to store messages to read later and your email software will allow you to do this.

Instant messaging

Instant messaging (IM) is like e-mail but it is done in real-time (get a response very quickly). The instant messaging software installed on the computer and in the software a contact list of people is set-up with whom one wants to connect. Most IM software lets you know who is online and available to chat. You can send text, pictures and even video using IM and whoever you are communicating with can respond as soon as they see the text appear in their IM software.

Mobile phones

Mobile phones are used by lots of people today to talk, send text messages, take and send pictures, listen to music, or surf the internet. In fact, you can do so much with a mobile phone it can be a complete communication tool. The Short Message Service (SMS) allows text messages to be sent and received via your subscriber service. If the phone you are sending the text message to is out of range or turned off, the service provider will store the text message until it can be delivered.

PDA

PDAs (Personal Digital Assistants) are hand-held computer devices that can perform a number of different things, like receiving e-mails, sending messages, writing text (in a word processor). Newer PDAs are also telephone devices, receiving both audio and video. A PDA connects either through a local telephone network, or a local intranet or an internet connection.

Forums or Newsgroups

A forum or newsgroup is an online discussion group where people can subscribe (join) a group and post messages to that group. They can take part in discussions with other people in the group and reply to messages posted by other members of the group. The group can be closed (private) which is often used for communication between project groups working on a project together, like a survey or sharing project documents. An open (public) group is often used by people sharing a common interest. When you join a group you will need to register your details. This creates an account for you so you can post e-mail messages to the group.

A thread is just a group of related messages on a particular topic, for example pruning roses, or the latest film, everyone in the group has seen.

Emoticons are little graphical pictures that represent how people are feeling, like a smiley face for happy, or a face to say you agree with something.

Blogs

A blog ('web log') is a form of online journal that allows text, images and video clips (and links to websites) to be displayed as a webpage but also allows comments to be posted by readers of the blog. Some blogs ask you to register with the site first before allowing you to post anything. There can be moderation of posts as with forums but that is determined by the owner/administrator. Blogs often contain information about a particular topic like food, politics or local news. A blog contains text, images and links to other blogs, forums or other web pages related to the blog topic.

Skype

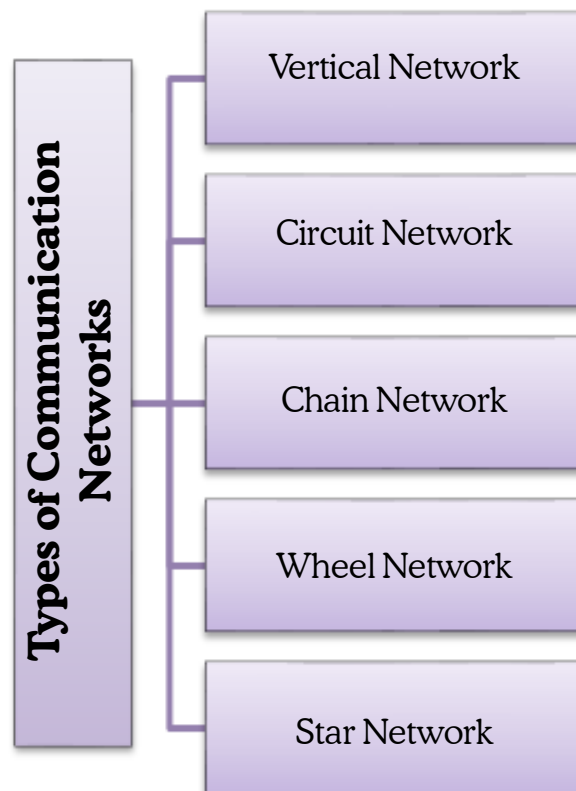
Skype is not new to communication. It has been around since 2005, but has become very popular. Skype users receive calls on their computers dialled by regular phone subscribers to regular phone numbers.

Skype permits users to subscribe to numbers in many countries including the UK and USA. Callers pay only local rates to call a number. Skype supports voicemail, chat, video calling, SMS messaging to mobile phones and skype casting. Multiple users can access Skype. A user will need a headset and a microphone or a Skype handset, which looks very like a mobile phone to talk to other Skype users.

Video conferencing

Video conferencing provides two-way video transmission between different sites. It could be between two buildings, or even across different countries. Every video conferencing facility allows for call set-up, call coordination and display of participants. It is normally used with a video conferencing screen so you can see the people in each of the video conferencing rooms. Video conferencing makes use of specialist equipment like a computer, video camera and a network like an intranet or internet connection to connect the two sites together. Video conferencing can save people time, and the expense of travelling between sites for meetings.

Communication Networks

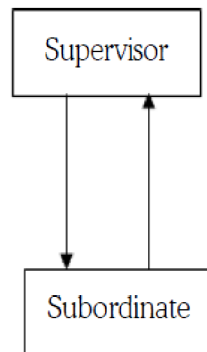


The pattern of contacts among the members of the organisation and flow of information among them is a communication network. Network helps managers to establish contacts in different patterns through communication flows. The network depends upon the magnitude of the organisation, nature of communication channels in the organisation and the number of persons involved in the process. There can be many patterns of communication network.

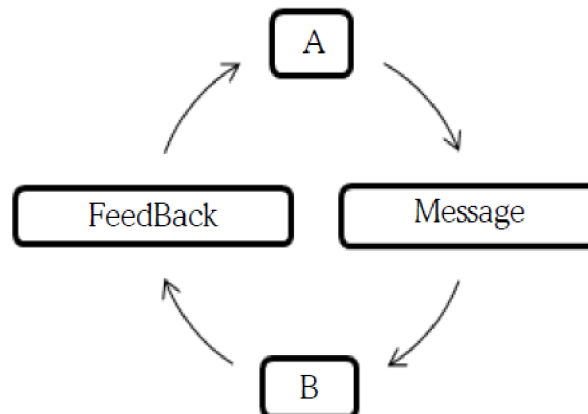
The most frequently followed networks are the following:

1. Vertical Network

The vertical network is usually between the superior and subordinate and vice versa. It is two-way communication. The immediate feedback is possible in this type of communication network. It is formal network.



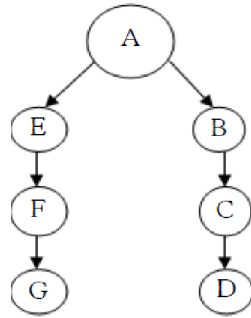
2. Circuit Network



Under this network two persons communicate with each other. Say Mr. 'A' sends message to Mr. 'B'. After receiving message Mr. 'B' communicates the feedback message to Mr. 'A'. So communication takes the form of a circuit. Therefore it is known as circuit network. It is similar to vertical network but in circuit network 'A' and 'B' are not necessarily superior and subordinates.

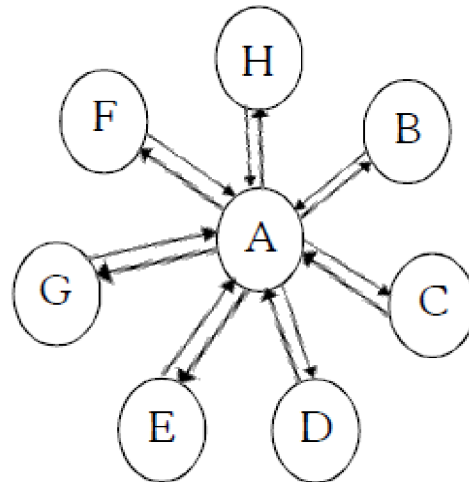
3. Chain Network

This network of communication follows the organisational hierarchy and chain of command. All subordinates receive commands or instructions from their superior. B, C, D and E, F, G are the subordinates to A in the organisational hierarchy and receive commands from 'A' which follows the way shown in the diagram.



4. Wheel Network

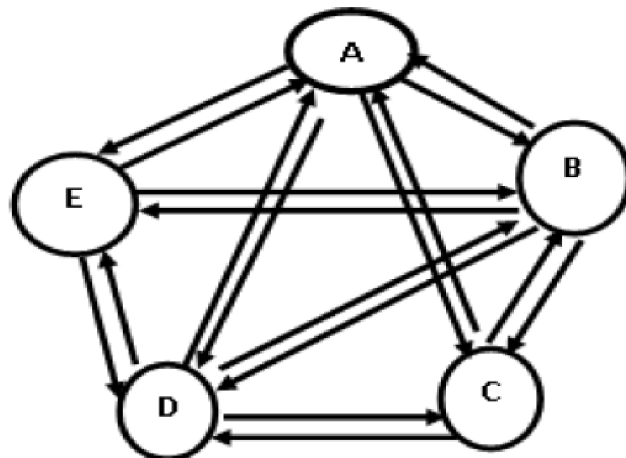
Here all subordinates receive commands from one superior. This is highly centralized type of communication network where each subordinate receives commands or instructions from a single authority or superior 'A' and wants the immediate feedback.



5. Star Network

Under star communication network all members of the group communicate with each other and exchange information. This network is a must for group communication or where teamwork is involved. This network channel of communication is open to all members of the group. The members communicate with each other without hesitation.

The effectiveness of the above networks of communication channels depend upon their users i.e. the managers at all levels, their



subordinates and other members of the organisation and above all the seriousness with which all these human resources make use of the facilities provided to them by the organisation to accomplish its objectives.

Barriers to Communication

There are certain barriers that cause communication failures. Communication failures may have serious effects. They affect personal or professional relationship to the extent of causing a rupture. At the personal level, such failures may cause low self-esteem. As the confidence level falls, the productivity graph also plunges lower and lower.

Failure to communicate effectively within the organisation, may cause disruption or delays in achieving targets. From the point of view of finances, a communication failure may mean higher project cost and thus affect profitability. In business, the role of communication is even more important. A failure to communicate effectively may result in financial loss. For example, a failure to explain the terms clearly may lead to the cancellation of an order. There may even be a loss of goodwill if an aggrieved customer is not handled tactfully.

Communication failures may be caused due to many reasons. A few of them are as follows:

- (i) *Lack of Planning* : Every message is conveyed with a specific purpose in mind. One needs to know one's own abilities to express the message well. Simultaneously, the personality and attributes of the recipient and the limitations of the medium also have to be considered. If a message is communicated without adequate planning, the desired result would not be obtained.

For example, an invitation to potential investors to deposit money in a mutual fund may not offer all the relevant details, such as entry and exit points and all the risks involved. This would lead to a loss of interest of the investors in the scheme. While drafting a message, one has the option of revising it. In oral communication, the words are comparable to arrows, once released, they do not return. Therefore, one must choose one's words with care.

- (ii) *False Assumptions* : In many communication situations, the sender starts with several assumptions, which may not be true. The receiver may also wish to be understood in a certain way and encourage false assumptions by the sender. Therefore, the result will be anything but along the expected lines.

For example, a Quality Control Manager should first check whether the workers are familiar with the Six Sigma Standards before pulling them up for non-adherence. Their silence during the verbal onslaught may only mean that they do not want to admit their ignorance.

- (iii) *Ambiguity* : We must remember that our intentions are strictly private. They are only known to us. Therefore, the receiver may not accurately understand the meaning intended by us. A wrong inference is often drawn when the message yields more than one meaning. For example, the instruction that relevant details must be submitted for preparation of order by Saturday is ambiguous. It does not clarify whether the details are required by Saturday or that the order must be prepared by that day.
- (iv) *Distortions* : many distortions in communication do not register because the receiver is busy or preoccupied with other things. While the sender believes that he has delivered the message correctly and the desired action will follow, the truth is that the receiver has not understood it at all; or he may have done so in part only. It is also common for a receiver to distort the meaning to suit his expectations.

'Productivity linked bonus will be paid on the 7th of next month subject to realisation of outstanding payments' has a conditional clause. The workers could conveniently forget this when they storm the office to claim the money on the 7th.

- (v) *Passing Judgments* : Many communication failures are caused because the message tends to pass a judgment against the receiver. Therefore, it is not received at its face value. Giving precedence to expression of opinion over the facts and use of offensive or annoying expressions ensure that the receiver becomes guarded and defensive.

For example, a supervisor was aghast when he found a worker using a welding torch close to where the inflammable material was stored. He showered abuses at the worker, pushed him away and accused him of trying to destroy the factory. When he returned after ordering the removal of the material, the workers had proceeded on a spontaneous strike. It took half a day to assuage the feelings of the striking workers and to restore normalcy.

Had the supervisor only stated the facts and explained the risks, the communication failure and the repercussions could have been avoided.

- (vi) *Implied Meanings* : Messages may not always convey a meaning in a straightforward manner. If the background of the sender and the receiver is not similar. In such a case it is possible for the latter not to uncover the implied meaning. For example, a reference to weather is often indicative of a desire to change the topic of discussion. Lack of familiarity with slang or colloquial expressions often causes communication failures.
- (vii) *Lack of Trust* : The relationship between the sender and the receiver plays an important role in a effective communication. If the two of them do not share trust and understanding, there is a strong possibility of a communication failure. The information shared by them will be minimal. Both of them will also tend to treat the information received with suspicion.

For example, even a compliment paid by a hostile boss is likely to be received by a subordinate with caution. He may wonder what the actual intention of the boss is.

- (viii) *Problem of Semantic Distortion* : Messages communicated through words may be distorted intentionally. However, there are words that often mean different things to different people and thus cause non-deliberate distortions. The senior selects the words according to his own frame of reference which he thinks appropriate to convey the meaning intended to be communicated. The receiver, on the other hand, reads or listens to the message and interprets it within his own frame of reference.

Ways to Overcome Barriers to Communication

In order to remove hindrances in the way of communication the following steps are worth consideration:

- (1) *Clarify Ideas before Communication*

The person sending the communication should be very clear in his mind about what he wants to say. He should know the objective of his message and, therefore, he should arrange his thoughts in a proper order.

- (2) *Communicate According to the Need of the Receiver*

The sender of the communication should prepare the structure of the message not according to his own level or ability but he should keep in mind the level, understanding or the environment of the receiver.

- (3) *Consult Others before Communication*

At the time of planning the communication, suggestions should be invited from all the persons concerned. Its main advantage will be that all those people who are consulted at the time of preparing the communication plan will contribute to the success of the communication system.

(4) *Be Aware of Language, Tone and Content of Message*

The sender should take care of the fact that the message should be framed in clear and beautiful language. The tone of the message should not injure the feelings of the receiver. As far as possible the contents of the message should be brief and excessive use of technical words should be avoided.

(5) *Convey Things of Help and Value to the Listener*

The subject matter of the message should be helpful to the receiver. The need and interest of the receiver should specially be kept in mind. Communication is more effective in such a situation.

(6) *Ensure Proper Feedback*

The purpose of feedback is to find out whether the receiver has properly understood the meaning of the information received. In the face-to-face communication, the reaction on the face of the receiver can be understood.

But in case of written communication or some other sort of communications some proper method of feedback should be adopted by the sender.

(7) *Consistency of Message*

The information sent to the receiver should not be self-contradictory. It should be in accordance with the objectives, policies, programmes and techniques of the organisation. When a new message has to be sent in place of the old one, it should always make a mention of the change otherwise it can create some doubts.

(8) *Follow up Communication*

In order to make communication effective the management should regularly try to know the weaknesses of the communication system. In this context effort can be made to know whether to lay more stress upon the formal or the informal communication would be appropriate.

Similarly, suggestions can be invited in respect of the medium of communication (oral, written and gestural) to know as to which medium would be more effective and appropriate.

(9) *Be a Good Listener*

It is the essence of communication that both the sender and the receiver should be good listeners. Both should listen to the each other's point of view with attention, patience and positive attitude. A sender can receive much relevant information by being a good listener.

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Lesson 5

A large black rectangle containing the text "LISTENING SKILLS" in white, bold, uppercase font. The rectangle is flanked by two vertical black bars of equal height.

LISTENING SKILLS

INTRODUCTION

According to Oxford Living Dictionaries, to listen simply means giving attention to sound or action. In fact, effective listening is the process of analysing sounds in a language, organizing them into recognizable patterns, interpreting the patterns and understanding the message by inferring the meaning. Listening is the “receiving” part of communication. And listening is all about receiving information through both our ears and eyes! It is an active, integrated communication skill that demands energy and know-how. It is purposeful, powerful and productive. It is a technique used for understanding, what is being said by taking into account how something is said and the nonverbal signs and body language that accompanies it. This technique requires a lot of practice and patience as listening is not easy. Good listening skill is the foundation of effective human relations. It is of paramount importance to both the managers and workers. It is to be inculcated by both of them. Communication is not complete without effective listening. Good listeners can be good negotiators and thus can face or handle a crisis or critical situations. It comes first in human life. Unfortunately, still it is rarely taught in the classroom.

Profile of Four Basic Communication Skills

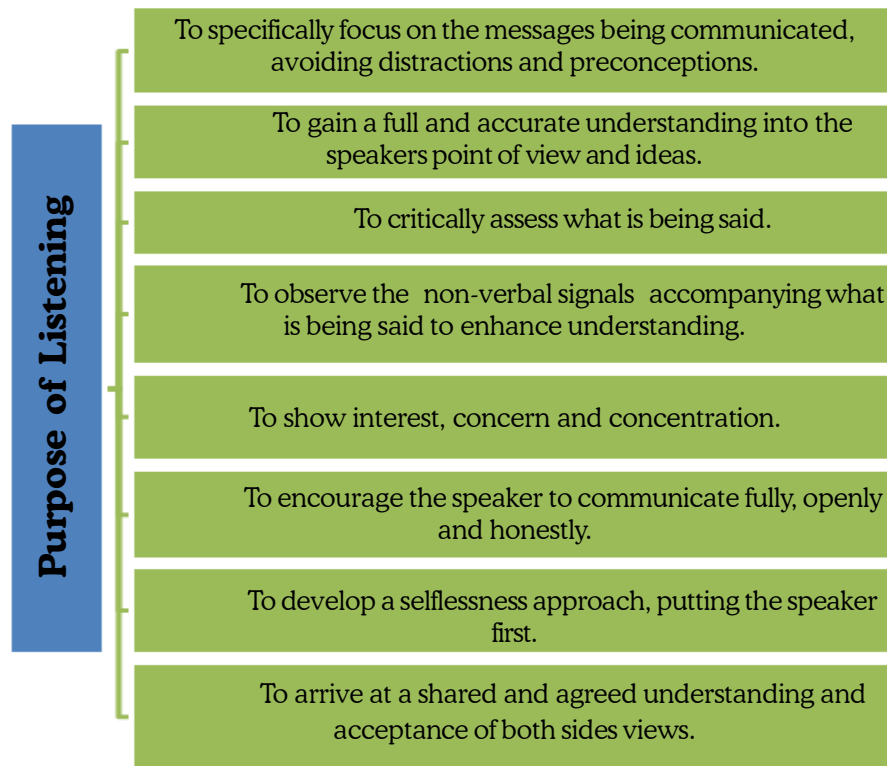
Listening is not to be confused with hearing. Hearing is a physiological process which involves receiving the sound waves by the eardrum and transferring them to the brain. It is an involuntary act that happens automatically. Hearing refers to the sounds that enter your ears. It is a physical process that happens automatically. Listening, however, requires more than that. It requires focus and concentrated effort, both mental and sometimes physical as well. Listening is more than hearing. It involves the process of interpretation and inference. It is a voluntary activity and hence it is deliberate. Hence, listening means paying attention not only to the story, but how it is told, the use of language and voice, and how the other person uses his or her body. In other words, it means being aware of both verbal and non-verbal messages. Your ability to listen effectively depends on the degree to which you perceive and understand these messages.

Research shows that effective communication involves 50% more listening than speaking. So, it is more important to realize that listening is not just paying attention to the other person's words but also to his tone, facial expressions, and body language. Without the ability to listen effectively, messages are easily misunderstood. As a result, communication breaks down and the sender of the message can easily become frustrated or irritated. In fact, the skill of listening is intimately related to the skill of speaking. Both are the natural keys to communication. To be an excellent communicator one needs to develop both the skills. Your competence in listening is directly proportional to that of speaking. In fact, both the skills complement and supplement each other and their relationship is symbiotic resulting in a fine communication.

Listening is not a passive process. In fact, the listener can, and should, be at least as engaged in the process as the speaker. The phrase ‘active listening’ is used to describe this process of being fully involved. To be an effective listener, one has to be completely involved in the communication process, and fully present. Here ‘fully’, means physically, mentally, emotionally, and psychologically present or alive. A person may be mentally present but then emotionally disturbed by something else. A student may be physically present in the classroom but mentally absent. Probably the student has to go home for vacation and daydreams of the celebration that will take place at home. Similarly, when the teacher announces that she is going to ask questions to students by random selection, psychologically, a weak student will feel intimidated.

The Purpose of Listening

Undoubtedly effective listening is an extremely important as it serves a number of possible purposes depending on the situation and the nature of the communication:



Often our main concern while listening is to formulate ways to respond. This is not a function of listening. We should try to focus fully on what is being said and how it is being said in order to understand the speaker.

Listening and Hearing

Listening is the ability to accurately receive and interpret messages in the communication process. Listening is the key to effective communication. Without the ability to listen effectively, messages are easily misunderstood. As a result, communication breaks down and the sender of the message can easily become frustrated or irritated.

Hearing refers to the sounds that enter your ears. It is a physical process that, provided you do not have any hearing problems, happens automatically. Listening, however, requires more than that. It requires focus and concentrated effort, both mental and sometimes physical as well.

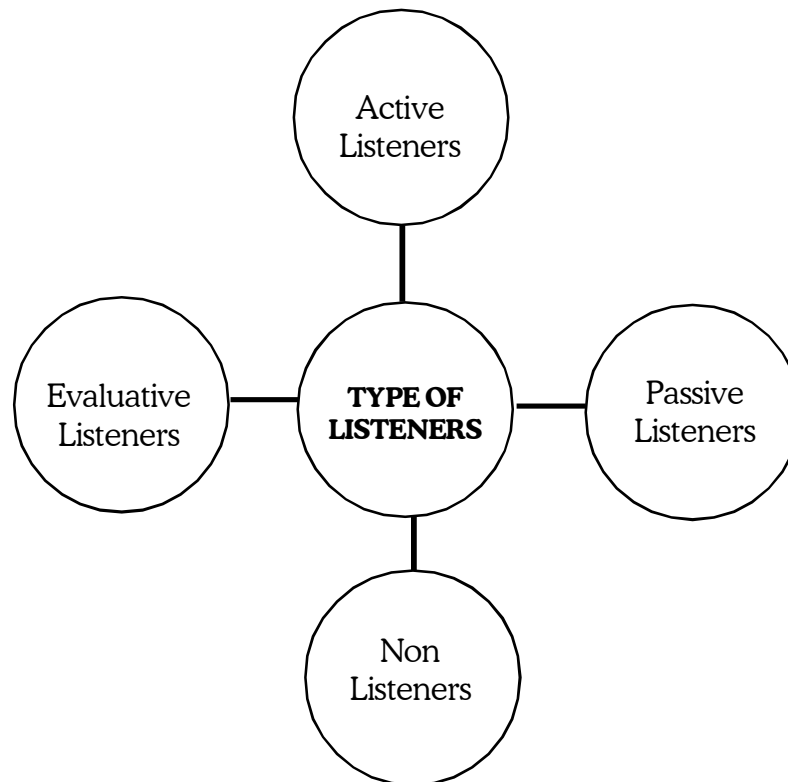
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Listening is different from hearing because hearing is basically a physical activity. You hear blaring horns and get exposed to noise pollution when you are in a traffic jam. However, listening is a mental activity that involves and uses the brain.

Types of Listening Skills

Following are the various types of listening:



Discriminative listening

Discriminative listening is the most basic type of listening, whereby the difference between different sounds is identified. If you cannot hear differences, then you cannot make sense of the meaning that is expressed by such differences.

We learn to discriminate between sounds within our own language early, and later are unable to discriminate between the phonemes of other languages. This is one reason why a person from one country finds it difficult to speak another language perfectly, as they are unable to distinguish the subtle sounds that are required in that language.

Likewise, a person who cannot hear the subtleties of emotional variation in another person's voice will be less likely to be able to discern the emotions the other person is experiencing.

Listening is a visual as well as an auditory act, as we communicate much through body language. We thus also need to be able to discriminate between muscle and skeletal movements that signify different meanings.

Comprehension listening

The next step beyond discriminating between different sound and sights is to make sense of them. To comprehend the meaning requires first having a lexicon of words at our fingertips and also all rules of grammar and syntax by which we can understand what others are saying.

The same is true, of course, for the visual components of communication, and an understanding of body language helps us understand what the other person is really meaning.

In communication, some words are more important and some less so, and comprehension often benefits from extraction of key facts and items from a long spiel.

Comprehension listening is also known as content listening, informative listening and full listening.

Critical listening

Critical listening is listening in order to evaluate and judge, forming an opinion about what is being said. The Judgment includes assessing strengths and weaknesses, agreement and approval.

This form of listening requires significant real-time cognitive effort as the listener analyzes what is being said, relating it to existing knowledge and rules, whilst simultaneously listening to the ongoing words from the speaker.

Biased listening

Biased listening happens when the person hears only what they want to hear, typically misinterpreting what the other person says based on the stereotypes and other biases that they have. Such biased listening is often very evaluative in nature.

Evaluative listening

In evaluative listening, or critical listening, we make judgments about what the other person is saying. We seek to assess the truth of what is being said. We also judge what they say against our values, assessing them as good or bad, worthy or unworthy.

Evaluative listening is particularly pertinent when the other person is trying to persuade us, perhaps to change our behavior and maybe even to change our beliefs. Within this, we also discriminate between subtleties of language and comprehend the inner meaning of what is said. Typically also we weigh up the pros and cons of an argument, determining whether it makes sense logically as well as whether it is helpful to us.

Evaluative listening is also called critical, judgmental or interpretive listening.

Appreciative listening

In appreciative listening, we seek certain information which will appreciate, for example that which helps meet our needs and goals. We use appreciative listening when we are listening to good music, poetry or maybe even the stirring words of a great leader.

Sympathetic listening

In sympathetic listening, we care about the other person and show this concern in the way we pay close attention and express our sorrow for their ills and happiness at their joys.

Empathetic listening

When we listen empathetically, we go beyond sympathy to seek a truer understanding of how others are feeling. This requires excellent discrimination and close attention to the nuances of emotional signals. When we are being truly empathetic, we actually feel what they are feeling.

In order to get others to expose these deep parts of themselves to us, we also need to demonstrate our empathy in our demeanor towards them, asking sensitively and in a way that encourages self-disclosure.

Therapeutic listening

In therapeutic listening, the listener has a purpose of not only empathizing with the speaker but also to use this deep connection in order to help the speaker understand, change or develop in some way.

This not only happens when you go to see a therapist but also in many social situations, where friends and family seek to both diagnose problems from listening and also to help the speaker cure themselves, perhaps by some cathartic process. This also happens in work situations, where managers, trainers and coaches seek to help employees learn and develop.

Dialogic listening

The word 'dialogue' stems from the Greek words 'dia', meaning 'through' and 'logos' meaning 'words'. Thus dialogic listening means learning through conversation and an engaged interchange of ideas and information in which we actively seek to learn more about the person and how they think. Dialogic listening is sometimes known as 'relational listening'.

Relationship listening

Sometimes the most important factor in listening is in order to develop or sustain a relationship. This is why lovers talk for hours and attend closely to what each other has to say when the same words from someone else would seem to be rather boring.

Relationship listening is also important in areas such as negotiation and sales, where it is helpful if the other person likes you and trusts you.

Selective Listening

This is a more negative type of listening, it implies that the listener is somehow biased to what they are hearing. Bias can be based on preconceived ideas or emotionally difficult communications. Selective listening is a sign of failing communication – you cannot hope to understand if you have filtered out some of the message and may reinforce or strengthen your bias for future communications.

Active and Effective Listening

Active listening occurs when the listener attempts to understand as clearly as possible what the speaker says. Effective listening is attempting to understand the perspective of the speaker and empathize, not sympathize, with him or her.

Active and effective listening are combined and subsumed under listening. Combining both makes good sense for one reason: a person cannot separate one from the other. To effectively listen, he must listen actively. To listen actively, he must listen effectively. Although both are distinct conceptually in their implementation it is virtually impossible to separate one from the other.

To be an effective listener, one has to get completely involved in the communication process, and be fully present. When it is said fully, means physically, mentally, emotionally, and psychologically present. A person may be mentally present but then emotionally disturbed by something else. A student may be physically present in the classroom but mentally absent. Probably the student has to go home for vacation and daydreams of the celebration that will take place at home. Similarly, when the teacher announces that she is going to ask questions to students by random selection, psychologically, a weak student will feel intimidated.

Types of Listeners

Listeners are of four types, namely, active listeners, passive listeners, non-listeners and evaluative listeners. The characteristic of these types of listener are as under:

Active Listeners

As the term implies, active listeners involve themselves actively in the communication process by keenly listening not only to the message but also to the way it has been delivered.

They focus on the content as well the manner in which it is delivered. This means that they will take note of the verbal content along with its nonverbal subtexts. They will not hesitate to seek clarifications, ask leading questions, show their approval by nodding head, and summarize to clearly indicate that they fully follow the speaker. In this way, the active listeners are quite sensitive towards the feelings of others, they understand the mood of the audience. They show empathy and make the audience or the other person cared for. Once the audience get the feeling that they are being cared for, they will devote themselves fully to the communication process. Once there is mutual involvement, there will be hundred per cent success in terms of communication. The message sent will be received correctly and feedback is given in a favorable manner. So it leads to a win-win situation and causes effective communication. Contrarily, if the audience would sense that the speaker is insensitive towards their feelings, they would remain cold and distant.

Passive Listeners

Passive listeners exhibit exactly the opposite behavioristic traits of active listeners. They pay attention only to partial message and lack sensitivity to the nuances, inner meanings, nonverbal subtexts involved in communication. They allow someone to speak, without interrupting or seeking clarifications. They do not make notes, nod their head in approval, maintain eye contact and keep themselves idle. Passive “listening,” is actually hearing not listening! Since passive listeners keep their minds closed, communication with them is futile and incomplete.

Non Listeners

The non-listeners do not listen at all because they are genuinely disinterested in the subject. These people pretend to follow the speaker while they are actually preoccupied with something else. So, they will fake attention, but they could easily be recognized by their blank stare, impatient and nervousness mannerisms.

They might be suffering from rigidity of thinking and egotism. Their complete insensitivity and insensible nature makes them incapable of understanding others. In fact, they do not even make an effort to hear what the other person is saying.

You will find non- listeners among authority figures who will do most of the talking and will not let their subordinates easily express their ideas. Although, they frequently interrupt by saying “I understand,” and “I know,” they actually do not know anything or understand the subject!

Marginal Listeners

Impatient to listen to the main ideas, marginal listeners pay superficial attention, and are interested only in the bottom line. They merely hear the sounds of words, but fail to grasp their meanings. They do not go to the deeper level in arguments. They use external distractions to excuse themselves from conversations. They will not have the patience to sit through complex technical presentations, and jump to findings and conclusions. It is risky to communicate with marginal listeners because they are not focused on the main ideas and often misunderstand their import.

Evaluative Listeners

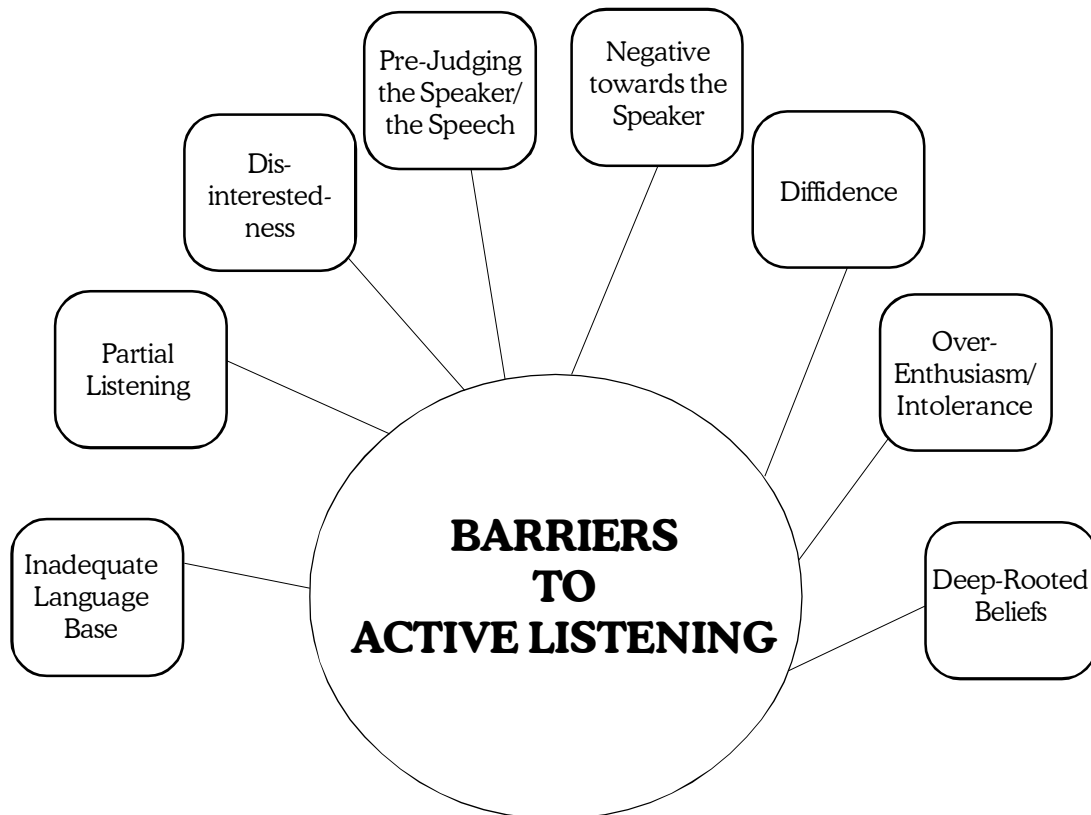
Evaluative listeners literally assess the verbal content on the basis of words not paralinguistic or nonverbal cues. Generally, they use logic to understand the content, hence, they distance themselves emotionally from the subject. As a result, they do not show empathy or sensitivity to the speaker. They are mostly prejudiced and judgmental as they presume the meaning before actually the speaker completes a sentence.

Characteristics of Active Listener

An active listener is serious about the whole process of communication. He pays attention to the speaker's stance, perspective, point of view, bias and prejudices. He is intensely involved in the interaction and expends maximum energy to have full comprehension of the subject matter through their eye contact, receptive body language, and appropriate facial expressions and nonverbal affirmations, they make the speakers feel delivering the message to them is a pleasing and pleasurable experience.

Nonetheless, there are some barriers which impede one's efforts to become an active listener. Communication theorists list eight fundamental barriers to action listening.

Barriers to Active Listening



Inadequate Language Base

Sufficient language background is required to fully understand the speaker. Despite one's best efforts to intensely participate in the communication process (a lecture delivered, for instance), an inadequate language base will act as a deterrent. Weak language proficiency, lack of technical vocabulary, combined with fear and shyness, will hinder the progress of learning a new subject.

Partial Listening

Partial listening occurs when people happily indulge themselves in multitasking and allow themselves to be distracted easily. For instance, when talking over the phone during a conversation, many people are habituated to flip through a book, or surf through the internet due to which they fail to pay full attention to

the speaker. Because the mind is involved in too many things, important details are missed in partial listening.

Disinterestedness

Lack of interest in the subject prevents one to pay complete attention. Students, for instance, may remember a pop song more easily than the name of an author. So, due to disinterestedness in the subject, during a conversation, the listener may focus on other interesting subjects.

Pre-Judging the Speaker/the Speech

The listeners form biased opinions by looking at the speaker's look, dress and mannerism. The bias against the speaker can be formed due to one's own gender and colour preferences. Even the status of the speaker, depending on whether it is high or low, can affect the logical thinking of the listener.

Negativity towards the Speaker

The major cause of poor listening is due to the listener's emotional, mental and psychological mind-set. If there is any dislike for the speaker and disapproval to his/her ideas, the listener will certainly reconstruct a distorted and negative message. When there is negativity, the listener shows animosity, undermines the speaker's capabilities, and keeps disagreeing with the speaker's viewpoints. The listener will even go to the extent of ridiculing, insulting, and humiliating the speaker in public.

Diffidence

Some listeners suffer from a defeatist attitude. Hence, underestimate their self-capabilities and decide in advance that they cannot understand what they are going to hear. Mostly, new students and participants in a conference suffer from this kind of self-diffidence and affects the listening process.

Over-Enthusiasm/Intolerance

There are listeners who often become over-enthusiastic and intolerant and start supplying gaps in the speaker's ideas. This generally comes out of impatience from the listener's side who finds the speaker slow to communicate his/her ideas. So the listener advances the questions and interferes quickly preventing the speaker to finish the talk on his/her own pace. In the process, the listener assumes the speaker's flow of thoughts in advance and impedes his/her own mind from active listening.

Deep-Rooted Beliefs

Sometimes one tends to become close-minded due to one's own deep-rooted beliefs and convictions. Socio-culturally embedded beliefs and convictions become so strong and firmly rooted in one's mind and act as barriers to new thoughts and fresh ideas. For instance, if one has a deep rooted conviction on caste system based arranged marriage, then the person will not be able to openly listen to a talk on the benefits of inter-caste love marriage. Such deep-rooted beliefs lead to superficial listening and cause disagreement with the speaker's stance and viewpoint.

To become an effective listener, one should be attentive all the time and actively responsive. And should be conscious of and in complete control of preoccupations, and distractions. Students often get distractible for very small things, especially in the classroom. A passerby, or a chirping bird can easily make them lose their concentration. Moreover, as Robert Schuler says, "the mind is like a parachute, it functions only when it is open." Only when the mind is open, it will be able to receive ideas, receive concepts, assimilate them, interpret and critically think. To keep one's mind open, one should train the mind to listen without any prejudice. What is prejudice? Prejudice is forming an opinion in one's mind even before actually confronting the situation; it is being judgmental before verifying the facts. The following example clearly demonstrates how people tend to keep their minds closed and remain prejudiced most of the times.

Principles of Effective Listening**PRINCIPLES OF EFFECTIVE LISTENING**

- Stop Talking
- Prepare Yourself to Listen
- Put the Speaker at Ease
- Remove Distractions
- Empathetic
- Be Patient
- Avoid Personal Prejudice
- Listen to the Tone
- Listen for Ideas-Not Just Words
- Wait and Watch for Non-Verbal Communications

1. Stop Talking

Don't talk, listen. If we were supposed to talk more than we listen, we would have two tongues and one ear. When somebody else is talking listen to what they are saying, do not interrupt, talk over them or finish their sentences for them. Stop, just listen. When the other person has finished talking you may need to clarify to ensure you have received their message accurately.

2. Prepare Yourself to Listen

Relax. Focus on the speaker. Put other things out of your mind. The human mind is easily distracted by other thoughts – what's for lunch, what time do I need to leave to catch my train, is it going to rain – try to put other thoughts out of mind and concentrate on the messages that are being communicated.

3. Put the Speaker at Ease

Help the speaker to feel free to speak. Remember their needs and concerns. Nod or use other gestures or words to encourage them to continue. Maintain eye contact but don't stare – show you are listening and understanding what is being said.

4. Remove Distractions

Focus on what is being said. Don't doodle, shuffle papers, look out the window, pick your fingernails or similar. Avoid unnecessary interruptions. These behaviours disrupt the listening process and send message to the speaker that you are bored or distracted.

5. *Empathise*

Try to understand the other person's point of view. Look at issues from their perspective. Let go of preconceived ideas. By having an open mind we can more fully empathise with the speaker. If the speaker says something that you disagree with then wait and construct an argument to counter what is said but keep an open mind to the views and opinions of others.

6. *Be Patient*

A pause, even a long pause, does not necessarily mean that the speaker has finished. Be patient and let the speaker continue in their own time, sometimes it takes time to formulate what to say and how to say it. Never interrupt or finish a sentence for someone.

7. *Avoid Personal Prejudice*

Try to be impartial. Don't become irritated and don't let the person's habits or mannerisms distract you from what the speaker is really saying.

Everybody has a different way of speaking - some people are for example more nervous or shy than others, some have regional accents or make excessive arm movements, some people like to pace whilst talking - others like to sit still. Focus on what is being said and try to ignore styles of delivery.

8. *Listen to the Tone*

Volume and tone both add to what someone is saying. A good speaker will use both volume and tone to their advantage to keep an audience attentive; everybody will use pitch, tone and volume of voice in certain situations – let these help you to understand the emphasis of what is being said.

9. *Listen for Ideas – Not Just Words*

You need to get the whole picture, not just isolated bits and pieces. Maybe one of the most difficult aspects of listening is the ability to link together pieces of information to reveal the ideas of others. With proper concentration, letting go of distractions, and focus this becomes easier.

10. *Wait and Watch for Non-Verbal Communication*

Gestures, facial expressions, and eye-movements can all be important. We don't just listen with our ears but also with our eyes – watch and pick up the additional information being transmitted via non-verbal communication.

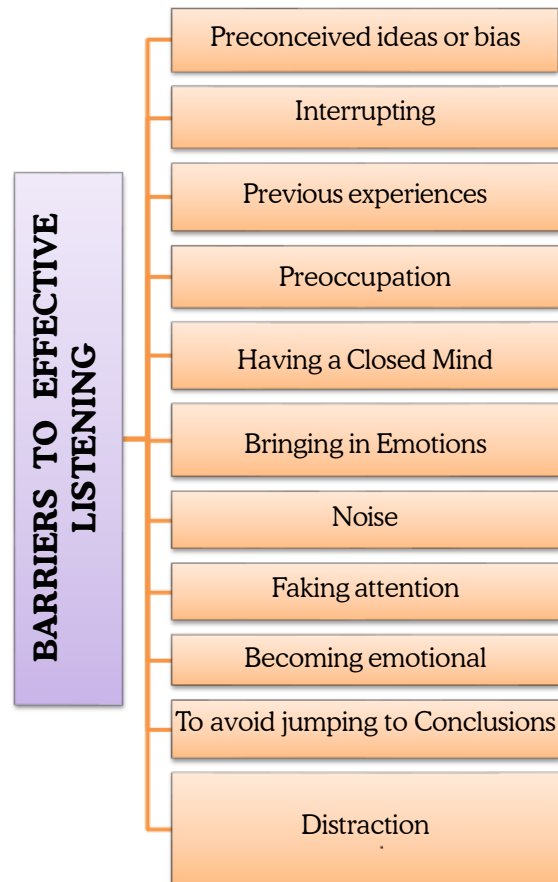
Barriers to Effective Listening

Listening is the most important part of the communication process. However, listening skills do not come naturally to most people; they require willingness, practice, and patience to develop. There are many things that get in the way of listening and we should be aware of these barriers, many of which are bad habits, in order to become a more effective listener. There are many reasons individuals fail to listen successfully. These include:

1. *Preconceived ideas or bias* - effective listening includes being open-minded to the ideas and opinions of others, this does not mean you have to agree but should listen and attempt to understand.
2. *Interrupting* is a problem for many reasons. First, it is aggressive behavior and will most likely bring a negative response from the speaker being interrupted. Second, it is difficult to listen and speak at the same time. When the listener is interrupting, he or she is certainly not listening fully.
3. *Previous experiences* – we are all influenced by previous experiences in life. We respond to people based on personal appearances, how initial introductions or welcomes were received and/or previous interpersonal encounters. If we stereotype a person we become less objective and therefore less likely to listen effectively.
4. *Preoccupation* - when we have a lot on our minds we can fail to listen to what is being said as we're

too busy concentrating on what we're thinking about. This is particularly true when we feel stressed or worried about issues.

5. *Having a Closed Mind* - we all have ideals and values that we believe to be correct and it can be difficult to listen to the views of others that contradict our own opinions. The key to effective listening and interpersonal skills more generally is the ability to have a truly open mind - to understand why others think about things differently from you and use this information to gain a better understanding of the speaker.
6. *Bringing in Emotions* - Emotions erect barriers to effective communication. A listener's senses are not likely to be functioning at their optimum level when he or she is angry. Likewise, it is not possible to understand or appreciate what the speaker is saying if the listener is excessively sad.
7. *Noise* - Noise is any unwanted sound. It is a great impediment to clear communication. It is impossible to listen in a noisy environment – it becomes a frustrating experience for both the speaker and the listener.
8. *Faking attention* (often associated with tuning out) can be offensive and is usually hard to hide. This is hurtful and sends the message to the speaker that the listener doesn't really care about what the speaker is saying. If an individual cannot listen actively in the present moment, it is best to let that be known and suggest that the communication process be put off until a point when there are no distractions.
9. *Becoming emotional* can hinder one's ability to listen. It is important that the receiver be aware of his or her emotions. If the sender is sending a message that is offensive, it is important to acknowledge that fact and be aware of the fact that something is threatening a breakdown in the process. When a receiver is angered, it is easy for him or her to miss the most important part of the sender's message.
10. *To avoid jumping to conclusions*, it may be helpful for the listener to wait until the speaker is finished before responding. It can also be helpful to ask questions throughout the conversation to clarify issues, or to let the speaker know that he or she is communicating in a way that suggests a certain thing, which may not be what they are intending to say.
11. *Distraction* - It is easy to become distracted while trying to communicate. Often one has many tasks to do or there is a lot of other activity taking place while someone is trying to communicate. This can be a problem because it leads to miscommunication, faking attention, and tuning out all together-all of which threaten future communication.



Ways to Overcome Barriers in Listening

Although the reasons for listening breakdowns are numerous, there are many ways to improve listening skills. These are:

Provide clues that you are actively involved

Clues that one is actively listening can go a long way. It is important for the speaker to feel like the listener cares about what the speaker is saying. This is because it tends to send a message about whether or not the listener cares about the speaker in general. When people don't feel like you care about them, they don't trust you and the communication process quickly breaks down. Therefore, it is important to use verbal and non-verbal clues that you are listening, including eye contact, gestures, and acknowledging statements.

Concentrate

Concentration requires willingness and practice. Practicing active listening helps with concentration but there are other elements that contribute to your ability to concentrate on what someone is saying. When you're involved in an exchange of information, you can't be multi-tasking. It's important to position yourself in a way that maintains eye contact while allowing you to watch for body language and other non-verbal forms of communication.

Refrain from formulating an immediate response

It is important to refrain from formulating an immediate response. You won't be able to fully concentrate on forming a genuine understanding of what the speaker is trying to say if you are too busy thinking about what you are going to say in response to them whenever it is your turn to talk. Instead, it is important to approach the communication as a dialogue. Dialogues help us to learn what others have to say by forcing us to think about their message and to acknowledge what we have heard rather than just responding with our own opinions.

Try to prepare beforehand

Preparation can have a huge impact on the outcome of a dialogue or any form of communication. To prepare for an interaction where effective listening will be important, it is essential to keep in mind the purpose of the exchange. What decisions need to be made and how the collaboration between sender and receiver relates are important factors to keep in mind. It is also helpful to approach the situation with the attitude of really caring about and wanting to know the truth. The dialogue should be viewed as an opportunity to uncover the truth and make progress, rather than as a challenge or conflict.

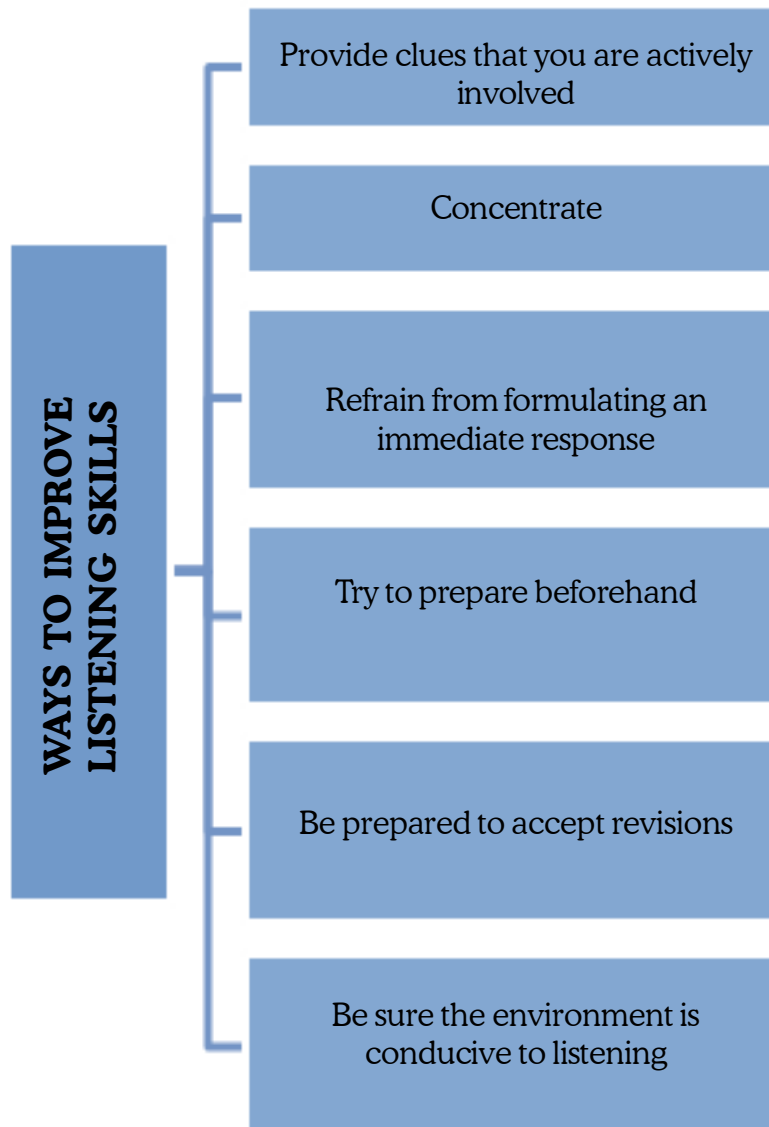
Be prepared to accept revisions

A willingness to accept revisions will keep the communication process running smoothly. Often people are so busy trying to defend their positions that they fail to really stop and think whether they could be improved upon or viewed in a different way. This is what is often referred to as "spending 90 seconds expressing an opinion and 900 seconds blindly defending it."

Be sure the environment is conducive to listening

Choosing the right environment is important because it will help the listener focus and avoid distractions. Although there is no set environment which is best for all communication, in general it is best to avoid areas where there are high levels of activity, loud noises, an uncomfortable temperature, poor air flow, etc.

Implementing these techniques takes willingness and patience. The effort is worthwhile however, as the long-term benefit of improved communication skills will greatly increase one's chances of success in the business world. Effective listening is the most important part of the communication process. It is probably the most difficult to master also. There are many barriers to effective listening, but practicing listening techniques will help one overcome these barriers and become a good listener.



Lesson 6

**BUSINESS
CORRESPONDENCE**

INTRODUCTION

When you speak, you can smile, and the listener can see your smile. Regardless of your choice of words, the listener recognises that you wish to be pleasant in conveying your message. You can also watch your listener and change your approach if you see any favourable reactions. A person reading a letter cannot see your smile, hear your voice, or observe your gestures. The message is complete when it leaves your hands; you can't change your approach if the reader reacts unfavourably. Thus there is a need to draft a business letter very carefully.

A business letter is usually a letter from one business entity to another, or between such organizations and their customers or clients and other related parties. The overall style of the letter depends on the purpose of the letters and relationship between the parties concerned. A business letter is sometimes useful because it produces a permanent written record, and may be taken more seriously by the recipient than other forms of communication.

It is a known fact that rules exist for business letter writing, as some typically posed questions are: How should I end this type of letter? ,What is the rule for addressing a person you don't know?, How should this offer be laid out?, and many alike. Over a period of time, the norms, or conventions, for drafting a business letter have been stabilized. But still, the writer of a letter has a lot of discretion at his end to word and style the letter. In the following chapter, we would discuss the standard form and contents of a business letter, style of writing it, and tips for writing good business letters.

Note that the today's business letters with their conversational tone and the application of psychology are a big improvement over the letter of bygone days.

The Essentials of a Good Business Letter

In spite of the latest technological advancements, the importance of a business letter has not been reduced. Rather we witness that most of the softwares are available for helping and guiding for producing an effective business letter. In any case, they are the only tools and may be used if necessary. However, we must understand the mechanical details of a business letter.

Letterhead

Letterhead, along with other printed materials like business cards and brochures, are a visual representation of any business. A letterhead is the printed stationery, which carries the essential information about the company or the organisation. Since the first contact with a company is usually made through its letterhead, companies spend considerable time, effort and money on getting it designed. A letterhead generally carries a company logo, tagline, the name and address of the registered office, corporate office of the company, Corporate Identity Number (CIN) and its contact numbers and website and e-mail addresses of the company. Sometimes the letterhead carries the addresses of the various offices of the company like in case of bank, the letterhead of branch office carries the branch office address and contact details.

- **Company logo**
- **Tag line**
- **Name and address of Registered Office, Corporate Office**
- **Contact numbers**
- **E-mail address of the company**

A Letterhead generally carries:

Reference Number

A reference number helps us in retrieving the letter at a later stage. It may contain the initials of the letter writer, the department from which the letter originates, and the distinctive number allotted to it. It is for an organisation to decide what the contents of a reference number should be. Some business letters show the reference numbers of both the correspondents or display printed pre-numbered stickers for the purpose.

Date

The date must be written in full without abbreviating the name of the month. For example, 1.6.2019 may preferably be written as 1 June, 2019. This removes the possibility of any misunderstanding as Americans are likely to read the date given in numerals as 6th of January, 2019. The date may be written either below the reference number or to its extreme right.

Special Markings

A few spaces below the date, one may show special markings such as Confidential, Air Mail, through Registered Post/Courier/Speed Post etc. When the contents of a letter are confidential, then care should be taken to superscribe the envelope also with the same marking.

Inside Address

The complete name and address of the recipient is written below the special markings. It must be ensured that the inside name and address is exactly the same as that used on the envelope.

Attention Line

If the letter is addressed to a company or one of its departments but the sender wishes it to be dealt with by a particular individual, then an attention line may be inserted either above or below the inside address. This may read like:

For the Attention of Mr. Harish Arora, Manager (Industrial Credits)

Salutation

The choice of a salutation depends on the extent of formality one wishes to observe. The following list shows different salutations in descending order of formality:

Sir**Dear Sir/Madam****Dear Mr./Ms X**

'Dear Sir/Madam' may be used as a standard salutation. When informality is aimed at, then the surname of the addressee is preferred for use by most correspondents. The use of first name was traditionally avoided in business letters but salutations in business now are becoming increasingly direct.

The use of "Respected Sir" should also be avoided, as the word respected, not being an adjective, is grammatically unacceptable.

Subject Heading

It is useful to provide a subject heading in longer letters. This helps the reader find out in the first instance what the contents of the letter are. Subject headings may be written in initial capitals with the rest in lower case and underscored or in capitals as shown:

Sub: Erection Work of Bikaner Project (or)

Sub: ERECTION WORK OF BIKANER PROJECT

The usual place for a subject heading is either above or below the salutation. In brief letters, a subject heading may be redundant, in some circumstances a subject heading may also be useful in short letters as it would ensure that the letter reaches the right person, at the earliest, who would be dealing with that subject matter. It would be of immense help especially if it is addressed to a large organisation which has a central department where all mails are received and sorted.

Main Body

The main body of the letter may be divided into three parts. Most business letters begin with a brief introduction, which states the purpose of the letter.

This is followed by a longer middle section, which presents relevant facts in a logical and coherent manner. This section may be divided into several paragraphs, each dealing with a separate point and written coherently.

The conclusion is a polite rounding off. It may mention the feedback required.

Some of the expressions are given below:

We thank you in anticipation.

We look forward to a favourable response.

We will be glad to furnish additional information.

We expect you will continue to extend patronage to us.

We hope it is the beginning of a long business relationship.

We regret it may not be possible to deliver the goods immediately.

It is not advisable to round off every business letter with the phrase "Thanking You". If the intention is to really thank the recipient, then a complete sentence may be used since a phrase beginning with an "ing" word is neither a complete sentence nor grammatically acceptable. This again would depend largely on the practice being followed in an organisation.

Complimentary Close

The complimentary close should match the salutation in terms of formality or lack of it. The following table

Salutation	Complimentary Close
Sir	Yours truly
Dear Sir	Yours Faithfully
Dear Mr. X	Yours Sincerely

may be helpful

A common error is to use an apostrophe in Yours (Your's). Care must be taken to avoid it. "Truly" and "sincerely" are often misspelt. It should be remembered that truly does not have an 'e' in it while "sincerely" retains both the 'e's.

Signatory

After leaving four to five spaces for the signature, the name of the sender may be written in capitals within brackets followed by the designation as shown below:

(AMBUJ CHANDNA)

Regional Sales Manager

Enclosures/Copies Circulated

List of enclosures or details of those to whom copies of the letter are being circulated may be given below the designation of the sender. In some cases, copies of the letter may require circulation while keeping the original recipient in the dark. The abbreviation in such cases is suitably changed to bcc in the letters being circulated alone.

Annexures

If we wish to annex some documents with the letter, then information about these may be listed at the end.

Type of Business Letters

Business Letters are basically of two types:

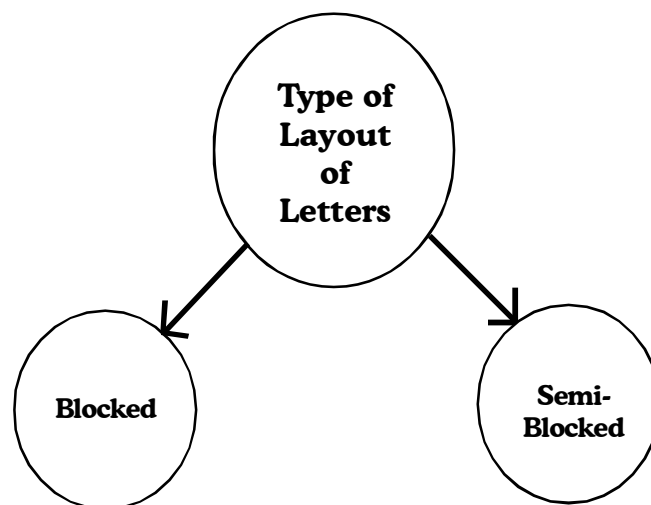
1. *Formal Business Letter* – Formal business letters are the typical or standard business letters meant for legal or official correspondence. These include letters regarding business deals, order, claim, dispute settlement, agreements, information request, sales report and other official matters.
2. *Informal Business Letter* – Informal Business Letter is used for casual correspondence but doesn't necessarily has to have a casual tone of language. These letters include memorandums, appraisals, interview, thanks, reference letters, cover letter, customer complaint letters, e-mails and others which are less important or regular.

Layout of Letters

Layouts of letters are of two types-Blocked and Semi Blocked. Given below are examples of the two types of layout:

Blocked Format

In the blocked format of letter layout, the date of the letter, all references, subject, salutation, the paragraphs in the body of the letter, conclusion and signature, all commence at the left margin as is shown in the specimen below. Another point to note is that in this format no commas are used after inside



address, salutation or complimentary close.

Sundar Chemicals Limited
Regd. Office: 28 M G Road, Chennai-600 023.
Phone: 011-8387666 email: Secretary@sundarchemical.com

Comp/Mar 01/26

March 15, 2019

The Manager
X Traders & Company
256, Anna Road
CHENNAI-600 070

Ref: Order No. 288/2019

Dear Sir,

We are thankful to you for promptly complying with our request to supply a Digital Printer Model ZX1 as per our Order No.285/2019 dated 10th March 2019.

However, after the machine was installed and a test run was conducted, it was found that clear photocopies were not being produced. We referred the matter to your engineer Mr. Srivasan who has informed us that this problem is due to some inherent manufacturing defect in this machine.

We are still within the guarantee period of one year within which the machine will be replaced if there are any manufacturing defects.

Therefore, we request you to kindly replace our Printer model ZXI with a new machine that has no defects, at the earliest.

Yours faithfully

(Maninder Singh)
Administrative Manager

Semi-Blocked Format

This style is often termed as modified block style letter. In the semi-blocked format of a layout of a letter the date of the letter, conclusion and signature are aligned to the right of the letter. The subject or reference is centrally aligned. The paragraphs of the body of the letter all commence with a slight indent and commas are used in the inside address (however a common practice now is to omit the use of comma in the inside address), salutation and complimentary close.

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(Maninder Singh)

Administrative Manager

Either of the two formats can be used while drafting letters. However, care must be taken to follow any one format completely throughout the letter. The overall style of letter depends on the purpose of the letters and relationship between the parties concerned. A business letter is sometimes useful because it produces a permanent written record, and may be taken more seriously by the recipient than other forms of communication.

Note : As a result of globalisation of commercial activities in recent years, there has been an increased use of American spellings in day-to-day correspondence in respect of international trade, the word 'favour' is spelled as 'favor', 'labour' as 'labor', 'centre' as 'center' etc. Even the rules of grammar are getting relaxed. Both the conventional as well as the simplified American spellings are in vogue, but care must be taken to be consistent with whichever spelling you are following/using.

Essentials of a Good Business Letter

The following points are considered as essentials of a good business letter and before writing any letter, these points should be observed by the draftsman.

- **Completeness**

CHARACTERISTICS OF A GOOD BUSINESS LETTER

COMPLETENESS

CLARITY

SIMPLICITY

ACCURACY

BREVITY

SINCERITY

COURTESY

STYLE

The letter must be complete in itself. It should contain all the information required by the addressee. The important and relevant matter should not be left out. Incomplete letters do not produce the desired effect on the mind of the reader. When a letter is incomplete, an unnecessary delay is caused in seeking clarifications. The writer should try to grasp all the relevant facts and arrange them logically and systematically to incorporate them into the body of the letter.

- **Clarity**

The writer must be clear about what he wants to convey and then he should try to express it in simple and straightforward language. Clear writing and clear thinking should go hand in hand, and the person who thinks straight is usually able to write straight. Before writing, the writer should plan the message to be conveyed in order to avoid vagueness. Planning helps to produce an orderly kind of letter that creates a good impression because its message is clear.

- **Simplicity**

A Business letter should be in a plain and simple style, clear and easily understood. Accordingly, the language of business letters should be very simple. The use of winding expressions and high sounding phrases should be avoided.

- **Accuracy**

A business letter should not have any false or misleading statements. There should be no mistakes which usually creep into a letter due to negligence. Mistakes, however small, should be avoided, as they cause much inconvenience and trouble. All facts and figures references should be as accurate as possible and documents like bills of exchange, invoices, statements of accounts should be carefully prepared and checked.

- **Brevity**

In a business letter, unnecessary words and superfluous matter should be avoided. As brevity in a letter is the soul of commercial correspondence, the writer must see that every sentence he has written is impregnated with appropriate meaning.

- **Sincerity**

Whether a person is writing a personal letter or a business letter, he needs to write it with sincerity. In other words, he must be himself and not an imitation of somebody else. The business letter may seem to be a common piece of writing, if all letters are modelled to a set style. It must have originality of the sort that expresses the thoughts of its writer in his own style.

- **Courtesy**

In a business letter, courtesy should be present everywhere, as it pacifies anger and pays in the long run. Courtesy means that the general tone of the letter should be mild and there should be a consideration for the feelings of others. Curt and rude letters have got no place in the business world. Courtesy should not be sacrificed for the sake of brevity. Discourteous and unpleasant language should be avoided even while writing letters of complaint or letters of refusal.

- **Style**

The words used in a business letter and the way in which they are used express the writer's personality and give the letter what is called its style. Style in writing as in other walks of life is a quality peculiar to the individual. It is determined by the background, training, experience of a person and the way he thinks. If one writes with naturalness and ease, the letter so produced will reflect the personality of the writer. It is correctly said, therefore, that Style is the man.

Business Messages

Businesses messages include messages from the Chairman of the Company to the shareholder, employees or related to sales and purchases, products, and services, confirmation or cancellation of orders, invoices, company announcements and notifications, employee related news such as promotions, awards, increments, bonus, appraisals, resignation and termination. These messages are very crucial for the business be it in the form of an advertisement in print or in electronic mode or in the form of any other internal or external communication. Good business messages are essential to keep the business relationships in good health too. There are many types of business messages that a business can write to another business on day- to-day basis.

In business messages, the self-centered approach preparing communication to see each situation from own points of view may lead to a writer oriented approach, resulting the message is prepared on the view point approach wherein the writer places emphasis on himself and his interests rather than on the interest of the readers and stakeholders.

Generally, these types of approaches does not cater the positive responses in the readers, because they too are self-centered resulting the reader does not focus on what you want them to do. It is always advised that to achieve more positive effects of the Business message, the writer should write from the reader's point of view.

The 'You attitude' in Business Writing

The 'you attitude' is a writing style that emphasizes readers rather than the writer. To write a business letter, the writer should not focus or put ourselves in the place of receivers. However, the desires, problems, circumstances, emotions and probable reactions of the recipient are to be taken into consideration. Business letter must be written from 'you viewpoint' instead of 'I or we viewpoint'. You viewpoint emphasize the reader's interest and helps to win the reader's mind and attention. For example:

I or We attitude : We are sure that our new discount policy will attractive to you.

You attitude : You will surely appreciate new discount policy.

I or We attitude : I am happy to hear that you have selected our Company.

You attitude : Thank you for giving us the opportunity to serve you.

I or we Attitude : I will give you 10% discount on credit card purchase.

You attitude : You can get 10% discount on credit card purchase.

Thus it can be stated that by adopting you viewpoint following benefits can be enjoyed:

- Creation of friendly atmosphere
- Motivation the reader
- Establishment of mutual trust
- Can create favorable outcome even in a bad-news situation
- Accomplishment of the goal of the letter
- Enhance goodwill of the firm

To summarise, it can be said that the 'you attitude' is not only important but also essential for effective letter writing and business messages.

Positive Messages

Positive messages include messages where the audience is expected to react in a neutral to positive

manner. Positive messages tend to consist of routine or good news. These messages might be items such as congratulations, confirmations, directions, simple credit requests, or credit approvals.

Following messages are considered as positive communication when:

The receiver likes or expects this news (product shipped on time)

The receiver needs little education or background to understand the news (travel arrangement for the conference)

The receiver considers the message routine, even if not completely positive (parking lot closed for three days for new striping)

Negative Messages

Negative messages include messages where the audience is expected to react in a negative manner. Negative messages consist of bad news. In these messages, the sender's goal is to convey the bad news in a manner that preserves the business relationship. While the sender must deliver bad news, the sender wants to avoid an employee quitting or a customer finding another vendor. These messages might be items such as refusal to provide a refund, cancellation of an event, inability to support an event and more.

Following messages are considered as negative communication when:

The receiver may be displeased (cost for repair is to be borne by receiver, not the company)

The receiver needs a little persuasion (new log-on procedure takes longer but is more secure)

The receiver may be somewhat uncomfortable (new performance appraisal system is underway but employees are used to the old ways of performance appraisal)

Persuasive Messages

The third, overlapping category is persuasive messages. In this type of message, the audience is expected to need encouragement in order to act as the sender desires. In some cases, the receiver is more like a positive audience; for example, when you're asking for a recommendation letter or when you're inviting someone to attend an after-hours work function. In other cases, the receiver is more like a negative audience; for example, when you're requesting additional payment as a result of a shared error or when you're providing an extension to an impending due date.

Following messages are considered as persuasive communication when:

The receiver may be reluctant (please speak to the new employee group)

The receiver is being asked a favor (please write recommendation letter)

The receiver may be invited to something somewhat outside regular duties (please supervise a new book club that will meet on campus after work)

Business Reports

The word 'Report' is derived from the Latin "reportare" which means to carry back (re=back+ portare = to carry). A report, therefore, is a description of an event carried back to some who was not present on the scene.

The report is a message to management. It travels from an employee to a supervisor, from a supervisor to an executive, or from the executive to the management. Simply stated, a business report conveys information to assist in decision-making. A report is the means to present this information. Some reports might present

the actual solution to solve a business problem; other reports might record historical information that will be useful to assist in future decision-making. Either way, information is being “reported” that will be useful in making a decision.

Thus the term report can be defined as an orderly and objective presentation of information that helps in decision-making and problem solving. Note the different parts of this definition:

1. The report must be well-ordered so the reader can easily find information.
2. It must be objective because the reader will use the report to make a decision that affects the organization.
3. It must present information facts and data. Where subjective information is required, as in drawing conclusions and making recommendations they must be presented ethically and be based on the information contained in the report.
4. It must aid in decision making and problem solving. There is a practical, “need-to-know” dimension about business reports that differentiates them from academic or scientific reports.

A business report can be defined as an evaluation or assessment or review of a particular event, issue, period or set of circumstances which is related to a business. The business report can be on compliance status, financial position, report of the Board of Directors of the company, Sales or on any other matters for which the report is required by an expert or authority.

The business report is usually written in response to a request by an authority of the company, Business reports are one of the most effective ways to communicate. Although the scope of the business reports' are broad, however broadly, we can categorise the same into the following:

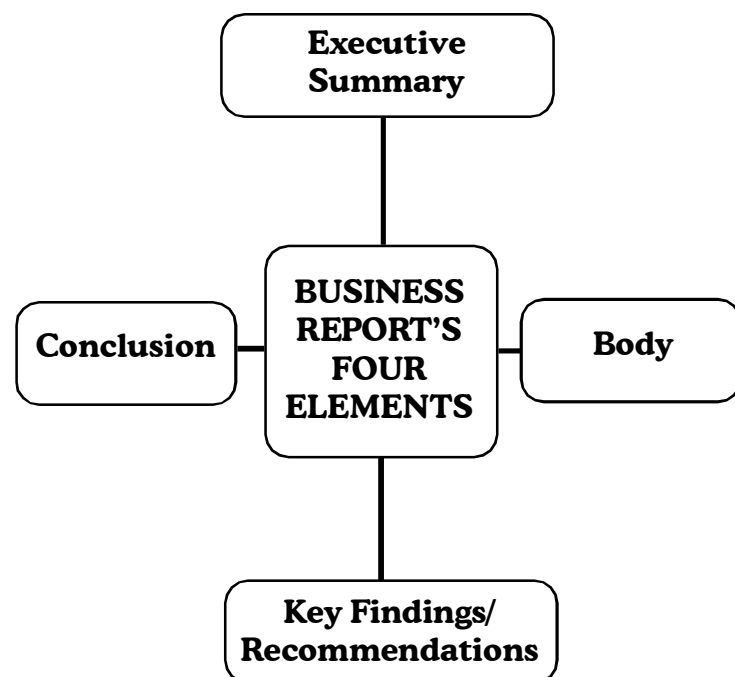
Business Report Categories

The various forms of reports are as under:

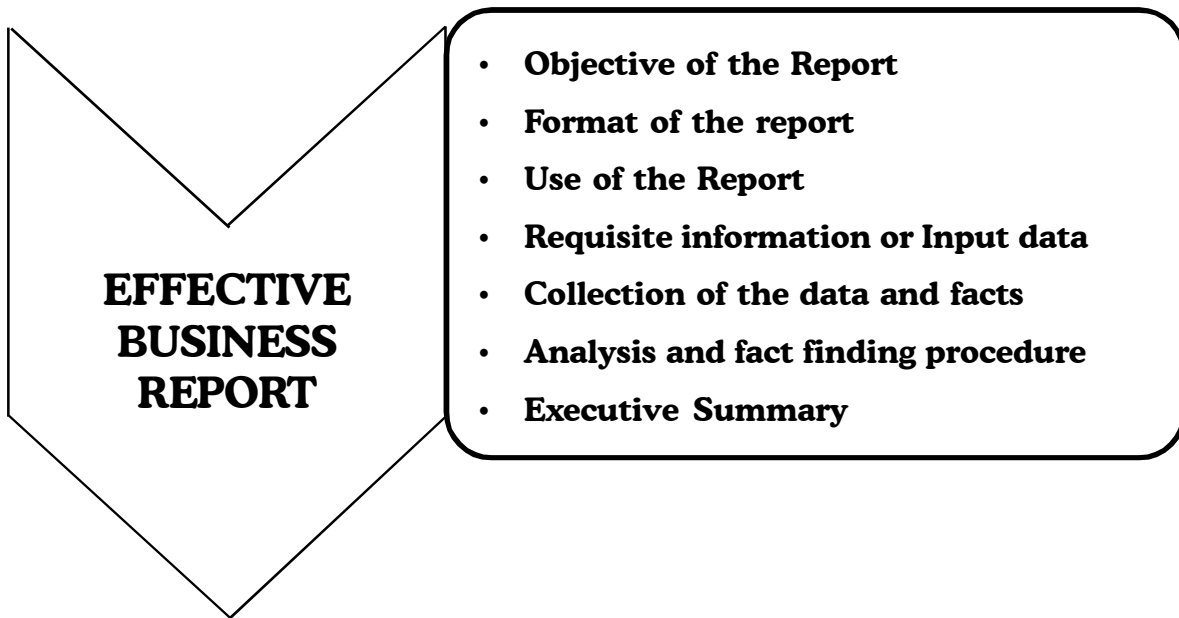
1. Compliance Report
2. Corporate Governance Report
3. Sustainability Report
4. Recommendation Report
5. Investigation Report
6. Feasibility Report
7. Research Report
8. Periodic Report
9. Situational Report

Writing Effective Business Report

A business report should not be written in essay format and it should be in an abridged style that allows the reader to navigate the report quickly and to identify key elements. It uses appropriate headings and subheadings and, if necessary, bullet points, diagrams and tables. The main function of a business report is to communicate relevant information quickly, clearly, and efficiently.



Business reports can range from brief one-or-two-page reports, to reports of a hundred pages or more with several chapters and, quite possibly, a number of appendices. A lengthy report would include a table of contents and possibly an index. However, usually include the following four elements:



To write an effective business report, it is necessary to understand and identify the following:

The Executive Summary acts like the Abstract of a regular essay. It will briefly state the purpose of the report, it will briefly describe the methodology used to investigate the issue and it will list the key points and findings that are found in the report.

The Body gives details of the evaluation process. It will describe your methodology and identify particular issues that impacted on your evaluation. It might also allude to, or give a brief preview of your findings. Relevant tables and/or diagrams will appear in the Body.

In the Key Findings/Recommendations section you will identify and discuss/describe your key findings and make your recommendations. Your Conclusion will neatly sum up your findings, and in doing so will ensure that these relate back to the original question or issue that has given rise to the report.

Inter and Intra-Departmental Communication

Inter and intra-departmental communication has largely been a formal affair. The chief executives assumed that they were expected to be direct, brief and functional, wasting little time on niceties. Employees were usually taken for granted - bound by archaic service rules to listen and to comply unquestioningly. No wonder the documents produced were staid and standardised.

Over the years, there has been a greater appreciation of the important role the staff play in an organisation. Their stake in the organisation has also gone up with schemes like Employee Stock Option Plans becoming popular as one of the means of compensation. They now take a greater interest in framing of policies, get more respect and enjoy confidence.

Inter-departmental communication is largely a formal affair. Inter-departmental communication will be effective when it is supported by good infrastructural facilities. There are various documents used in inter departmental communication, they are:

1. Memorandum

The term Memorandum (Memos) has often been misunderstood as a part of disciplinary proceedings. Far from it, the word at best means a note or record for future use. It is a useful mode of internal communication. A memorandum (memorandums or memoranda in plural) plays a convenient and flexible role. While much of inter and intra-office communication is being done over the phone, memorandums are preferred when one needs to convey information in writing.

There are minor variations in format but most memos have the same headings. The difference with the letter format is obvious. Inside name and address are done away with. Nor are salutation and complimentary close used. Informal tone and use of personal pronouns are allowed. Numbering is optional. Titles such as Interoffice Communication, Office Memorandum or Interoffice Correspondence may be used in place of more commonly used Memorandum. When addressed to all employees, a memorandum is as good as an Office Circular:

A few specimens of Memos are given below:

Specimen 1

BEEM ELECTRONICS LIMITED
BANGALORE

Ref: 81/C/2019

11th April 2019

Office Memorandum

With reference to his request for a grant of Special Casual Leave, Shri P. Sachdeva is informed that Special Casual Leave has been granted to him for four days from 23rd April to 26th April 2019 for enabling him to participate in the District Level Athletic Meet.

Sd/-
Ramesh Kumar
Administration Manager

To

Shri P. Sachdeva
Secretarial Department

Through : Company Secretary

Specimen 2

SUMAN ENGINEERING LIMITED
PUNE

Ref:81/1/2019

13th May 2019

Memorandum

Shri Mukesh is hereby informed that the office has no objection to his pursuing part time M.A. Degree Course in the evenings after office hours. However, grant of leave for study/examination is subject to exigencies of office work.

Sd/-
Surendar Ghosh
Manager
(Personnel)

To
 Shri Mukesh
 Assistant, Sales Department
Through: Manager - Sales

Specimen 3

SEETHA ELECTRICALS LIMITED

KANPUR

MEMO/17

21st March, 2019

With reference to his letter dated 4th March, 2009 requesting for change of seat on health grounds, Shri Badal Singh is informed that the matter is under consideration and the decision would be communicated to him soon.

Sd/-
 Bipin Kumar
 Manager (Administration)

To

Shri Badal Singh
 Stores Department

Through: Stores Manager

Memos are also issued in the cases of disciplinary actions to be taken against employees and replies thereto. These include memos relating to show-cause notice, charge sheet etc.,

2. Office Circulars

Office circulars are for disseminating information to a large number of employees within the organisation. Since it is an internal communication, therefore it has traditionally been brief and business-like formal and devoid of salutation.

A few specimens of office circulars are given below:

Specimen 1

Inviting Suggestions

SUMAN ELECTRICALS LIMITED

PUNE - 411 004

Circular No. 345/2019

3rd April, 2019

The manual of instruction which was last revised in June 2017 is proposed to be updated. Constructive suggestions are welcome from employees. Suggestions are to be sent to the undersigned latest by 30th April, 2019.

Sd/-
 Manager O&M Cell

Specimen 2

Insisting Punctuality

MINI CONDUCTORS LIMITED

PATNA - 800 003

Circular No. 12/2019

25th May, 2019

Employees are requested to strictly adhere to the office timings. Tendencies to move around unnecessarily in corridors and canteens would be viewed seriously.

Co-operation of all the employees is solicited in maintaining decorum and discipline in the office premises.

Sd/-

Bhagat Singh
Manager, Personnel

Specimen 3

Information regarding annual day celebrations

SEEMA ELECTRICALS LIMITED

PUNE - 411 004

Circular No. 23/2019

3rd April, 2019

The Annual Day Function of the company is to be celebrated on the 30th May, 2019 with usual gaiety and fervour. There will be a special meeting at 9.00 a.m. Shri NanalalBhat, Managing Director would address all the employees. It is proposed to honour employees who have put in more than 15 years of service in the Company.

At 3 p.m. there would be sports events for men and women. Tea, lunch and light refreshments will be served in the course of the day's celebrations. At 6.30 p.m. there would be a prize distribution function. From 7 p.m. to 9 p.m. there would be a light music programme by the famous Europhia and a dance party followed by dinner.

All employees are requested to attend the celebrations with their family members and make it a great success. Suggestions are welcome.

Sd/-

Suresh Kumar
Assistant Manager, Personnel

Specimen 4

Announcing a new bonus scheme for employees

XCE LTD.

HYDERABAD - 500 012

Circular No. 2/2019/HRD

1st January, 2019

The undersigned is pleased to inform you that Board of Directors of the Company has decided to introduce a Productivity Linked Bonus Scheme for Employees of the Company with effect from 1st April, 2019. The much awaited scheme is really intended to give more financial benefits to the employees as well as to increase the output. Further details of the scheme will be announced soon.

Sd/-

Personnel Manager

To : All Employees

3. Office Orders

Office Orders have a format similar to that of memorandums. What makes them different is the purpose and tone employed. They generally deal with matters affecting the rights and privileges of employees. The language used is formal and legally common. Passive verbs are preferred. They carry a number since they remain in force till revoked and are filed for future reference. In addition, they carry a bold, underlined heading to help us identify them. Copies are sent to concerned people:

A specimen office order is given below:

Specimen 1

Order No. 34/4

7th March, 2019

OFFICE ORDER

Mr. J.K. Saxena, Manager (Credits), Friends Colony branch is transferred to the Regional Office on the same rank and pay. He shall hand over charge to the Chief Manager and report at the Regional Office by 10th March, 2019.

Sd/-

Personnel Officer

cc:

Chief Manager,

Friends Colony branch,

Mr. J.K. Saxena, Manager (Credits)

Specimen 2

Order posting a new recruit to a department

AMERICAN STEEL COMPANY LTD.

CHENNAI - 600 012

Ref.: 23/Per/2019

25th July, 2019

Office Order

Shri Rajan Pillai has been posted to the Accounts Department as 'Assistant Accountant' w.e.f. today.

Sd/-
Mukesh Jain

cc: Accounts Officer

Specimen 3

Transfer order

BRITISH INDIA COMPANY LTD.

KANPUR - 208 002

Ref.: 23/2009/Per

12th January, 2009

Office Order

Shri Kushal Jain is transferred to the Stores Department. He shall report to the Stores Officer latest by 14th January, 2009 after handing over charge of his duties to the Accounts Officer.

Sd/-
Mangal Singh
(Senior Admn. Officer)

To : Accounts Officer cc: Stores Officer

Specimen 4

Promotion order

MANGALAM PAINTS & CHEMICALS LTD.

COIMBATORE - 641 018

Ref.: Per/45/2019

31st March, 2019

Office Order

Shri Ashok Shinde, Senior Accountant is promoted with immediate effect as 'Assistant Accounts Officer'. He will draw a basic pay of Rs. 5,500 in the scale 5500- 40-5700-50-6000.

He will be on probation for a period of one year.

Sd/-
Mangal Dass
Manager, Personnel

To : Shri Ashok Shinde, Accounts Department.

4. Office Notes

Office Notes are exchange between two different departments. Companies follow a particular format for 'notes' of this type. The actual layout of the 'Note' may differ from company to company. It is a matter of style and individual preference. A few formats are given below :

Specimen 1

**LATEX BALLS LTD.
T.T. PURAM - 695 001**

Ref.: LD/ST/3

Date: 18th June, 2019

From : Legal Deptt.

To: Admn. Deptt.

Subject : Additional Stenographer

The Extraordinary General Meeting of the company is to be held on the 18th July, 2019 to transact some urgent business. Therefore two very urgent Board meetings are to be held in quick succession for discussing a detailed agenda.

The preparation of the relevant papers and other documents in connection with the above is to be given top priority. Considering the workload likely to arise on account of this, an additional stenographer may please be posted to this department for a period of one month.

Sd/-

T. Viswanath
Manager (Law)

Specimen 2

CLIMAX INSTRUMENTS LIMITED

Ref: ST/1/92

Date: 24.3.2019

From: Stores Deptt.

To: Admn. Deptt.

Subject: Stock taking for the year ending 31.3.2019

The stock taking for the purpose of closing the accounts for the year ending 31.3.2019 would commence on 30.3.2019. All the Departments may be advised to draw their requirements latest by 29.3.2019. Also, there would be no supplies to customers from the stores on 30th and 31st March, 2019.

Sd/-

Ashok Lalla
Stores Suptd.

Points to Remember

— A memo is different from a letter, both in format and in its effect on the addressee. It is important to

note that a memo does not have a salutation and complimentary close. But the subject is clearly written and underlined.

- Memos are used commonly for issuing instructions to the staff, change in the policy inviting suggestions, giving information, making requests etc.
- Whatever be the subject matter, the language of the memo should be polite and courteous.

Management Information Systems (MIS)

The MIS Concepts

Executives in an organization provide leadership and direction for planning, organizing, staffing, supervising, and controlling business activities. Each of these business activities involves decision making process. For making decisions, executives need the information. The required information is to be provided by an information specialist or by the data processing department. With the increasing competition in the era of information economy, the demands for organized, need base information is increasing day by day. Depending on the hierarchy the information need differs, accordingly different types of information systems are required. To achieve this goal, different types of information systems are devised by the organizations. The MIS is derived from these information systems used in the organizations.

Major postulates of Management Information Systems are:

1. Information form of a MIS is periodic, exception and based on demands.
2. Information formats are pre-specified and fixed.
3. Information is provided by extraction and manipulation of operational data.
4. It provides information about the performance of the organization.
5. It supports the intelligence and implementation stages of decision making.
6. It supports structured decisions for operational and tactical planning and control.

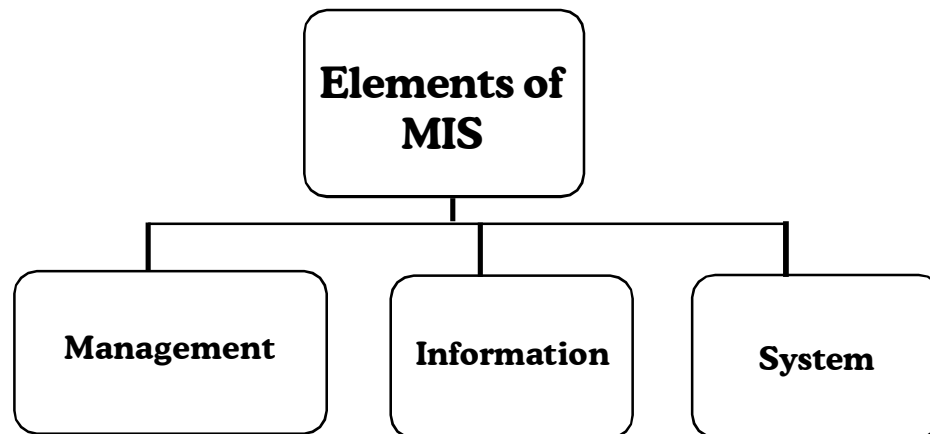
Purpose of MIS

A well-defined MIS provides information to all levels of management for the following purpose:

- To report the organization performance to tax authorities, shareholders, regulatory authorities and other stakeholders such as suppliers and customers etc.
- To prepare future plans for short and long term basis.
- To exercise day-to-day control on various operations in the different functional areas in the organization.
- To allocate different type of resources to different functional areas.
- To allow management by exception.
- To develop database of business partners and to devise procedures to deal with them.
- To develop the training tools for the new recruits in the organization at all levels.

Elements of MIS

MIS is a system that helps management in the process of decision making. The three elements of MIS are Management, Information and System. It is necessary to understand these three components:



Management

The term “Management” as defined by Marry Follett is “The art of getting things done through people” It also refers to a set of functions and processes designed to initiate and coordinate group efforts in an organized setting, directed towards promoting certain interests, preserving certain values and pursuing certain goals. It involves mobilization, combination, allocation and utilization of physical, human and other needed resources in a judicious manner by employing appropriate skills, approaches and techniques. It is a process of conceiving and converting certain worthwhile ideas into results by getting things done through people by offering them monetary and other inducement in return for their contributions.

In short “Management” may be thought of as the sum total of these activities which relate to the laying down of certain plans, policies and purposes, securing men, money, materials and machinery needed for their goal achievements; putting all of them into operation, checking their performance and providing material rewards and mental satisfaction to the men engaged in the operation.

Information

It is a source for increment in knowledge. In MIS, it is obtained by processing data into a form meaningful to the users. To illustrate, the concept, let us discuss the following situations; if somebody throws the word eleven during the discussion, it means nothing to the participant. It is a data item, but it is placed within a context familiar to the intended recipient. Let us analyze another situation, if a manager is asking a question, “What are the sales of the packaged goods by marketing department and projection for the next quarter?” The answer would be 11 only. Here, it is information not the data item since the number 11 is being used in a context.

System

A physical system is a set of components that operate together to achieve a common objective or multiple objectives. These objectives are realized in the outputs of the system. An efficient system uses its inputs economically in producing its outputs. An effective system produces the outputs that best meet the objectives of the system. MIS can be thought of as a system (set of hardware, software, manpower, procedures, etc) to provide timely and accurate information to the management users in an organisation. The objective of the

management information system is to provide formal informational support to the members of the organization.

Structure of Management Information System

Management Levels and their information needs

The levels of management consist of top, middle, and first line management (supervisory). The activities in the organizations are of three types:

- Strategic planning,
- Tactical and
- Operational

Each of these levels to perform - strategic planning, tactical, and operational activities and requires different set of information. The activities and information needs of three levels of management are illustrated in the following.

1. Top level (Strategic level) Management and their information requirements

Top management is defined as a set of management positions, which are concerned with the overall tasks of designing directing and managing the organization in an integrated manner. They are responsible for interacting with representatives of the external environment, such as financial institutions, political figures, and important clients of the organization.

The structure of top level normally consists of Chairman and members of the Board of Directors, Chief Executive Officer and the heads of the major departments of the company. In fact, this level consists of those executives, whose responsibilities relate to the whole organization or in other words, they are accountable for effectiveness and efficiency of the operations of the organization as a whole.

Top management's main responsibility is in the direction of determining the overall goals and objectives of the business. It deals mainly with long-term strategic plans, policy matters and broad objectives of the company. Also, it establishes a budget framework under which the various departments will operate.

Top management needs information on the trends in the external environment (economic, technological, political and social) and on the functioning of the internal organizational sub-system. Apart from historical information, top management requires ongoing or current information also which is generated through forecasts of the future. Thus, mostly the information utilized by top management is futuristic and external in nature. Much of the information so generated for strategic planning purpose tends to be incomplete and not fully reliable. It may not be available on time. For control purposes, top management receives summary and "exception reports"

(For example on production, sales, cash, profits, and so on) from the middle management. The distinction between strategic planning information requirement and tactical information requirement is not always clear because both systems use some of the common information.

2. Middle level (Tactical level) Management and their Information Needs

Middle level management is defined as a group of management positions, which tend to overlap the top and supervisory management levels in the hierarchy. Middle management positions consist of heads of functional departments and chiefs of technical staff and service units. Middle management, therefore, includes such people as the Manager of Sales, the Manager of Purchasing, Finance Manager, and the Manager of Personnel etc. Middle management may be viewed as "administrative" management in the sense that it is responsible for the elaboration, classification

and operationalization of organization goals, strategies and policies in terms of action programmes and norms of performance. Middle management is concerned with the task of formulating pragmatic operating policies and procedures for the guidance of supervisory management.

The nature of information required at the middle management level is less diverse and complex. Middle management is fed with information both from top management and supervisory management. Much of the information used by the middle management is internal in nature. Middle management does not require much “futuristic” information since its decisions are not strategic and long-range in nature. For example, the information needs of a sales manager are: corporate sales goals and targets, strategies and policies for operationalising them, he also needs information on sales potential and trends in different market segments, geographical territories, competitive conditions and so on. Further, he needs information on weekly sales turnover from different zones and for different products, customer complaints, delay in dispatches, finished goods inventory position and the like for the purposes of control. Tactical Information Systems are designed to generate a variety of reports, including summary reports, exceptional reports, and ad hoc reports.

3. Supervisory level (Operational level) Management and their Information Needs

Supervisory management is defined as a team of management positions at the base of the hierarchy. It consists of section officers, office managers and superintendents, foreman and supervisors who are directly responsible for instructing and supervising the efforts of rank and file, clerical and “blue-collar” employees and workers. Supervisory management is also called “operation management” in the sense that it is concerned with implementing operational plans, policies and procedures for purposes of conversion of inputs into outputs. At the supervisory level, managers are responsible for routine, day-to-day decisions and activities of the organization, which do not require much judgement and discretion. The function and process of the supervisory management are standardized as far as possible. The perspective of supervisory management is generally short-range and insular. It functions in a relatively closed environment.

Supervisory management mostly needs internal information on operational aspects of the functioning of activity units. It in fact, generates internal information for example, on purchase and sales, production, use of inputs etc. at the operating level. It also receives information from the middle management levels on operational plans and programmes. The nature of information is routine and structured. It tends to be reliable and relatively complete.

There is a little element of complexity of uncertainty involved in the information.

Characteristics of MIS

Some of the main characteristics of MIS are listed as under.

1. *Comprehensiveness* : Management Information System is comprehensive in nature. It takes inputs from transactions processing systems and process information primarily for managers at all levels. It caters to the need of a large variety of people in different hierarchy as routine information requirement exist practically at all levels. Therefore reporting system in the form of MIS is the most sought after information system in any organization.
2. *Co-ordinated* : Management information system is centrally co-ordinated to ensure that information is passed back and forth among the sub-systems as needed and to ensure that the information system operates efficiently.
3. *Sub-systems* : A MIS is composed of sub-systems or quasi separate component system that is the part of the overall - unified system. Each of these systems shares the goals of the management information

system and of the organization. Some of the systems serve just one activity or level in the organization, while others serve multi-levels or multiple activities. The overall structure of the multiple systems should be carefully established as a part of long-range system planning.

4. *Integration* : A MIS is rationally integrated, so as to become more meaningful. Sub-systems are integrated so that the activities of each are inter-related with those of the others. This integration is accomplished primarily by passing data between these systems. Computer programmes and files can be designed to facilitate data flows among the systems, and manual procedures are also used to accomplish this integration. While integration makes information processing more efficient by reducing both intermediate processing and the incidence of independent generation of the same data by multiple departments, and even more important benefit is that it provides more timely, complete and relevant information. Senior managers particularly, benefit from integrated systems because they need cross-functional information. Although total information of sub-systems is neither achievable nor desirable, a substantial degree of integration is required for an effective management information system.
5. *Transformation of Data into Information* : A MIS transforms data into information in variety of ways. When data is processed and is useful to a particular manager for a particular purpose, it becomes information. There are many different ways in which data must be transformed within an information system. For example, cost data for a particular organization may be summarized on a full-cost, variable-cost, and standard-cost basis for each organization unit, as well as by each cost type, customer type, and product, line. The numerous ways in which MIS should transform data into information are determined by the characteristics of the organizational personnel, the characteristics of the task for which information is needed.
6. *Enhance Productivity* : A MIS enhances productivity in several ways. It enables routine tasks such as document preparation to be carried out more efficiently, it provides higher levels of service to external organizations and individuals, it supplies the organization with early warnings about internal problems and external threats, it gives early notice of opportunities, it facilitates the organization's normal management processes and it enhances managers' ability to deal with unanticipated problems.
7. *Conforms to Managers' Styles and Characteristics* : A management information system is developed in recognition of the unique managerial styles and behavioural patterns of the personnel who will use it, as well as the contributions made by managers. At the organization's more senior levels, the management information system is likely to be carefully tailored to each individual manager's personal tastes. At the organization's lowest levels, the management information system is more likely to be tailored to the unusual way in which clerical and operations personnel use information and interact with the information system. For middle managers, the information system is tailored to the general characteristics of managers. For professional and technical personnel, the information system is tailored to the nature of the specialized task, but attention also given to the way the minds of these specialists process information.
8. *Relevant Information* : A MIS should provide only relevant information. Determining what information is relevant may be difficult in situations in which analyses vary for different managers or according to particular circumstances, such as in the case of special problems. Systems designers must carefully consider the human factor when developing a management information system. Otherwise, the resulting system will be ineffective and probably will be discarded by its users.
9. *Uses Established Quality Criteria* : A management information system must be designed to the required tolerance for timeliness, relevance, and accuracy of information. These tolerances vary from task to task and from level to level within an organization.
10. *Feedback* : A management information system should provide feedback about its own efficiency

and effectiveness. The reporting of computer malfunctions and transactions processing error rates is a simple example of this feedback. Statistics prepared by the system about who uses each system facility and how much they use each one are more sophisticated forms of feedback. Computer programs can record and report how much computer time is used by each user, how many pages are printed for each user, and how much internal data file space is utilized by each user's data, as examples; these and other usage statistics can be used for managerial analysis or as basis for charging each user for computer usage if desired.

11. *Flexibility* : It must be designed to be easily modified if, for example, different information is needed because the environment changes or if the organization undertakes new activities (such as introducing new products) which require new modes of processing. The information system should be capable of being easily expanded to accommodate growth or new types of processing activities and also easily contracted.
12. *Modularity* : The MIS should be composed of many modules or sub-systems rather than be designed as one and only one for a few large systems.
13. *Selective Sharing of Data* : Another desirable quality of an MIS is selective sharing of data. Two or more managers often need to utilize the same information; the system should have features, which allow ready access to information by multiple managers. An advanced feature that promotes this sharing is databases. On the other hand, it is often important to reserve certain information for the exclusive use of only selected managers. Sometimes, this need extends down to the record or field level, in which case some parts of a record are available to all managers, but only certain managers are permitted to examine other parts. For example, an employee's current address or marital status may be needed by an employee or other personnel, but access to information about pay rate, hours worked, gross pay, and other details of payments may be restricted to certain payroll managers. This selective sharing quality can be established by controls that are part of the computer programs.
14. *Computerized* : It is possible to have an MIS without using a computer. But its use increases the effectiveness of the System. In fact, its use equips the system to handle necessary attributes of the computer to MIS, for example accuracy and consistency in processing data and reduction in staff. These needs in management information system make the computer a prime requirement.

To sum up, business correspondence is the backbone of a good organisation or company.

Basic Requirement of MIS

In the present context, most of the organizations are using computer-based management information system in the era of information economy. The basic requirements of a computer based MIS are listed as below :

1. *Hardware* : It refers to the physical computer equipment and associated devices. The hardware must provide five basic functions, i.e., input of data entry, output, secondary storage for data and programmes, central processor (Computation, Control, and primary storage) and communication.
2. *Software* : It is a broad term; it means the instructions or programs that direct the operation of the hardware. The software requirement is of two types: System Software and Application Software.
3. *Database* : The database contains all data utilized by the application software. An included set of stored data which is often referred to as a file. The physical existence of the stored data is known as a database.

4. *Procedures* : Formal operating procedures are physical components because they exist in a physical form such as a manual or instruction booklet. Basically, three major types of procedure are required:
 - User Instructions (for users of the application to record data, employ a terminal to enter or retrieve data, or use the result)
 - Instructions for preparation of input by data preparation personnel
 - Operating instructions for computer operations personnel.
5. *Operations Personnel* : It includes personnel such as Computer operators, system analysts, programmers, data preparation personnel.

Limitations of MIS

The main limitations of MIS are as follows:

1. The quality of the outputs of MIS is basically governed by the quality of inputs and processes.
2. MIS is not a substitute for effective management. It means that it cannot replace managerial judgement in making decisions in different functional areas. It is merely an important tool in the hands of executives for decision-making and problem solving.
3. MIS may not have the requisite flexibility to quickly update itself with the changing needs of time, especially in the fast changing and complex environment.
4. MIS cannot provide tailor made information packages suitable for the purpose of every type of decisions made by executives.
5. MIS takes into account mainly quantitative factors; thus it ignores non-quantitative factors like morale, attitudes of members of the organization, which have an important bearing on decision-making process of executives.
6. MIS is less useful for making non-programmed decision-making. Such type of decisions is not of a routine type and thus they require information, which may not be available from existing MIS to executives.
7. The effectiveness of MIS is reduced in the organization, where the culture is to hold information and not share with others.
8. MIS effectiveness decreases due to frequent changes in top management organizational structure and operational team.

Lesson 7

**CONCEPT OF
E-CORRESPONDENCE**

INTRODUCTION

Today in 21st century globalized world, the uses and needs for the 24 hours availability system of internet have been unprecedented.

Professionals, non-professionals, experts or students, we are all turning increasingly to the internet in our daily lives. Whether we want to find educational openings abroad, do banking operations online, find research material on any issue, send corporate e-mails, internet is the place where we go most often. From the trivial to the highly complex, we look for answers to most of our questions in the vast ocean of knowledge called World Wide Web (www).

The World Wide Web is a system of interlinked hypertext documents accessed via the Internet. With a web browser, one can view web pages that contain text, images, videos, and other multimedia and navigate among them via hyperlinks.

Many people use the terms Internet and World Wide Web interchangeably, but in fact these two terms are not synonymous. The Internet and the Web are two separate but related things.

What is Web?

The World Wide Web, or simply Web, is a way of accessing information over the medium of the Internet. It is an information-sharing model that is built on top of the Internet. The Web uses the HTTP protocol (one of the languages spoken over the Internet) to transmit data. Web services, which use HTTP to allow applications to communicate in order to exchange business logic, use the Web to share information. The Web also utilizes browsers, such as Google Chrome, Internet Explorer or Firefox to access Web documents called Web pages that are linked to one another via hyperlinks. Web documents also contain graphics, sounds, text and video.

The Web is just one of the ways through which information can be disseminated over the Internet. The Internet, not the Web, is also used for e-mail. So the Web is just part of the Internet, albeit a large part, but the two terms are not synonymous and should not be confused.

What is Browser

A Web browser is software application that enables you to find, retrieve, and display information available on the World Wide Web (WWW). Browser also allows you to traverse information resources on the WWW. The information on the Web is organized and formatted using tags of a Markup language called Hypertext Markup Language or HTML. A web browser converts the HTML tags and their content into a formatted display of information. Thus, a web browser allows you to see the rich web contents from a website. Some of the popular web browsers are - Google Chrome, Internet Explorer, Mozilla Firefox, Safari and Opera.

A brief description about some of these interactions/buttons is as follows:

- *Back/Forward Buttons* : Back button can be used by you for going back to the previously visited web page whereas the Forward button is used to visit the nextpage (if you are not on the most recent page visited by you, this may happen when you have pressed the back button at least once).
- *Tab* : It allows you to view multiple web pages in the same browser without opening a new browser session.
- *Address bar* : Also known as URL Bar is a place where you can type the web page address that you want to retrieve from the web address. It also displays the address of the web page currently being visited by you.
- *Recent History* : This shows the links to the web pages previously visited by you.

- *Refresh* : This is also called as reload button. It reloads the current web page.
- *Stop* : It cancels loading of the current web page. This button is used when the page is in the loading state.
- *Home* : This button will bring you back to the home page of your website. Home page is the first page of any website.
- *Search* : Search box allows any term to be searched by the search engine from the web. It can also be used for searching of contents from the website visiting.

What is Internet?

The Internet is the network of networks and is used for many applications. Internet allows you to share resources and applications with ease. The Internet can carry any digital signals such as text, graphics, sound, video and animation. Today, Internet has thousands of networks and millions of users, using many services. The Internet is a massive network of networks - a networking infrastructure. It connects millions of computers together globally forming a network in which any computer can communicate with any other computer as long as they are both connected to the Internet. Information that travels over the Internet does so via a variety of languages known as protocols. The Internet uses TCP/IP as its basic protocol on which many more application level protocols have been developed.

The terms Internet and World Wide Web are often used in everyday speech without much distinction. The Internet is a global system of interconnected computer networks. In contrast, the Web is one of the services that runs on the Internet. It is a collection of textual documents and other resources, linked by hyperlinks and URLs, transmitted by web browsers and web servers. In short, the Web can be thought of as an application “running” on the Internet.

Viewing a web page on the World Wide Web normally begins either by typing the URL of the page into a web browser or by following a hyperlink to that page or resource. The web browser then initiates a series of communication messages, behind the scenes, in order to fetch and display it.

“The letters written by one party to another, and the answers thereto, make what is called the correspondence of the parties. Such correspondence if done through electronic signals via internet is called E-correspondence.”

What is E-Correspondence?

E-Correspondence is commonly known as ‘email-correspondence’ or ‘electronic correspondence’. It is an electronic method of providing you with important information on your email address. You must supply a valid email address in order to receive information via email. For example: johndoe@company.com.

Concept of Email

“Electronic mail” or “e-mail” as it is commonly called is the process of sending or receiving a computer file or message by computer modem over telephone wires to a pre-selected “mail box” or “address” on another computer. E-mail can also be sent automatically to a large number of electronic addresses via mailing lists (through ‘mail-merge’ option). E-mail messages can range from the simplest correspondence to business presentations, engineering blueprints, book chapters, or detailed contracts. Graphics, files of artwork or photography can be transmitted via this technology as well, though text messages comprise the vast majority of e-mail transmissions.

Today, e-mail stands as a central component of business communication, both within business enterprises and between business enterprises, because of the many advantages it offers over regular mail in terms of efficiency, speed, and 24-hour availability. These characteristics have made electronic mail a truly ubiquitous presence across the globe. Indeed, in terms of sheer volume, more than 536 billion pieces of e-mail were

delivered in the United States in 1999, according to the eMarketer Internet research firm. Moreover, the eMarketer estimates that in 2000 the number of active e-mail users in America reached 111 million.

Since e-mail has emerged as such an important method of business communication in recent years, it is important for small business owners to know how to use this technology effectively. Towards that end, consultants generally recommend that small business owners and entrepreneurs should select and shape such e-mail packages that emphasize convenience and ease of use.

Electronic mail, known commonly by its abbreviation 'email', is probably the most used medium of communication today. 50 years ago, had someone said that it would be possible to instantly deliver documents to a recipient sitting halfway across the globe, he would have been a laughing stock. But, email came, saw and conquered the World Wide Web. Today, with email, there's so much more than just written text communication. Ability of the email to securely forward multimedia, photos, software, etc. has made it very popular. It's rightly said that 'necessity is the mother of all inventions', and we humans have always found a way whenever the need arose. The history of email communication is very interesting and intriguing.

History of Email

In 1965, the Massachusetts Institute of Technology (MIT) was the first to demonstrate the use of the first email system known as MAILBOX.

The history of email addresses can also be attributed to Tomlinson. He chose the '@' symbol to provide an addressing standard in the form of "user@host", which is in use till date. This is why Tomlinson is called the 'father of email' and is credited with its invention.

By 1974, email in its improved form was being used by the US military. By 1975, efforts to organize the email bore fruit. A general operating area, known as email account, was created for users who wanted to avail the email service. Access controlling was done by giving the user a secret password, which only he/she would know. Separate folders were created depending on the purpose. Inbox for incoming messages and outbox for outgoing messages.

The year 1976 was a watershed year in the history of email marketing. Email service was being offered in commercial packages and per-minute charges were applicable to those using these services. This led to the requirement for offline reading, which meant that users could then download their emails on to their personal computers, and read them leisurely without using and paying for the airtime. This led to the development of applications, which were similar to what Microsoft Outlook does today.

Requirement for protocols was felt almost immediately, and in 1972 file transfer protocol (FTP) was put in use to send email messages. The main drawback here was that FTP created a separate mail for every recipient and then dispatched it, which resulted in the loss of precious memory space. This prompted the creation of the more efficient SMTP (Simple Mail Transfer Protocol) in the early 1980s, which became a standard protocol to be used in sending email messages. But the initial versions of SMTP failed to control the cases of forgery and proved to be a naive protocol in the verification of the authenticity of a user. Email viruses, worms and spammers began exploiting these loopholes in SMTP, and even though many new and improved versions have been released, this problem continues to be addressed till date.

If SMTP is used to send messages, POP (Post Office Protocol) is a standard for receiving emails. This protocol is used by email clients to retrieve messages from the mail server using a connection. One drawback of POP is that it does not support offline retrieval of messages. This demerit has now been overcome, by the more capable IMAP (Internet Message Access Protocol). This is how one comes to know about the offline messages, i.e., messages received when the receiver is not signed in.

By the early 1990s, free and user-friendly email service providers had taken the industry by storm. Players like 'yahoo' and 'hotmail' were competing for the market share. It was this decade that saw the .com boom, to the extent that almost everyone wanted an email account. Today, there are more than 600 million email users across the globe, with newer players like Google (Gmail) and Rediff entering.

There's so much more about the origin and history of email, but these were the most important landmark events. Looking at its current usage, we can only add that instant messaging via email is here to stay!

Features of Email

- *Electronic* : It is an electronic mode of message transmission as it is sent using HTML (Hyper Text Markup Language)
- The computer code used to create web pages.
- *Cost-Effective* : It is one of the cost-effective modes of fast communication. Today with the advent of smartphones, communicating through emails has become even more cost-effective.
- *Packages* : Packages like 'Messenger' and 'Outlook' help us compose new mails or forward the received ones to one or all of the people whose email addresses are stored in the 'Address Box'. They allow us to change font, sizes and colour of the text; highlight, delete, store or save; align, center or justify the text; italicize, bold, underline or even print what we write or receive as email.
- *Interface*: An interface between email programme and word processing programme allows us to cut, copy and paste material from one place to the other.
- *Attachments*: The 'Attach' option allows us to share documents, worksheets, presentations, pictures and videos along with the mails.
- *Spam* : Unsolicited or Junk mails can be filtered by using the 'spam' option which forbids unwanted mails to enter your inbox. These unwanted mails may be advertisements, job offers, competition forms, etc. which one does not want to receive frequently.
- *Signature* : We can customize our signature as we want it to appear in the complimentary closure of every email. Once you add your signature it automatically appears at the end of every mail that you compose. One need not write the name, designation, contact no, etc. again and again.
- *Search* : The search option helps us to locate old email communications. This can be achieved by typing the sender's name in the search box and clicking the search button. It will reflect all mails containing the name so typed.
- *Cloud Storage* : A more recent feature is cloud storage. Data can be stored on cloud. This facilitates access and instant updates to multiple users. Google Drive, Dropbox etc. are examples of companies offering cloud service solutions to enterprises.
- *Changes at the Workplace* : This trend of online work has brought about other changes like virtual workplaces, work from home, flexi-time etc.

Features of an Email Account

An email account, in general has the following folders:

Inbox: Inbox is the main folder in your email account. It contains all the e-mails that have arrived in your e-mail account. You can click on inbox to see the mails that you have not read (shown in bold) as well as the mails that you have already read (in normal font).

Sent Mail : It shows all the e-mails sent by you from your e-mail account.

Drafts : This folder stores those messages that you have created but has not been sent by you so far. These messages are saved by you for more work.

Spam : Spam is unsolicited e-mails or junk mail. It is generally e-mail advertising sent to a group of people. We can also term spam as unwanted e-mails. Spam mails are also a big cause of computer

viruses. Spam mails are identified by the mail services and placed in this folder. These spam mails are automatically deleted after a few days.

Trash : Any deleted mail is put in the Trash folder. Trash folder allows you to get back an e-mail which has already been deleted. But it is important to know that you can get back the mails only within a few days from trash after its deletion. After a few days, mails are permanently deleted from the trash folder.

An email account, in general has the following options:

Compose Mail : Composing is addressing, writing, and sending an e-mail message. By clicking on the Compose Mail button a window appears where we can write our message in the message box and the email addresses of the person we want to send the mail.

Contacts : The Contacts helps you to find email address of a person whom you have saved in your Contact list. We can also quickly find email conversations associated with a contact, and store additional information about other persons whose email id is stored in our contacts (such as a mailing address, title, phone number, etc).

To field - you have to put the address of the receiver. In case you want to send an email to more than one receiver then put commas between their email addresses or add cc. or add bcc.

Cc stands for Carbon copy the persons whose address is listed in this field will receive a carbon copy of the message and Bcc means blind carbon copy similar to Cc but the only difference is that the recipient who had got Bcc is invisible to other recipients.

Subject : The main heading of your mail i.e., it will explain that the mail is regarding which issue. Please note that the subject should be descriptive of the mail to help the receiver understand what mail is about without having to open the mail.

Text Area : The message is written in this area.

Send : you can send the mail by clicking the Send button.

Group Contacts is one such list as explained earlier. Contacts can be organized in different groups like office, school, relatives etc.

Electronic Mail System

Today companies are able to customize their e-mail services to meet their own unique communication needs. E-mail management tools in the market can help entrepreneurs and managers address a wide array of issues from excessive volumes of e-mail and/or excessively large file attachments –both of which can clog e-mail gateways or create network storage burdens –to virus detection, spam blocking, and search ability of e-mail data stores.

Optimizing Personal Email Use

Experts in the fields of business and electronic communication agree that managers and small business owners can take several steps to maximize the efficiency of their company's e-mail systems. These tips extend from patterns of personal e-mail use to guidelines for company wide e-mail policies.

Professional appearance and content are paramount in an e-mail. Some basic guidelines and action points to be followed are:

- The standards of professionalism that dictate postal correspondence stay –Proper Grammar, correct spelling, tone, courtesy, structure, content etc.
- Avoid 'Emoticons' – smileys, winks etc in official correspondence.

- Maintain separate accounts for official and personal e-mails. Many organizations have firewalls against personal mails like Yahoo, Gmail etc.
- Avoid 'spamming.' Maintain a proper distribution list of recipients for your mails.
- Limit the size of attachments to be received or sent out by e-mail. Organizations have policies and limits for the size of attachments. This helps monitor data security, virus attacks etc.
- *Have a standard signature for your official e-mails* – Name, Designation, Phone numbers. This helps in accurate identification.
- *Respond promptly to official e-mail messages* – less than 24 hours. In case the response takes more detailed information, write a short reply explaining how long it would take for you to give a proper response. Non-response sends out wrong signals.
- Set up efficient daily e-mail practices. Today, e-mails are configured on smartphones, further reducing the expected response time.
- Delete old messages that can clutter up your inbox. Ensure that your inbox is not cluttered and allows for incoming messages without delay.
- Review incoming e-mails only at two or three set times a day, rather than peeking at each one as it comes in; and
- Invest in supplementary tools that can block e-mail spam that clogs many systems.
- Use the "Reply/Reply All" features with care. Your response may be intended only for the sender and not for all included in the mail.

Important

Use the fields 'to,' 'cc,' and 'bcc' appropriately. The recipients in the 'to' are those who need to take action based on your e-mail; those in 'cc' are included for information; those in 'bcc' are included when the recipients are not known to each other and their e-mail ids are to be kept confidential.

This is important, because spammers love to see a whole slew of e-mail addresses that they can send spam to. Your friends will have good intentions, but those you may only know from a list may not. Hackers now have the addresses of everyone who will be receiving your e-mail. This is neither appropriate nor safe. Instead, choose to send a group or list of people the same message using BCC, which is the kindest and least obvious way to send mail short of encryption.

Also remember that all e-mail sent through normal channels can be intercepted. Therefore, only write what you want the world to see.

Again, the desire to say what we feel must be overcome with the desire to be courteous and professional, which we all know in our hearts, is the better way to communicate.

Proper E-mail Correspondence

Most of us e-mail back and forth every day, so we all deal with different types of e-mail correspondence. Whether it be for business, for personal use or for school, we all need to know the proper ways of sending emails to other people. Keep reading to see if you're being professional about it or not.

As stated above, e-mail correspondence comes in various colours and designs and it is as creative as the sender makes it. E-mail a decade ago was definitely not the same as the e-mail today. We must be more careful about what we say and how we say it. Words used in an e-mail are like a small, lit match; they can be used to mend fragile relationships, warm the heart and light the way, or they can ignite a whole forest aflame that could cause havoc and destruction.

Here is one scenario that may influence varied responses:-

Example

You just paid for some software over the Internet with your credit card. You were told that the software would reach your house in a few days. The item does not reach you in promoted time. No problem, you think. You will just call the 1-800 number they have on their Website but after redirecting your call four times, you hear the dial tone. You are upset, but you try calling again.

Now, after this phone calling nightmare for almost 45 minutes, you are angry that no one is answering. After all, you paid for the item and you want it. Should you not be angry? Of course you should be, but you can't get hold of them, so you decide to write an e-mail explaining your mounting frustration about how their customer service was always unavailable over the phone. You are careful to tell them that you have not received your purchase and also include the invoice statement as proof of what you bought. Three days go by and counting. You cannot get this dilemma off your mind. Another e-mail lands you nowhere. You do not know what to do. You tried contacting them, but you got no reply. You decide that you no longer want their software and want your money back. You swear not to deal with this company again, right?

So, you write a third e-mail, but you are not so polite this time. You say, "I will never do any business with you again. You are deaf to my phone calls and e-mails and insult my intelligence. I demand my money back. You are a thief and should not be in business and I will get to the bottom of this."

Surely, this is a letter you can write, but do you really think you should? Would it make you feel any better?

Maybe, but will it get you what you want? Not likely. In so many cases, we are obliged to overcome how we feel by an act of the will to do what we ought to do.

Now, let's take the same scenario and use a different technique. Instead, say something like, "Gentlemen, I am writing this e-mail as an addition to my other two. I have not received the item I paid for. It should have arrived two weeks ago. I am concerned that it may have gotten lost in transit or perhaps was overlooked with the many deliveries you are responsible for at your warehouse. I have also tried to contact you by phone twice, but there was some difficulty and my calls never got through. I would appreciate hearing from you regarding this matter.

Thank you."

A reply from the company finally comes and it says, "We apologize for not being able to get back to you about your purchase. Our servers were hacked into and we just got back online. It was also very alarming that we found our customer backup data was deleted. Please accept our apologies. Because of this delay, we are sending your purchase free of charge and we hope that this might retain you as one of our loyal customers."

Again, the desire to say what we feel must be overcome with the desire to be courteous and professional, which we all know in our hearts, is the better way to communicate.

There are many occasions however, when you simply do not hear back at all from a vendor. What do you do then? There is one more example of the proper way to send an e-mail.

This is one that is sent to many people. There is a thoughtful way to include others that will be the recipient of such mail. We all have had times that we find something useful to send or we find that there are stories that are uplifting that we want to share. How do we send a story like that to many people where safety and courtesy are concerns? Certainly, one way is to address your e-mail to each recipient. There is nothing wrong with this. Each person receives it and each person feels special, because you addressed your e-mail to him/her alone.

Suppose however, you would like to send the same e-mail to all of your readers at one time. Most of all e-mail recipients are known to have what is called Carbon Copy (CC) and Blind Carbon Copy (BCC). Here we want to be careful that only one person at a time will see your mail without seeing the address of every person you are sending it to. If we use CC, every person's address is listed for each e-mail recipient to see, but if we use BCC, only the address of a person in the 'To:' box is seen.

This is important, because spammers love to see a whole slew of e-mail addresses that they can send spam to.

Your friends will have good intentions, but those you may only know from a list may not. Hackers now have the addresses of everyone who will be receiving your e-mail. This is neither appropriate nor safe. Instead, choose to send a group or list of people the same message using BCC, which is the kindest and least obvious way to send mail short of encryption.

Also, remember that all e-mail sent through normal channels can be intercepted. Therefore, only write what you want the world to see.

Email Etiquette

While a lot of people understand the importance of following certain rules when writing a business letter, they often forget these rules when composing an email message. Here's a refresher.

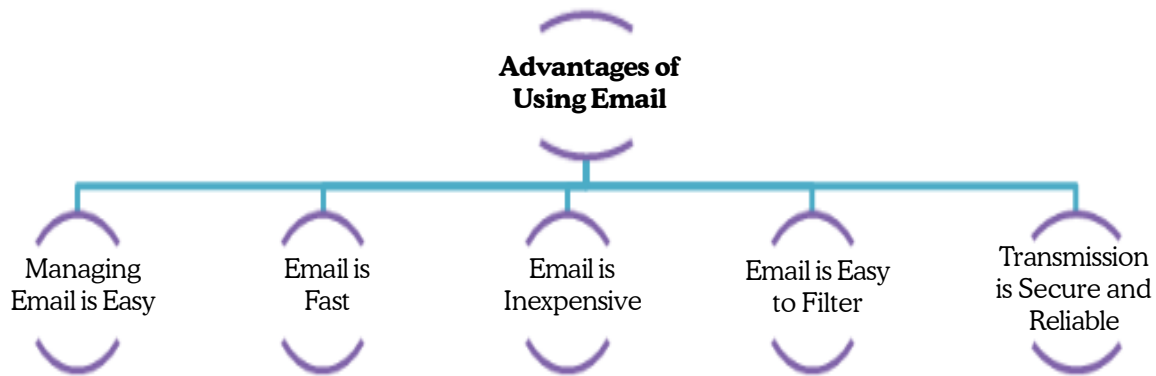
- *Mind Your Manners* : Think of the basic rules you learned growing up, like saying please and thank you.
- Address people you don't know as Mr., Mrs., or Dr. address someone by first name only if they imply it's okay with them to do so.
- *Watch Your Tone* : Merriam-Webster defines tone as an "accent or inflection expressive of a mood or emotion." It is very difficult to express tone in writing, but make sure that you should come across as respectful, friendly, and approachable. You should not sound curt or demanding.
- *Be Concise* : Get to the point of your email as quickly as possible, but don't leave out important details that will help your recipient answer your query.
- *Be Professional* : This means, stay away from abbreviations and don't use emoticons (those little smiley faces). Don't use a suggestive email address for business communications.
- *Use Correct Spelling and Proper Grammar* : Use a dictionary or a spell checker whichever works better for you. While you can write in a conversational tone (contractions are okay), pay attention to the basic rules of grammar.
- *Wait to Fill in the "TO" Email Address*: Career Planning Site visitor Larry Batchelor says, "I never fill in the 'TO' email address until I am completely through proofing my email and I am sure that it is exactly the way that I want it. This will keep you from accidentally sending an email prematurely. In the past, I have accidentally clicked on the send icon, when I really meant to click on the attachment icon."

Advantages and Disadvantages of Email

Email has changed the way we do business. Sure, people complain about the amount of Email they receive. But when all is said and done, use of Email has made a positive impact on business and has an edge over other methods of communication.

Here are five advantages of using Email:

- (i) *Managing Email is Easy* : You can manage all your correspondence on screen and so can your customers. Your proposal can be answered, revised, stored, and sent to others, all without reams of paper involved.



- (ii) *Email is Fast* : Mail is delivered instantly from your office to anywhere in the world. No other method of delivery can provide this service. Timely buying and selling decisions can be made in one heartbeat.
- (iii) *Email is Inexpensive* : Compared to telephone calls, faxes, or overnight courier service, Email is less expensive.
- (iv) *Email is Easy to Filter* : The subject line on an Email makes it easy to prioritize messages. The reader can identify critical correspondence quickly and deal with it immediately. Unlike regular mail which needs to be opened and reviewed, or voice mail which requires you to either listen to or scan all your messages for those that require immediate attention.
- (iv) *Transmission is Secure and Reliable* : The level of security in transmitting Email messages is very high, and the industry continues to strive to develop even tighter security levels. Email is private. Often telephone and fax messages are not. If the address information is correct, rarely does an Email go astray. Fax machines can be out of order or out of paper and this prevents an important message from being delivered in a timely manner.

Email has been credited for increased efficiency, business readiness, and a host of other advantages tied to increased productivity.

However, there are some disadvantages.

- (i) *Time Consuming* : Writing an email takes less time than it takes to print a letter and mail it off the ease with which an e-mail is sent implies that an average person may do more correspondence electronically than he would if all correspondence was done by postal mail. Sometimes the message is better communicated over the telephone or directly. Organizing and reading through emails can also eat up a great deal of time and prove an obstacle in the way of a worker's productivity.

Disadvantages of using Email

- *Time Consuming*
- *Security*
- *Impersonal Communication*
- *Misunderstanding*
- *Vulnerability*
- *Internet Connectivity*

- (ii) *Security* : Sensitive information can be easily shared and distributed within a business through email. It does not matter if the email is sent accidentally or deliberately, the damage remains the same. Moreover, when someone hands you a business letter, you are the only person who receives that letter. An e-mail can be intercepted by a hacker or go on an incorrect email address and wind up in someone else's inbox. Your sensitive information and messages are easily accessible to hackers and to even unsuspecting recipients.
- (iii) *Impersonal Communication* : While email can be faster, the meaning of the message is often lost in the text. It can make customers or employees forget there are people involved in the transaction, which can affect customer service. Since email recipients cannot see one another, the emails do not have any voice inflection or emotion that can help in proper interpretation.
- (iv) *Misunderstanding* : Pronouns and popular jargon can lead to conflicts in emails. In addition, email is filled with abbreviations and short descriptions, which can often be misunderstood and/or interpreted the wrong way.
- (v) *Vulnerability* : It would take a manual effort on the part of someone to access all his important printed documents and destroy them. But all of your emails and important information can be lost with a simple hard-drive crash. Even if you store your email information on another server, you could lose your data if that site goes down or gets out of business.
- (vi) Whether an organisation depends on internet connectivity: E-mail depends on the internet connectivity which can get disturbed or disconnected due to various reasons.
 - Email cannot be considered a confidential mode of communication.
 - Email should not be considered as a replacement for direct, face-to-face communication.
 - Email cannot be relied in case of emergency messages as the receiver may read it at his own convenient time.
 - Email depends on the internet connectivity which can get disturbed or disconnected due to various reasons.

Intranet

The word 'intra' means within or internal. It is like the internet, except that it contains information specific to a particular organization. External people, who are not on the network cannot access the intranet.

The intranet is the most effective of all types of electronic communication.

A company intranet helps to keep employees atleast with various happenings within the company, and it can be used to communicate within the company by posting various newsletters, articles, and company training documents.

The intranet implies that only the company employees who are set up on the server can access the company pages. It is different from the Internet which is open to everyone who has an Internet connection.

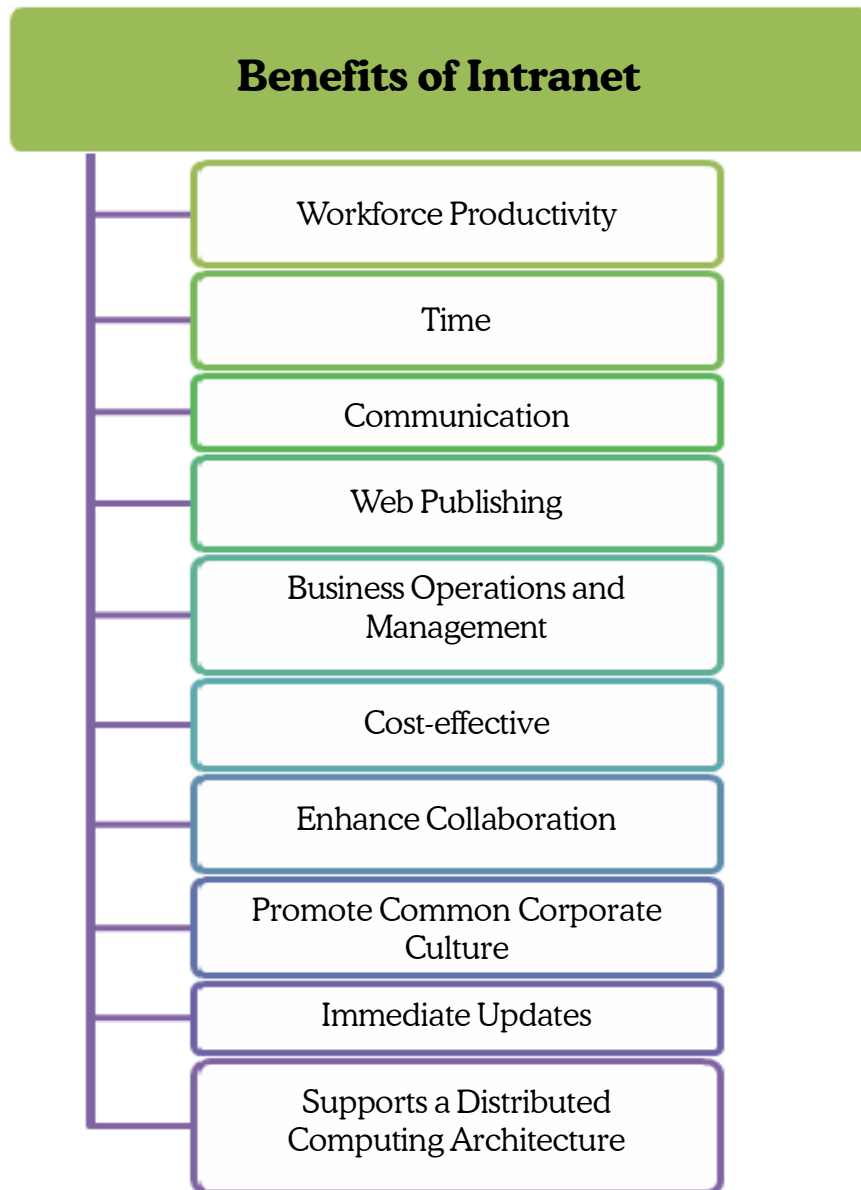
Most companies use their intranet in place of paper and emails because it gives information to everyone within the company, regardless of their location. Thus, all employees in an organisation get to know about the carried happenings.

Intranet for companies are very secure in the sense that no one outside the company can access it once the security is set in place.

The benefits of an intranet are that it allows a central communication area for the entire company. Many people work in remote locations; therefore, it helps them in having a sense of connectedness with the company as a whole, regardless of the place someone is located in.

Intranet have been quite effective in keeping communication open to all employees, but at the same time,

it is essential that they log into the intranet several times each day. Many companies make the intranet the default start-up page from any browser within the company, which makes it easier for employees to remember to log in for important information.



Benefits of Intranet

An intranet is a great tool that may be used in order to get messages across to the staff members. There are many creative ways in which one could use the intranet to one's advantage within the company. One can promote the workplace issues on just about any topic on an intranet.

- *Workforce Productivity* : Intranets can help users to locate and view information faster and use applications relevant to their roles and responsibilities.
- *Time* : Intranets allow organizations to distribute information to employees on an as-needed basis. Employees may link to relevant information at their convenience, rather than being distracted indiscriminately by electronic mail.
- *Communication* : Intranets can serve as a powerful tool of communication within an organization, vertically as well as horizontally. From the communication standpoint, intranets are useful to communicate strategic initiatives that have a global reach throughout the organization. By providing this information on the intranet, staff has the opportunity to keep up-to-date with the strategic focus of the organization. Some examples of communication are chat, email, and blogs.
- *Web Publishing* : It allows cumbersome corporate knowledge to be maintained and easily accessed throughout the company using hypermedia and Web technologies. Examples include: employee manuals, benefits documents, company policies, business standards, news feeds, and even training can be accessed using common Internet standards (Acrobat files, Flash files, CGI applications). Because each business unit can update the online copy of a document, the most recent version usually becomes available to the employees using the intranet.
- *Business Operations and Management* : Intranets are also being used as a platform for developing and deploying applications to support business operations and decisions across the internetworked enterprise.
- *Cost-effective* : Users can view information and data via a web-browser rather than maintaining physical documents, such as procedure manuals, internal phone list and requisition forms. This can potentially save the business money on printing, duplicating documents, and the environment as well as document maintenance overhead. For example, people using internet services “derived significant cost savings by shifting HR processes to the intranet”.
- *Enhance Collaboration* : Information is easily accessible by all authorized users, which enables teamwork.
- *Promote Common Corporate Culture* : Every user has the ability to view the same information within the Intranet.
- *Immediate Updates* : When dealing with the public in any capacity, laws, specifications, and parameters can change. Intranets make it possible to provide your audience with “live” changes so they are kept upto-date, which can limit a company’s liability.
- *Supports a Distributed Computing Architecture* : The intranet can also be linked to a company’s management information system, for example, a timekeeping system.

Purpose of Intranet

The purpose of the intranet is for internal communication. Increasingly, intranets are being used to deliver tools and applications, e.g., collaboration (to facilitate working in groups and teleconferencing) or sophisticated corporate directories, sales and customer relationship management tools, project management, etc., to advance productivity.

Intranets are also being used as corporate culture-change platforms. For example, large numbers of employees discussing key issues in an intranet forum application could lead to new ideas in management, productivity, quality, and other corporate issues.

When part of an intranet is made accessible to customers and others outside the business that becomes part of an extranet. Businesses can send private messages through the public network, using special encryption/ decryption and other security safeguards to connect one part of their intranet to another.

Intranet user-experience, editorial, and technology teams work together to produce in-house sites. Most commonly, intranets are managed by the communications, HR departments of large organizations, or some collaboration among these.

Web communication is here to stay and will only grow in use and importance.

Difference between Internet and Intranet

<i>S.No.</i>	<i>Internet</i>	<i>Intranet</i>
1	Internet is used to connect different network of computers simultaneously.	Intranet is owned by private firms.
2	In internet, there are multiple users.	In intranet, there are limited users.
3	Internet may be unsafe.	Intranet is safe.
4	In internet, there are more number of visitors.	In intranet, there are less number of visitors.
5	Internet is a public network.	Intranet is a private network.
6	Anyone can access Internet.	Anyone can't access the Intranet.
7	Internet provides unlimited information.	Intranet provides limited information.

Extranet

An extranet is a private network that uses Internet technology and the public telecommunication system to securely share part of a business's information or operations with suppliers, vendors, partners, customers, or other businesses. An extranet can be viewed as part of a company's intranet that is extended to users outside the company. It has also been described as a "state of mind" in which the Internet is perceived as a way to do business with other companies as well as to sell products to customers.

Companies can use an extranet to:

- (i) Exchange large volumes of data using Electronic Data Interchange (EDI).
- (ii) Share product catalogues exclusively with wholesalers or those "in the trade"
- (iii) Team up with other companies on joint development efforts
- (iv) Jointly develop and use training programs with other companies
- (v) Provide or access services provided by one company to a group of other companies, such as an online banking application managed by one company on behalf of affiliated banks
- (vi) Share news of common interest exclusively with partner companies.

Difference between Intranet and Extranet

<i>S.No.</i>	<i>Intranet</i>	<i>Extranet</i>
1	Intranet is a tool for sharing information throughout the organization.	Whereas Extranet is a tool for sharing information between the internal members and external members.

2	Intranet is owned by a single organization.	While Extranet is owned by either a single or a many organization.
3	In intranet, security is implemented through a firewall.	Whereas in this, security is implemented through a firewall in order to separate the extranet and the internet.
4	Intranet is managed by an organization.	Whereas Extranet is managed by many organizations.
5	Intranet has a limited number of connected devices.	Whereas in the extranet, connected devices are comparable with the intranet.
6	Intranet is a private network type for an organization.	While it is also a private network in which public network is used in order to share the information to the suppliers and customers.
7	Intranet is used in order to get employee information, telephone directory etc.	While it is used to check status, access data, send mail, place order etc.
8	Intranet is the limited and compromised version of Extranet.	While Extranet is the limited and compromised version of Internet.
9	A particular organization is the regulating authority for intranet.	While it is regulated by multiple organizations.
10	It is accessible to only the members of organization.	It is accessible to members of organization as well as external members with logins.
11	It's restricted area is upto an organization.	It's restricted area is upto an organization and some of its stakeholders.
12	It is derived from Internet.	It is derived from Intranet.

Lesson 8

**COMMON BUSINESS
TERMINOLOGIES**

The topic of 'Business Terminology' is the main vehicle by which facts, opinions and other 'higher' units of knowledge are represented and conveyed. Sound terminology work is meant for reducing ambiguity and increasing clarity. Terminology can thus be a safety factor, a quality factor and a productivity factor in its own right. In other words, the quality of specialist communication depends to a large extent on the quality of the terminology employed. Moreover, it is not possible to look up a word in a dictionary all the time. Thus, voluntarily or involuntarily we memorize the words of daily use. Making these terms a part of our daily conversation can surely help us to instil these terms in the memory. Hence we need a glossary of business terms providing us with definitions of the common words used in all aspects of the business. This business glossary serves as a ready guide for business proprietors, managers, students and general readers. Various spheres and topics have been covered ranging from accounting, banking, taxation, advertising, business law, communications, economics, finance, insurance, international business, management, marketing, real estate and various other areas of business. Therefore, we need to know their origins and meanings. Firstly let us have a glance at the most 'basic' and the most 'advanced' terms of 21st century just for curiosity, motivation and involvement:

Ten Basic but Most Important Terms / Words in Business English

- **Management** : those in charge of running a business
- **Business** : the activity of providing goods and services involving financial and commercial and industrial aspects
- **Marketing** : the commercial processes involved in promoting and selling and distributing a product or service
- **Profit** : the amount of money left over after expenses are taken out
- **Telecommuting** : involves working at home usually on a computer
- **Downsizing** : a planned reduction in the number of employees needed in a firm in order to reduce costs and make the business more efficient
- **Outsourcing** : contracting out selected functions or activities of an organization to other organizations that can do the work more cost efficiently
- **R & D or Research and Development** : Business or government activity that is purposely designed to stimulate invention and innovation
- **Headquarters** : (usually plural) the office that serves as the administrative center of an enterprise
- **Market** : the world of commercial activity where goods and services are bought and sold

Other Terminologies

ACCEPTANCE (BILL OF EXCHANGE)	Assent given by a party to a bill of exchange by signing across the face of it. Acceptance may be done online by clicking on the Accept button.
ACKNOWLEDGMENT	The signature of a clerk or attorney certifying that the person signing the document has signed by his or her free act and for the purposes set forth therein.
ACQUISITION COSTS	Acquisition costs are the incremental costs involved in obtaining a new customer.
ACT OF GOD	A term usually used in insurance to denote risks and dangers arising out of natural causes that are beyond human control.
ACTION	Also called a case or lawsuit. A civil judicial proceeding where one party

	sues another for a wrong done, or to protect a right or to prevent a wrong.
ADB	Asian Development Bank
ADJOURNMENT	Postponement of a court session until another time or place.
ADJUDICATION	A decision or sentence imposed by a judge
AFFIDAVIT	A written statement signed in the presence of a judicial officer, a Notary Public or an Oath Commissioner that is admissible as evidence in a court of law.
AFFIRMATION	Declaring something to be true under the penalty of perjury by a person who will not take an oath for religious or other reasons.
AGENDA	A program listing items of business to be transacted in a meeting.
AGENT	A person appointed to act generally or for a special business purpose on behalf of the Principal usually on payment of a commission.
ALLEGATION	Saying that something is true. The assertion, declaration or statement of a party in a case, made in a pleading.
ALLOTMENT	Issue of shares or debentures to an applicant after payment of notified price.
AMALGAMATION	The coming together of two or more previously autonomous businesses into a single undertaking.
AMERICAN DEPOSITORY RECEIPTS (ADR)	A receipt showing evidence that shares of a foreign corporation are held on deposit or under control of an U.S banking institution. Used to facilitate transactions and expedite transfer of beneficial ownership for a foreign security in the United States.
AMORTISATION	The extinction or gradual writing off of liability or debt over a period of time, loosely speaking, through depreciation of wasting assets through operation of a sinking or purchase fund.
ANNUAL RETURN	A statutory document filed by every company annually with the Registrar of Companies, stating the particulars such as status, names of directors, shareholders, indebtedness etc. of the company.
ANNUITY	A fixed sum of money payable for the whole or a part of a person's life under the terms of an insurance policy or a Will.
APPEAL	Appeal is a process by which the correctness of the decision of a lower court or tribunal is questioned in a higher court.
APPEARANCE	The official court form filed with the court clerk which tells the court that you are representing yourself in a lawsuit or criminal case or that an attorney is representing you. All court notices and calendars will be mailed to the address listed on the form. When a defendant in a civil case files an appearance, the person is submitting to the court's jurisdiction.
APPELLANT	The party appealing a decision or judgment to a higher court.
ARBITRAGE	The business of taking advantage of difference in price of a security traded

	on two or more stock exchanges, by buying in one and selling in other or vice versa.
ARBITRATION	A quasi-judicial arrangement whereby a dispute between parties is resolved by referring it by mutual consent to arbitrators whose decision is binding.
ARREST	When a person is taken into custody by a police officer and charged with a crime.
ASSET	Anything to which money value can be attached, owned by a business or individual. It may be financial such as cash; physical, such as land/building; tangible, such as patent, trademark; or intangible, such as goodwill.
ASSET TURNOVER	Asset turnover is sales divided by total assets. Important for comparison over time and to other companies of the same industry. This is a standard business ratio.
ASSETS	Assets include everything that a company owns and has some economic value.
ASSIGNMENT	A transfer of right, title or interest in a property from one person to another. For an assignment to have legal effect it must be absolute, in writing and be communicated to the one owing the right.
ASSOCHAM	Associated Chamber of Commerce & Industry - one of the bodies representing the Indian industry.
ASSURANCE	The term originally denoted a form of protection against events, which must happen i.e. death. Insurance was used for cover against loss linked with contingencies such as fire or lightening.
ATTACHMENT	A lien on property or assets to hold it to pay or satisfy any final judgment.
ATTESTATION	Attestation is authentication of a signature by an authorized person, who could be an oaths commissioner or a notary public.
ATTORNEY	A person legally appointed or empowered to act on behalf of another during the latter's lifetime for a specific or general purpose.
ATTORNEY OF RECORD	Attorney whose name appears in the permanent records or files of a case.
AUCTION	A public sale conducted by the auctioneer in which the goods are given away to the highest bidder at the fall of a hammer.
AUDIT	An examination of accounts and their underlying records in order to be able to express an opinion on their honesty and trueness, with a report on them by the internal staff or a firm of auditors.
BAD DEBT	An open account balance or loan that is proved to be impossible to be collected.
BAIL	Also called Bond. Money or property given to the court for the temporary release of a defendant, to ensure that the defendant will return to court.

BALANCE SHEET	The financial statement generally prepared at the end of a period usually the financial year showing the assets, liabilities and net worth of an organisation.
BANK ACCOUNT	A bank account allows the account holder to deposit, safeguard his money, earn interest, and make cheque payments.
BANK RATE	The maximum lending/borrowing rate determined by the Reserve Bank of India from time to time taking into account the state of economy.
BANK STATEMENT	A statement issued in loose-leaf or Passbook form by the bank showing credit-debit entries and the balance in an account during a given period.
BANKRUPTCY	A legal condition where a person or a business in which liabilities exceed the assets and the debtor is unable to repay amounts owed.
BOOK VALUE	The value of an asset as appearing in the Books of Accounts, after the accounting processes to which it has been subject and is not necessarily the market value of the said asset.
BOOKKEEPING	A method of accounting that involves the timely recording of all financial transactions for the business.
BOUNCED CHEQUE	A bounced cheque is a normal cheque which a bank refuses to pay. The reasons for refusing it include insufficient funds, signature mismatch, or some other valid reason.
BREAK-EVEN POINT	Break-even point is output of the standard break-even analysis. The unit sales volumes or actual sales amounts that a company needs to equal its running expense rate and not lose or make money in a given month.
BUY-SELL AGREEMENT	A buy-sell agreement is an agreement designed to address situations in which one or more of the entrepreneurs wants to sell their interest in the venture.
CALL	A demand made by a limited company to the holders of partly paid-up shares to pay a further instalment towards the nominal value of their shares.
CAPITAL	The amount of money, invested in a business; available for working; manifest in tangible goods like building and machinery or in the form of circulating assets. The term has several specific uses. Money spent on improvement of fixed assets and not chargeable against profits is known as Capital Expenditure.
CAPITAL EXPENDITURE	Spending on capital assets (also called plant and equipment, or fixed assets, or long-term assets). Capital assets are long-term assets, also known as fixed assets.
CASE	A lawsuit or action in a court.
CASE LAWS	Judgments by courts usually of higher courts, in leading cases, which are treated as authorities and quoted and relied on in similar cases by the lower or same level courts.
CASH DISCOUNT	A discount offered in addition to normal trade discounts when payment is made in cash before the expiry of the period of credit.

CASH FLOW STATEMENT	<p>The cash flow statement is one of the three main financial statements (along with income statement and balance sheet), the cash flow statement shows actual cash inflows and outflows of the business over a specified period of time.</p> <p>The cash flow statement reconciles the income statement (profit and loss) with the balance sheet.</p>
CAUSE LIST	<p>Cause list is issued by the Registry of the matters to be heard by the court on any day. Cause list contains information like bench, courtroom number and the position of the matter.</p>
CAVEAT EMPTOR	<p>A legal doctrine literally meaning 'let the buyer beware' of what he is buying and satisfy himself about the quality and condition of what he is buying.</p>
CHEQUE	<p>A negotiable instrument drawn on a bank where the drawer has an account ordering the bank to pay the stated sum to a person or to the order of another person. When the cheque is bearer, payment is made on presentation. Order cheques require endorsement while crossed ones are paid into an account. Blank cheque is for an unspecified amount while a stale cheque is more than six months old and no longer valid.</p>
COLLATERAL	<p>A security generally in the form of fixed assets and offered in addition to those already furnished.</p>
COMMISSION	<p>(i) A payment in percentage terms made to an agent or a broker for goods sold or services performed. When responsibility for payments is also accepted, an extra del credere is payable.</p> <p>(ii) The charge based on the percentage of funds invested which is paid by an investor to a broker or a financial advisor.</p>
COMMON LAW	<p>Laws that develop through case decisions by judges. Not enacted by legislative bodies.</p>
COMPLAINT	<p>A legal document that tells the court what you want, and is served with a summons on the defendant to begin the case.</p>
CONDITION	<p>A stipulation that is binding on signatories of a legal contract and the breach of which entitles the aggrieved party to rescind the contract.</p>
CONSIGNMENT	<p>Transferring the title of goods, the details of which are given in the Proforma Invoice, to an agent for sale. The proceeds and account of sale are furnished to the consignee periodically.</p>
CONSORTIUM	<p>An association of companies formed for the purpose of undertaking a particular activity. There may be no other connection between the companies outside the scope of activities. It is usually to share the limited resources and risks associated with the activity undertaken.</p>
CONTEMPT OF COURT	<p>A finding that someone disobeyed a court order. Can also mean disrupting court, for example, by being loud or disrespectful in court.</p>
CONTRACT	<p>An agreement between parties in order to create legal obligations under a seal or for a consideration and enforceable by law.</p>

CONVICTION	To be found guilty of committing a crime
COSTS	Expenses in prosecuting or defending a case in court. Usually does not include attorney's fees.
COVER NOTE	A document issued by an insurance company to provide cover to the insured till a formal policy document is issued.
CREDIT	Literally "trust or belief". In commerce, it means giving goods the payment for which is to be made at a subsequent date.
CREDIT NOTE	A document sent by a seller to a buyer to rectify an error of overcharge in an invoice or to allow credit for goods returned. It is entered in the books of account.
CRISIL	Credit Rating and Information Services of India Limited. It is an agency set up in April 1988 that
CRISIS	Reckless heavy short sales leading unduly to depressed prices. In such a situation the Governing Board of the Stock Exchange may prohibit short sales, fix minimum prices below which sales or purchases are not permitted and also take any other suitable corrective action.
CROSS-EXAMINATION	Questioning by a party or the attorney of an adverse party or a witness.
CRR	Cash Reserve Ratio notified by the Reserve Bank of India from time to time. It indicates the reserves of commercial banks set apart as a measure of security.
CURRENT ASSETS	Current assets are the same as short-term assets.
CURRENT DEBT	Current debt refers to short-term debt and short-term liabilities.
CURRENT LIABILITIES	Current liabilities refers to short-term debt and short-term liabilities.
DAMAGES	Compensation awarded by a court of law for breach of contract in a civil litigation.
DAY ORDER	An order which remains valid for the day it is entered, unless matched, it is automatically cancelled at the end of the trading.
DEBENTURES	An instrument/security through which a company may borrow funds from public or public financial institutions, on which interest usually is payable on specific dates and principal amount repayable on a particular date on redemption of the same.
DEBIT NOTE	A note sent by seller to buyer to rectify an undercharge in the original invoice. It is in the nature of a supplementary invoice.
DEBT AND EQUITY	Debt and equity is the sum of liabilities and capital. This should always be equal to total assets.
DEBT FINANCING	<p>When you borrow money from a lender and agree to repay the principal with interest in regular payments for a specified period of time, you're using debt financing. Traditionally, it has been the most common form of funding for small businesses.</p> <p>Debt financing can include borrowing from banks, business credit cards, lines of credit, personal loans, merchant cash advances, and invoice</p>

	financing. This method creates a debt that must be repaid but lets you maintain sole control of your business.
DECLARATION	An unsworn statement of facts made by a party to the transaction, or by one who has an interest in the facts recounted.
DEED	A legal document in writing, signed, sealed and delivered by the person making the deed.
DEFAULT	To fail to respond or answer to the plaintiff's claims by filing the required court document; usually an Appearance or an Answer.
DEFENDANT	In civil cases, the person who is given court papers, also called a respondent. In criminal cases, the person who is arrested and charged with a crime.
DEMATERIALISATION	Conversion of debentures from electronic form. securities paper or such as physical shares/ form to
DEPOSITORY	The system of organisation which works through registered members called depository participants, to maintain a record of securities in electronic or dematerialised form. Transactions in such shares are recorded immediately by the depository participants in the accounts of shareholders who hold the shares in dematerialised form.
DEPRECIATION	The fall in the value of a fixed or movable asset due to wear and tear or passage of time. Such amounts may be written off or provide a replacement through another fund.
DERIVATIVE MARKETS	Markets such as futures and option markets that are developed to satisfy specific needs arising in traditional markets. These markets provide the same basic functions as forward markets, but trading usually takes place on standardised contracts.
DIFFERENTIATION	Differentiation is an approach to create a competitive advantage based on obtaining a significant value difference that customers will appreciate and be willing to pay for, and which ideally will increase their loyalty as a result.
DISBURSEMENT	A legitimate payment of money out of some fund.
DISCOUNT	A reduction from a stated amount.
DISCOUNTED BILL	A Bill of Exchange encashed for a charge by the banker before the date on which it becomes payable.
DISMISSAL	A judge's decision to end the case.
DISPOSE	Ending a legal case or a judicial proceeding.
DISPOSITION	The manner in which a case is settled or resolved.
DISSOLUTION	The legal end of a marriage, also called a divorce.
DIVIDEND	A return on investment on securities such as shares dependent on the profitability of the company. It is distributed through dividend warrants similar to cheques. Alternatively it may be credited to the bank account or Demat account of the shareholder.

DOCUMENTS OF TITLE	Documents which provide conclusive evidence of ownership of some asset. Usually denotes non- negotiable documents such as Bills of Lading or Delivery Challans showing the transfer of title to the transferee for a specific period or purpose say transportation. In international trade, usually attached with bills of exchange.
DOMICILE	The permanent home of a person. A person may have several residences, but only one domicile.
DRAFT	A document requiring one party, usually a bank, to make payment to another from funds which are held by the former.
DUMPING	Selling goods in a market usually overseas, at a price well below cost, usually with an intention to ruin the indigenous market/competition.
EARNEST MONEY	A refundable security in the form of demand draft or bank guarantees to keep off non-serious applicants usually for tenders. It is also given by a buyer to the seller to bind the bargain and may be adjusted later with the cost of the purchase.
EARNINGS BEFORE INTEREST AND TAXES (EBIT)	EBIT refers to earnings before interest and taxes.
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AND AMORTIZATION (EBITDA)	Earnings before interest, taxes, depreciation and amortization (or EBITDA) is equal to the gross margin (the difference between total sales revenue and total direct cost of sales) minus total operating expenses (tax-deductible expenses incurred in conducting normal business operations, such as wages and salaries, rent, and so on), plus any depreciation (The loss of value of assets over time) and amortization. This is similar to earnings before interest and taxes (EBIT). The difference between the two is that EBIT subtracts all expenses, including depreciation, as an expense, and EBITDA subtracts all expenses except depreciation and amortization.
ECONOMIES OF SCALE	Economies of scale refers to the benefit that larger production volumes allow fixed costs to be spread over more units lowering the average unit costs and offering a competitive price and margin advantage.
ED	Enforcement Directorate, that looks into violations involving foreign exchange.
ENCUMBRANCE	Some liability which is attached to a property and thereby, imposes a burden on the owner.
ENDORSEMENT	A writing on the back of a bill of exchange i.e. an Order cheque authorising the bank to pay to the bearer or a specified person or prohibit further endorsements. The effect of endorsement is to vary the terms of the document.
ENTREPRENEUR	An entrepreneur is someone who starts a new business venture; someone who recognizes and pursues opportunities others may not see as clearly, and finds the resources necessary to accomplish his or her goals.
EPS	Earnings per share. A company's net profit attributable to equity/ordinary

	shareholders divided by the number of such shares that have been issued and paid-up.
ESCROW	A legal document kept in the custody of a third party, taking effect or made available only when some conditions are satisfied or some period of time has elapsed.
ESOP	Employee Stock Option Scheme.
ESTIMATE	A forecast of the total cost of a particular work given before the work is actually undertaken by the person who may be called upon to undertake it.
EVIDENCE	Testimony, documents or objects presented at a trial to prove a fact.
EX GRATIA	Some action, normally the payment of money, taken where there is no legal necessity to do so but where some moral obligation is recognised.
EX PARTE	Done for, or at the request of, one side in a case only, without prior notice to the other side.
EXCHEQUER	The treasury of the Government.
EX-DOCK/SHIP/ WAREHOUSE	The prices, which exclude all expenses after the goods have been delivered on the docks, the side of the ship or at the designated warehouse.
EXECUTOR	A person named in the Will of the deceased testator to administer/carry out its provisions/ directions.
EXPECTED RETURN	The return an investor might expect on an investment if the same investment were made many times over an extended period. The return is found through the use of mathematical analysis.
EXTRINSIC VALUE	The amount by which the market price of an option exceeds the amount that could be realised if the option were exercised and the underlying commodity liquidated. Also known as time value.
FACE VALUE	A value evident from an examination of the object itself. Usually means the amount printed on the face of a security as opposed to its market value. Also known as nominal value, which may be higher or lower than the market value.
FACTOR	A mercantile agent who deals in his own name but enjoys the right to hold and dispose off goods on behalf of the principal at pre-negotiated terms.
FEMA	The Foreign Exchange Management Act, which replaced and is considered more liberal than FERA, the Foreign Exchange Regulation Act.
FICCI	Federation of Indian Chamber of Commerce & Industry, is also a representative body of Indian industry.
FIDUCIARY	Imposing the obligations of a trust. A fiduciary relationship imposes a legal as well as moral relationship.
FINANCIAL STATEMENTS	An integral part of the loan application process is furnishing information that shows your business is a good credit risk. The standard financial

statement packet includes four main reports: the income statement, the balance sheet, the statement of cash flow, and the statement of shareholders' equity, if you have shareholders.

Lenders and investors want to see that your business is well-balanced with assets and liabilities, has positive cash flow, and will have capital to make expected repayments.

FINDING	The court's or jury's decision on issues of fact.
FIPB	Foreign Investment Promotion Board, which clears proposals involving foreign direct investment (FDI) into India.
FIRM	A collective name given to partners in a business.
FIRM OFFER	A commitment to sell at a certain price subject to acceptance of offer within a specified time.
FISCAL	Relating to the raising and use of money by the Government.
FIXED ASSETS	Also known as long-term assets or non-current assets, these are things that are of a fixed nature because they cannot be easily converted into cash and often require complex procedures and a significant amount of time before you can have their cash value in hand. For instance, fixed assets would encompass things like land, real estate, machinery and equipment, and furniture.
FIXED INTEREST RATE	The interest rate on a loan that is established in the beginning and does not change for the lifetime of the loan is said to be fixed. Loans with fixed interest rates are appealing to small business owners because the repayment amounts are consistent and easier to budget for in the future.
FLOATING INTEREST RATE	In contrast to the business finance term and definition fixed rate, the floating interest rate will change with market fluctuations. Also referred to as variable rates or adjustable rates, these amounts may often start out lower than the fixed rate percentages. This makes them more appealing in the short term if the market is trending down
FOREIGN EXCHANGE	A term denoting currency of another country. When held by the State, it constitutes the forex reserves. The rates of different currencies are settled either by market forces or by the State, which may link its own currency with a single or basket of external currencies.
FOREIGN EXCHANGE RATE	The price of one currency in terms of the other.
FORWARD CONTRACT	A contract where a party agrees to deliver at a specified future time a certain amount of specified securities at an agreed rate.
FORWARD DELIVERY	A term implying that goods transacted will be delivered at a future date on agreed terms.
FORWARD TRADING	It means deferment of contracts traded at present to some future date at current prices.
FREIGHT	A consideration paid for the carriage of goods. An account of freight payable is called Freight Note.

FUTURES	The purchase of commodities or currencies or financial instruments for delivery at some future time. It protects the buyer against a possible rise in prices. Trading in futures may carry an element of speculation and is also done as a hedging exercise.
GAAP	Generally Accepted Accounting Principles.
GDP	Gross Domestic Product - The total value of all the goods and services produced by a country for use within its own borders during a particular period.
GDR	Global Depository Receipts.
GOODWILL	An intangible saleable asset, such as reputation or location of a business, which makes the business worth more than its book value.
GRIEVANCE	A complaint filed against an attorney or judge, claiming an ethics violation.
GROSS PROFIT	This business finance term and definition can be calculated as total sales (income) less the costs (expenses) directly related to those sales. Raw materials, manufacturing expenses, labor costs, marketing, and transportation of goods are all included in expenses.
GUARANTEE	An undertaking by a person in writing to be answerable for the deeds of another. The liability of guarantor or surety is secondary and is invoked only when the original party defaults.
GUARANTOR	A guarantor creates a trust which takes the responsibility of repayment of a loan. Usually, a guarantor is not liable for the repayment of the loan. However, in some cases, the liability and responsibility of repaying the loan lie with the guarantor.
GUARDIAN	A person who has the power and duty to take care of another person and/or to manage the property and rights of another person who is considered incapable of taking care of his or her personal affairs.
HABEAS CORPUS	A court order used to bring a person physically before a court in order to test the legality of the person's detention. Usually, it is directed to the official or person detaining another, commanding him to bring the person to court for the judge to determine if that person has been denied liberty without due process of law.
HEDGE	Reducing risk by taking a position which offsets an existing or anticipated exposure in financial operations.
HIRE-PURCHASE	An agreement to hire goods for use with an option to transfer the title after payment of the instalments agreed upon.
HOLDING COMPANY	A company which controls the activities of one or more companies which are known as subsidiary companies.
HYPOTHECATION	The act of pledging or mortgaging movable or immovable assets.
IAS	International Accounting Standards.
IMF	International Monetary Fund.
INCOME STATEMENT	The income statement is where you analyze your company's profits and

losses. As such, it should come as no surprise that the income statement is also commonly referred to as the “profit and loss statement.”

This document summarizes the profits and losses incurred during a specified period, which is usually a fiscal quarter or a full calendar year. As such, it provides important information about your company’s ability to generate profit by increasing its revenue, decreasing its losses, or a combination of both.

INCOME TAX	A direct and graded tax imposed by the government upon income. The tax on income of corporate and other business enterprises may be higher than that of individuals.
INDEMNITY	A contractual obligation to compensate some other person in the event that a loss is suffered by them for a specified cause.
INDENT	An order sent to the agent to buy goods. It may mention specific goods or source from which to procure. Alternatively it may be left to the agent.
INDENTURE	It is deed signed between two or more parties as opposed to one made by a single party.
INFLATION	An increase in money supply without a corresponding increase in production. This leads to an increase in prices.
INJUNCTION	It is an order of the court directing a person to act or refrain from acting in a certain manner. Injunctions are often issued to prevent people from harming others.
INSIDER TRADING	Trading in a company’s shares by a person connected with and having access to its sensitive, unpublished and confidential information.
INSOLVENCY	A state where the total assets of an entity are insufficient in value to meet its total liabilities. It may lead to bankruptcy with the pronouncement by a court.
INSTRUMENT	A formal, legal document.
INSURANCE	It is an arrangement under which the insurer agrees to compensate the insured in the event of a loss on payment of a premium. A proposal form has to be submitted. The premium depends on the extent of cover and the risk perception of the insurer. In the event of default in payment of premium, the contract becomes null and void unless revived.
INTANGIBLE ASSET	An asset which has no physical or documentary form.
INTELLECTUAL PROPERTY	A valuable intangible asset created by the exercise of human intelligence and imagination.
INTEREST	It is a payment made for the use of borrowed funds. It may be either simple or compound. It may be calculated on the basis of a flat rate on the total principal or on the reducing balance of the principal, as per the loan agreement.
INTEREST RATE	All loans and other lending instruments are assigned the business finance key term interest rates. This is a percentage of the principal amount charged by the lender for the use of its money. Interest rates represent the current cost of borrowing.

INTERNET BANKING	Most banks allow account holders to access their accounts using the internet. You can also perform certain transactions using this system. This is internet banking or online banking or e-banking.
INVENTORY	It is a list of items in stock at a given point of time.
INVOICE	It is document sent by a seller to the purchaser giving descriptions of goods, their quantity/ number, prices and total amount payable.
IRDA	Insurance Regulatory and Development Authority.
JUDGMENT	The decision/ruling of a court of law in a civil or criminal litigation.
JUMBO CERTIFICATE	A document issued by consolidating or aggregating a large number of market lots into a single composite share certificate.
JURY	It is a body of persons appointed to hear evidence and give their verdict in a criminal trial.
KIND	The basis of payment made in the form of goods or services rather than money.
LABOUR INTENSIVE	The characteristic of production methods which require large application of labour and uses relatively little capital.
LANDING ORDER	It is an order to facilitate the delivery of a ship's cargo issued after the completion of formalities. The loading or the discharge of cargo has to be completed within the lay days failing which a demurrage has to be paid.
LAUNDERING	The process of passing funds through a number of transactions with the intention to conceal their origin.
LEASE	The right to use a property for a specified term in lieu of lease-money or rent paid periodically. The lessor has to execute a deed in favor of lessee containing terms and conditions of lease.
LEGAL TENDER	The form of money that may be legally used to pay for the goods procured or the services used. For example, the currency notes issued by the Reserve Bank of India constitute a legal tender in India.
LETTER OF CREDIT	It is a letter addressed by a banker to a correspondent abroad authorising payment of a specified sum on its credit to the mentioned beneficiary under stated conditions, i.e., delivery of goods in a satisfactory condition. Letters of Credit are common in international trade and protect the interest of the exporter.
LIABILITIES	A legal obligation, by an individual or a body of persons, expressed in terms of money. Current liabilities are those that have to be discharged in the near future, like bills payable or bank overdrafts. Contingent liabilities are those whose existence or otherwise will be confirmed by the outcome of some future event and at times may not have to be met at all if the event does not occur.
LIBEL	Defamatory material in recorded form as opposed from slander which is oral. The victim may file a suit for damages.
LICENCE	A document issued by a competent authority granting permission to

	carry on some activity, which otherwise will be unlawful.
LIEN	The right to retain some asset till a claim is settled or a contractual obligation has been fulfilled. A General lien refers to a right to retain any property of the debtor's while a Particular lien permits the retention of the particular property connected with the claim.
LIMITED LIABILITY	The liability of a member to contribute to the assets of a company upto the nominal value of the shares held and not paid by him.
LIQUIDATOR	An official appointed to conduct the winding up of a company in accordance with due process of law.
LIQUIDITY	Liquidity is an indicator of how quickly an asset can be turned into cash for full market value. The more liquid your assets, the more financial flexibility you have.
LITIGANT	A party to a case.
MANDATE	Authority given to take some action.
MANIFEST	A declaration by the master of the ship about to set sail. It gives details about the crew, cargo, passengers and the port of destination.
MARKET LOT	The minimum number of shares, say 100, required for a transaction on a Stock Exchange. Fewer shares constitute an odd lot. In Demat form, even a single share may be traded.
MCA	Ministry of Corporate Affairs.
MEDIATION	A dispute resolution process in which an impartial third party assists the parties to voluntarily reach a mutually acceptable settlement.
MEMORANDUM OF ASSOCIATION	A fundamental document which contains the provisions of the company's constitution, which is filed with the Registrar of Companies at the time of the incorporation of a company. It states the name of the company, its objectives, the amount of capital etc.
MERCHANT BANKER	A financial institution that specialises in securities market activities such as underwriting and trading, and in advisory activities such as mergers and acquisitions. Merchant Banking also typically refers to acquisition of equity stakes in companies either for strategic or temporary investment purposes.
MERGER	The amalgamation of two or more enterprises which were previously separate usually to achieve greater viability and control. The new entity may retain the old name in full or part thereof for reasons of Goodwill.
MINIMUM SUBSCRIPTION	The minimum number of shares for which applications have to be received by a company in a public issue before allotment can be made by it.
MONOPOLY	A exclusive right or privilege created through law or by acquiring and exercising control with a view to regulating the price. When used by State for public benefit, a monopoly may be useful but as a matter of principle, it is harmful.
MORATORIUM	A freeze on the payment of debts by a government in times of national

	crisis or an emergency.
MORTGAGE	A legal charge on property which holds it as security for a loan.
NABARD	National Bank for Agricultural & Rural Development.
NASDAQ	National Association of Security Dealers Automated Quotations.
NEGOTIABLE INSTRUMENTS	A document in which property may be transferred to another in good faith by simple delivery, for e.g. Cheques, Bank Notes, Treasury Bills, Dividend Warrants. When made to order, they require endorsement but if in favor of bearer, they may be negotiated straightaway.
NET PROFIT	The amount remaining after all expenses have been deducted from the gross profit. It may be distributed in the form of dividend.
NET WORTH	This business finance term and definition is an expression of your business's total value, as determined by your total current assets less the total liabilities currently owed by the business. With your business's most recent balance sheet in hand, you can calculate the net worth using a simple formula: Assets – Liabilities = Net Worth.
NO-DELIVERY PERIOD	The time during which the register of shareholders of a company remains closed. Transactions continue but the trades are settled later. This is done to avoid confusion about the beneficiaries of dividend.
NON-CUMULATIVE	Implies that arrears of dividend will not accrue.
NON-CURRENT LIABILITIES	Also referred to as long-term liabilities, this category encompasses debts or obligations that your company must repay in over a year's time. For example, non-current liabilities would include things like business loans, deferred tax liabilities, mortgages, and leases.
NON-OPERATING ASSETS	Finally, non-operating assets are those that are not critical for a company to provide its product or service, but which are nevertheless essential to establish and run a business. For example, many intangible assets fall into this category, such as brands, trademarks, and patents.
NOTARIZE	To formally complete a document by acknowledgement or oath.
NOTARY PUBLIC	A person who attests or certifies documents by the authority of the court.
NSE	National Stock Exchange.
NYSE	New York Stock Exchange.
OATH	To swear/affirm to the truth of a statement/document.
OPERATING ASSETS	These assets are those that are required for a business to complete its day-to-day functions. In other words, these are things that a company uses to produce its product or service and can include fixed and current assets, as well as tangible and intangible assets. Some of the most common items included in this category are cash, a company's bank balance, inventory, and operating machinery.
OPTIONS	The contractual right but not the obligation, to buy and sell a specific

	amount of a given security at a previously fixed price or at a priced fixed at a designated future date.
ORDER	A written direction of a court or judge to do or refrain from doing certain acts.
OUT-OF-POCKET-EXPENSES	Expenses incurred by a professional carrying out duties on behalf of a client that are to be reimbursed by the client in addition to any fee payable.
OVERDRAFT	An amount, which may be drawn from a current account in excess of the balance available. It is a revolving credit negotiated beforehand and unlike a loan, interest is payable on amount used. The banker holds lien on securities offered during the use of the facility.
OVERHEADS	These are the indirect expenses incurred in the production of goods and cannot be put under a specific heading. They represent the difference between the prime costs covering wages plus material and the total cost of a product.
PATENT	A right or privilege granted by law to an inventor also called a patentee, to enjoy the fruits of his invention for a specified period.
PAYEE	A person to whom the amount is payable or in whose favor the Bill of Exchange is drawn.
PAY-IN SLIP	A form filled up to deposit cash or cheque in a bank. The account holder retains the counterfoil. For bulk users, they may be bound in a Pay-in-Book.
PERJURY	Making false statements under oath.
PERQUISITE	Some benefit which is attached to an employment apart from the wages or salary paid.
PERSONAL GUARANTEE	If you're seeking financing for a very new business and don't have a high value asset to offer as collateral, you may be asked by the lender to sign a statement of personal guarantee. In effect, this statement affirms that you as an individual will act as guarantor for the business's debt, making you personally liable for the balance of the loan even in the event that your business fails.
PETITION	A formal written request to a court, which starts a special proceeding. In juvenile court, the legal document which specifies the complaint against the juvenile and/or family; it includes the name, age and address of the minor and his/her guardian, as well as the statutory grounds and facts upon which the request for the court intervention is based.
PETITIONER	Another word for plaintiff, the person starting the lawsuit.
PETTY CASH	A small amount of cash kept to cover day-to-day trivial or miscellaneous expenses.
PIG	Operators who get killed by the speculators.

PLACING	A prior arrangement to place or sell shares to select investors such as financial institutions.
PLAINTIFF	The person who sues or starts a civil case, also called the petitioner or the complainant.
PLEA	An accused persons answer to a criminal charge. For example: not guilty; guilty; no contest.
PLEA BARGAIN	The agreement a defendant makes with the prosecutor to avoid a trial. Usually involves pleading guilty to lesser charges in exchange for a lighter sentence.
PLEADINGS	The court documents filed with the court by the parties in a civil or criminal case. For example: motion to dismiss; motion for modification.
POLICY	A comprehensive document issued by the insurer to the insured setting out detailed terms and conditions governing the cover. It is common to spell out the risks, sum assured, premium payable and the date of renewal or maturity. Once issued a policy is not cancelled. Changes may be made through endorsements.
PORTFOLIO	A list of securities owned by a person or an institution.
POST-DATE	To affix a future date while executing a document or issuing a Bill of Exchange. Such an instrument becomes valid or payable only on the date mentioned. Conversely, a document may be antedated i.e carry an earlier date.
PRICE BAND	The limits within which the price of a security is allowed to fluctuate.
PRICE RIGGING	It is the collective effort of bulls or bears to manipulate the price of a security without any regard for fundamentals of the company.
PRINCIPAL	(1) The sum of money lent on which interest is being paid. (2) The party whom an agent represents.
PROPRIETOR	A person who owns or has a share in the ownership of a business.
PROSECUTE	To carry on a case or judicial proceeding. To proceed against a person criminally.
PROSECUTOR	Also called the state's attorney. Represents the state in a criminal case against a defendant.
PROSPECTUS	A document issued by a company inviting subscription to the public issue of its securities. It lists information for the use of investors and has to include the risk factors.
PROXY	One who acts on behalf of another, usually used to denote a person authorised by a member of a company to be present and vote on his behalf in a meeting.
QUORUM	The minimum number of members required to be present in order to transact business at a meeting.

QUOTATION	A firm statement of the total cost for which specified work will be undertaken.
QUOTE DRIVEN TRADING	It refers to trading in which the brokers quote for buying and selling a security simultaneously.
RECESSION	A condition of the economy of a country under which business is conducted at a reduced level. It is also characterised by unemployment and falling prices.
RECONCILIATION	An explanation of the difference between two figures which purport to express the same quantity.
RECORD DATE	A date on which the records of a company are closed for the purpose of determining the stockholders to whom dividends, proxies, rights, etc. are to be sent.
REMITTANCE	An amount of money sent by one person to another, usually by post.
REPO RATE	Repo Rate or the Repurchase Rate is the rate at which a bank borrows money from the Reserve Bank of India (RBI). The bank pledges or sells government securities to the RBI for the same. Also, these loans are usually for a period of up to two weeks. Hence, it refers to short-term loans. It is different from the Bank Rate with respect to the tenure of the loan.
RESERVE	An amount set aside out of profits or surpluses to meet contingencies.
RESERVE PRICE	The minimum price set in advance, that is acceptable to the auctioneer, so as to ensure that the object for sale will not be sold at too low a value.
RETAIL TRADE	The sale of goods to the final consumer.
RETAINED EARNINGS	Just like it sounds, this term represents any profits earned that are retained in the business. This can also be referred to as bootstrapping.
RETROSPECTIVE	Taking effect as though it had occurred at an earlier date.
REVERSE REPO RATE	When banks have surplus funds and they deposit them with the RBI for short periods, the RBI offers them a Reverse Repo Rate.
REVOLVING CREDIT	The facility to borrow money up to a certain specified amount and to replace one borrowing that has been paid off with another so long as the overall limit is not exceeded.
RIGGED MARKET	Manipulation of share prices to attract buyers and sellers to the rigger's advantage.
ROYALTY	Payment made to the owner of a property for permission to use it.
RUMMAGING	A thorough search of a ship by custom officers to detect contraband or undeclared dutiable cargo.
SAFTA	South Asian Free Trade Area. It is one of the aims of SAARC group of countries.

SALVAGE	Recovering items from a site of destruction.
SAMPLING	A method of drawing conclusions about the whole by examining portions of it selected at random.
SCAM	A fraudulent activity where usually small sums of money is obtained from a large number of persons, so that the activity is not detected.
SEBI	Securities and Exchange Board of India.
SECURED LOAN	Many lenders will require some form of security when loaning money. When this happens, this business finance term and definition is a secured loan. The asset being used as collateral for the loan is said to be “securing” the loan. In the event that your small business defaults on the loan, the lender can then claim the collateral and use its fair-market value to offset the unpaid balance.
SEGMENTAL REPORTING	Reporting on the various segments of a business’s activity.
SET-OFF	A claim of one party when adjusted against an amount payable to another, so that only the balance remains payable or the whole debt is paid off.
SETTLEMENT	It is the scrip-wise netting of trades by a broker at the end of the trading cycle.
SHARE	A unit of capital in a limited company. Preference shares are entitled to a fixed rate of dividend. After their claim is exhausted, Equity shares become eligible to get returns. Bonus shares are allotted without any payment to existing shareholders out of accumulated profits. Rights shares are issued on pro rata basis and have to be paid for.
SHARE CERTIFICATE	A certificate issued to shareholders in paper or physical form. Besides the names of the holders, it carries the certificate, folio and distinctive numbers. It is signed by an authorised signatory and carries the common seal of the company.
SHAREHOLDER	A person holding shares of a company. His rights include an invitation to attend and vote in Annual General Meetings, to receive a copy of audited results and receive dividend whenever declared.
SIB	Securities and Investments Board of UK.
SPLITTING	Sub-division of a share of large denomination into shares of smaller denominations. Also means sub- division of holdings. The opposite process of combining shares of a small denominations into one of higher denomination is called consolidation.
SPOT	Spot Cash means payment is due immediately. Spot Price indicates the price on as is where is basis. Spot Sale promises an instant delivery. Spot Trading implies delivery and payment of shares on the day of purchase or the next. Spot Delivery implies delivery and payment on the same day of the contract or the day following the day of the contract.
STAG	(1) An applicant, for a new issue of shares, who hopes to sell the shares

	on allotment at a profit once trading commences in the secondary market;(2) A speculator who buys and sells stocks rapidly for fast profits.
STAMP DUTY	The ad valorem duty paid, evidenced by the affixing of revenue stamps on the instrument, to give legal effect to the same. For e.g. for transfer of shares.
STANDING ORDER	An instruction, which remains in force till withdrawn. It is useful to order routine and regular payments such as to an insurance company.
STATUTORY BOOKS	Records mandatory to be maintained under some law, such as those relating to charges, members, minute book for directors and shareholders' meetings etc.
STOCK EXCHANGE	An organised market for the sale and purchase of securities. In India stock exchanges are regulated by the Securities & Exchange Board of India. The movement in prices of select active scripts is reflected in Sensex or sensitive index in terms of points. Trading in major exchanges is Screen-based these days where buying & selling is done online. Matching of trades is done on computers installed in Stock Exchanges.
STOP TRANSFER	It is an instruction given by an account holder to his banker not to encash any payment for cheque/ demand draft from his account in case of loss, theft etc. of the same.
SUB JUDICE	A matter pending decision by a Court is called sub judice. Parties to such a matter should not to do anything that would affect the outcome of the case.
SUBROGATION	The legal principle that entitles an insured only the actual loss sustained in cases of pure indemnity.
SUMMONS	A legal paper that is used to start a civil case and get jurisdiction over a party.
SUO MOTO	The Court may take action on its own when facts requiring legal intervention reach its notice. The Court is then said to be acting suo moto.
SWAP	A financial transaction which exploits arbitrage opportunities between markets and in which two counter parties agree to exchange streams of payments over time according to a predetermined rule.
TAKEOVER	The acquisition of control of a company by another company achieved by the purchase of the majority of its shares.
TANGIBLE ASSETS	As the name implies, tangible assets are those assets that you can see and touch. This can include items that may also be referred to as current or fixed assets. For instance, cash — a current asset — is a tangible asset because it's something you can physically touch. Most fixed assets are also tangible assets for the same reason. Land, real estate, machinery, equipment, and furniture are, after all, things you can see and touch.
TARIFF	A list of applicable rates of duty under excise or customs.

TAX HOLIDAY	A period of time established under statute, during which a business is not required to pay tax on its earnings.
TAX LIEN	If your business fails to pay taxes owed to the designated government entity, namely the IRS, you may find your assets seized by the claim of a tax lien. The government can not only seize your assets for liquidation to resolve the tax debt, but they can also charge you penalties on the amount you own.
TENDER	Usually an offer to provide goods or services at mentioned prices and understated conditions in response to a notice published in a newspaper. The sealed bids are opened and contract awarded to the lowest bidder.
TERM LOAN	These are debt financing tools used to raise needed funds for your small business. Term loans provide the business with a lump sum of cash up front in exchange for a promise to repay the principal and interest at specified intervals over a set period of time. These are typically longer term, one-time loans for start-up expenses or costs for established business expansion.
TESTIMONIAL	A certificate issued by a responsible person to an individual about his conduct, ability, qualifications or credit.
TITLE	Legal recognition of the ownership of property, usually proven by a document.
TORT	A civil injury or wrong to someone else, or their property.
TQM	Total Quality Management.
TRADE DISCOUNTS	A discount given by one business to another which is making a purchase for resale to ultimate customers thereby enabling the buyers to earn profits. Sellers may adjust trade discounts to counter price fluctuations without having to change the catalogue prices.
TRADEMARK	A distinctive mark or sign or symbol protected by law and placed on goods to identify the manufacturer.
TRAI	Telecom Regulatory Authority of India.
TRANSMISSION	It is the process of transferring the ownership of securities after the death of the holder to the legal heirs.
TREASURY BILLS	A short term bearer discount security issued by Governments as a means of financing their cash requirements. Treasury Bills play an important role in the local money market because most banks are required to hold them as part of their reserve requirements and because central bank open market operations undertaken in the process of implementing monetary policy are usually conducted in the treasury bill market.
TRESPASS	To enter someone's land or property without their permission. It is an offence which is punishable in law.
TRUSTEE	A person who holds property in trust for another for the use or benefit of another.

TURNOVER	The total value of goods and services sold or provided in a given period, usually during a year by a trading organisation.
UNDERWRITER	One who undertakes in return for a commission to purchase shares offered to public and not subscribed for, up to an agreed number.
UNSECURED LOANS	Loans that are not backed by collateral are called unsecured loans. These types of loans represent a higher risk for the lender, so you can expect to pay higher interest rates and have shorter repayment time frames. Credit cards are an excellent example of unsecured loans that are a good option for small business funding when combined with other financing options.
USURY	The unlawful practice of lending money at an exorbitant rate of interest. This occurs usually when the borrower is in desperate need of money and not in a good position to negotiate.
VAKALATHNAMA	Document by which an advocate is authorized to represent a party in court.
VANILLA ISSUE	A straight fixed rate issue which has terms and conditions usually accepted as being conventional to a particular securities market.
VAT	Value Added Tax, a tax levied at specific rates on the selling price of goods at each stage of production and distribution so that only the value added at each stage is taxed and thereby cascading tax is avoided.
VENTURE CAPITAL	Capital invested in a business on the basis that the investor receives a share in the outcome of the enterprise rather than an agreed fixed rate of return.
VISA	It is an endorsement made on the passport of the traveller by the envoy of the country to which he intends to travel.
VOUCHER	A document or some such evidence of some transaction, usually payment of money.
WAGES	Remuneration paid to manual workers.
WARRANT	A tradable instrument giving the holder the right to buy from the issuer a fixed income security or equity stock under specified conditions after some period of time.
WARRANTY	A contractual obligation, which entitles the injured party to seek damages but not to cancel the contract.
WATCHDOG	A general term applied to a person or group appointed or set up to safeguard the interests of a particular group.
WINDING UP	Liquidating an asset with a view to distributing the receipts among creditors. It is the process that brings to a conclusion the life of a company.
WINDOW DRESSING	A manoeuvre engaged in by companies, banks, mutual funds etc., at the end of the accounting period in order to impress stock holders who will be receiving the report showing that funds are better managed and invested than what might have been drawn up.

WOLF	Speculators who make a kill in the market.
WORKING CAPITAL	Not to be confused with fixed capital, working capital is another business finance 101 term. It consists of the financial resources necessary for maintaining the day-to-day operation of the business. Working capital, by definition, is the business's cash on hand or instruments that you can convert to cash quickly.
WRIT	A document issued by the court directing the respondent to do or not to do some specified act.
WRIT & WRIT PETITION	A writ is a direction that the Court issues, which is to be obeyed by the authority/person to whom it is issued. A petition seeking issuance of a writ is a writ petition.
WRITE OFF	It is to extinguish or cancel a debt, treating it as if it has been paid by debiting it from the profit and loss account.
ZERO COUPON BOND	A bond that pays no interest while the investor holds it. It is sold originally at a substantial discount from its eventual maturity value, paying the investor its full face value when it comes due, with the difference between what he paid initially and what he finally collected representing the interest he would have received over the years it was held.

**LEGAL
APTITUDE
AND
LOGICAL
REASONING**

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SYLLABUS

<i>S. No. Lesson</i>	<i>Topics Covered</i>
Part A - Legal Aptitude	
1. Indian Constitution	<ul style="list-style-type: none"> • Preamble • Citizenship • Fundamental Rights and Fundamental Duties • Directive Principles of State Policy • State under Constitution • President and Governors • Council of Ministers and Prime Minister • Lok Sabha, Rajya Sabha and Legislative Assembly, Legislative Council • Supreme Court and High Courts • Landmark Amendment in Constitution • List of subjects-Centre, State and Concurrent
2 Elements of General Laws (Indian Contract Act and Law of Torts)	<p>A. Law of Contract</p> <ul style="list-style-type: none"> • Offer, Acceptance, Consideration and Competency to Contract. • Agreement • Types of Contract: Void, Voidable, Unenforceable • Performance of Contract • Frustration of Contract • Quasi Contract • Breach of Contract and Remedies <p>B. Law of Torts</p> <ul style="list-style-type: none"> • Basics of Torts • Specific Defenses • Nuisance and Negligence • Strict, Absolute and Vicarious Liability • Trespass

- Malicious Prosecution
- 3 Elements of Company Secretaries Legislation**
 - The Institute of Company Secretaries of India
 - Vision, Mission, Motto and Core Values of the Institute
 - Company Secretary under Company Secretaries Act, 1980.
 - Functions of Company Secretary under the Companies Act, 2013
 - Role of Company Secretary in Employment
 - Role of Company Secretary in Practice
- 4 Elements of Company Law**
 - Meaning and Nature of Company
 - Types of Companies
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 - Types of capital
 - Board of Directors - (Concept, Appointment and Removal of Directors)
 - Board Meetings & Shareholders Meetings
 - Corporate Social Responsibility
 - Business Ethics
 - Ethical Dilemma
- 5 Legal Reasoning**
 - Legal Fundamentals and Terms
 - Legal Problems – Reading and understanding a case
 - Legal Terminology and Maxims
 - Legal Reasoning-
 - (a) Reasoning by Analogy
 - (b) Inductive and Deductive Reasoning
 - Questions of Fact (or factual issues)
 - Questions of Law (or legal issues)
 - Landmark Judgments of Supreme Court and High Court
 - Reading Comprehension

Part B - Logical Reasoning

- | | | |
|----------|-----------------------------|---|
| 6 | Logical Reasoning | <ul style="list-style-type: none">• Calendars• Cause and Effect Reasoning• Clocks• Coding and Decoding
• Deriving Conclusion from Passages• Drawing Inference• Number Test• Sequence and Series• Statement and Assumptions |
| 7 | Verbal Reasoning | <ul style="list-style-type: none">• Alphabet Test• Alpha Numeric Sequence Puzzle• Analogy• Assertion and Reason• Blood Relations• Decision Making• Inserting Missing Characters• Logical Sequence Test• Logical Venn Diagram• Number, Ranking and Time Sequence Test• Syllogism• Truth Tellers and Liars |
| 8 | Non-Verbal Reasoning | <ul style="list-style-type: none">• Analytical Reasoning• Classification• Completion of Incomplete Pattern• Figure Matrix• Grouping of Identical Figures• Mirror Image• Rule Detection• Numeric and Alphabet Series |
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PART A
LEGAL APTITUDE

Lesson 1

INDIAN CONSTITUTION

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC

And to secure to all its citiZens:

JUSTICE, social, economic and political;

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

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

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

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

INTRODUCTION

The Constitution which lays down the basic structure of a nation's polity is built on the foundations of certain fundamental values. The vision of our founding fathers and the aim and objectives which they wanted to achieve through the Constitution are contained in the Preamble, the Fundamental Rights and the Directive Principles. These three may be described as the soul of the Constitution and the testament of founding fathers to the succeeding generations together with the later Part on Fundamental Duties.

The vision of socio-economic change through the Constitution is reflected in its Preamble. The Preamble expresses the ideals and aspirations of a renascent India. At independence, emerging out of a long period of foreign domination and oppression under a feudal system, the people were grimly struggling to be reborn into a life of dignity and hope.

The scheme of the Constitution for realisation of socio-economic agenda comprises of both the justiciable Fundamental Rights as well as the non-justiciable Directive Principles. The judicial contribution to the synthesis and the integration of Fundamental Rights and the Directive Principles in the process of "constitutionalising" social and economic rights has been crucial to the realisation of the Directive Principles not only as a means to effectuate Fundamental Rights but also as a source of laws for a welfare state. (Source: Report of the National Commission to Review the Working of the Constitution, 31st March, 2002)

The Constitution places a pre-eminent emphasis on the values of liberty and justice, on treating all citizens as equal before law and on safeguarding the rights of minorities and the oppressed. The people of India derive their existence as a political community from the Constitution, which "we the people", gave to ourselves and, in the process established the Republic of India. It is because the country is Republic, and not a mere democracy, that the people are enjoined to nurture and indeed celebrate, their linguistic, ethnic, cultural and religious diversity and to ensure that the citizens do not suffer from want and indignity. Though the Indian tapestry of traditional multiculturalism nourished by many centuries of assimilative forces has been subjected to occasional fissures, the most diverse nation on earth has been able to overcome those crises and use the innate strength of Indian Republic to uphold the dignity and integrity of India.

Broad Framework of the Constitution

The Constitution of India came into force on January 26, 1950. It is a comprehensive document. Apart from dealing with the structure of Government, the Constitution makes detailed provisions for the rights of citizens and other persons in a number of entrenched provisions and for the principles to be followed by the State in the governance of the country, labelled as "Directive Principles of State Policy". All public authorities – legislative, administrative and judicial derive their powers directly or indirectly from the Constitution which in turn derive its authority from the people.

The preamble to the Constitution sets out the aims and aspirations of the people of India. It is a part of the Constitution. The preamble declares India to be a Sovereign, Socialist, Secular, Democratic Republic and secures to all its citizens Justice, Liberty, Equality and Fraternity. It is declared that the Constitution has been given by the people to themselves, thereby affirming the republican character of the polity and the sovereignty of the people.

The polity assured to the people of India by the Constitution is described in the preamble as a Sovereign, Socialist, Secular, and Democratic Republic. The expression "Sovereign" signifies that the Republic is externally and internally sovereign. Sovereignty in the strict and narrowest sense of the term implies independence all round, within and without the borders of the country. As discussed above, legal sovereignty is vested in the people of India and political sovereignty is distributed between the Union and the States.

The democratic character of the Indian polity is illustrated by the provisions conferring on the adult

citizens the right to vote and by the provisions for elected representatives and responsibility of the executive to the legislature.

The word “Socialist”, added by the 42nd Amendment, aims to secure to its people “justice—social, economic and political”. The Directive Principles of State Policy, contained in Part IV of the Constitution are designed for the achievement of the socialistic goal envisaged in the preamble. The expression “Democratic Republic” signifies that our government is of the people, by the people and for the people.

Federal or Unitary

Constitution of India is basically federal but with certain unitary features. The majority of the Supreme Court judges in *Kesavananda Bharati v. State of Kerala, AIR 1973 SC 1461*, were of the view that the federal features form the basic structure of Indian Constitution. However, there are discussions as to whether the Indian Constitution establishes a federal system or it stipulates a unitary form of Government with some basic federal features. Thus, to decide whether Constitution is federal, unitary or quasi federal, it would be better to have a look at the contents of the Constitution.

The essential features of a Federal Polity or System are—dual Government, Distribution of Powers, Supremacy of the Constitution, Independence of Judiciary, Written Constitution, and a rigid procedure for the amendment of the Constitution.

The political system introduced by our Constitution possesses all the aforesaid essentials of a federal polity as both the Union and the State Governments and their respective organs derive their authority from the Constitution and it is not competent for the States to secede from the Union. There is a division of legislative and executive powers between the Union and the State Governments. The Supreme Court stands at the head of our judiciary to guard against the violation of the constitutional provisions. The Supreme Court decides disputes between the Union and the States, or the States inter se and interprets finally the provisions of the Constitution.

The question as to whether the Indian Constitution has a federal form of Government or a unitary constitution with some federal features came up in various cases before the Supreme Court and the High Courts. But in most cases, the observations have been made in a particular context and have to be understood accordingly. The question rests mostly on value judgement i.e. on one’s own philosophy.

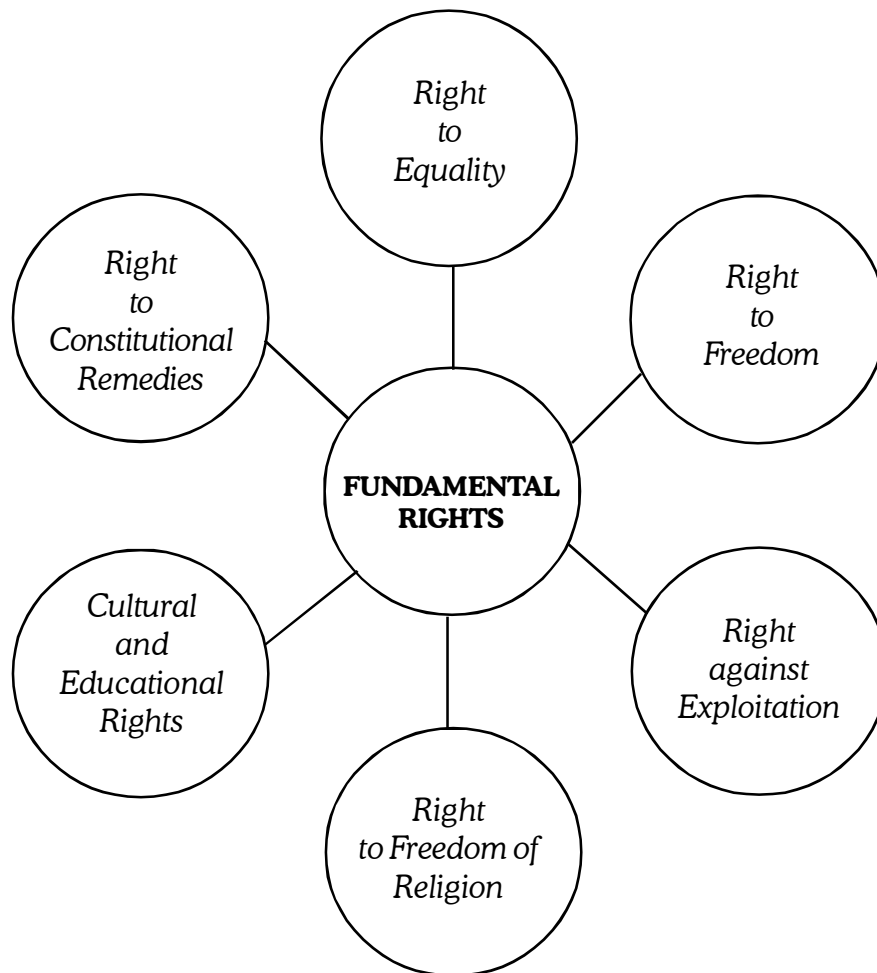
FUNDAMENTAL RIGHTS

The Constitution seeks to secure to the people “liberty of thought, expression, belief, faith and worship; equality of status and of opportunity; and fraternity assuring the dignity of the individual”. With this object, the fundamental rights are envisaged in Part III of the Constitution.

Part III of the Indian Constitution guarantees six categories of fundamental rights. These are:

- Right to Equality — Articles 14 to 18;
- Right to Freedom — Articles 19 to 22;
- Right against Exploitation — Articles 23 and 24;
- Right to Freedom of Religion — Articles 25 to 28;
- Cultural and Educational Rights — Articles 29 and 30;
- Right to Constitutional Remedies — Articles 32.

Previously the right to property under Article 31 was also guaranteed as a Fundamental Right which has been removed by the 44th Constitutional Amendment Act, 1978. Now right to property is not a fundamental right, it is now only a legal right.



Apart from this, Articles 12 and 13 deal with definition of 'State' and 'Law' respectively. Articles 33 to 35 deal with the general provisions relating to Fundamental Rights.

No fundamental right in India is absolute and reasonable restrictions can be imposed in the interest of the state by valid legislation and in such case the Court normally would respect the legislative policy behind the same. (*People's Union for Civil Liberties v. Union of India*, (2004) 2 SCC 476).

From the point of view of persons to whom the rights are available, the fundamental rights may be classified as follows:

- (a) Articles 15, 16, 19 and 30 are guaranteed only to citizens.
- (b) Articles 14, 20, 21, 22, 23, 25, 27 and 28 are available to any person on the soil of India—citizen or foreigner.
- (c) The rights guaranteed by Articles 15, 17, 18, 20, 24 are absolute limitations upon the legislative power.

State

With a few exceptions, all the fundamental rights are available against the State. Under Article 12, unless the context otherwise requires, "the State" includes—

- (a) the Government and Parliament of India;
- (b) the Government and the Legislature of each of the States; and
- (c) all local or other authorities:
 - (i) within the territory of India; or
 - (ii) under the control of the Government of India.

The expression 'local authorities' refers to authorities like Municipalities, District Boards, Panchayats, Improvement Trusts, Port Trusts and Mining Settlement Boards. In *Ajay Hasia v. Khalid Mujib*, AIR 1981 SC 481, the Supreme Court has enunciated the following test for determining whether an entity is an instrumentality or agency of the State:

- (1) If the entire share capital of the Corporation is held by the Government, it would go a long way towards indicating that the corporation is an instrumentality or agency of the Government.
- (2) Where the financial assistance of the State is so much as to meet almost the entire expenditure of the corporation it would afford some indication of the corporation being impregnated with government character.
- (3) Whether the corporation enjoys a monopoly status which is conferred or protected by the State.
- (4) Existence of deep and pervasive State control may afford an indication that the corporation is a State agency or an instrumentality.
- (5) If the functions of the corporation are of public importance and closely related to government functions, it would be a relevant factor in classifying a corporation as an instrumentality or agency of government.
- (6) If a department of government is transferred to a corporation, it would be a strong factor supporting an inference of the corporation being an instrumentality or agency of government.

Example : An act is passed by the parliament. The subject matter of the Act was to grant certain pay related benefits to all employees of the State. Are only states of India (eg. State of Maharashtra or Uttar Pradesh) are required to comply with law?

According to Article 12 of the constitution the word state includes not only States of India but also certain other authorities/ Organisations.

Justifiability of Fundamental Rights

Article 13 gives teeth to the fundamental rights. It lays down the rules of interpretation in regard to laws inconsistent with or in derogation of the Fundamental Rights.

Existing Laws : Article 13(1) relates to the laws already existing in force, i.e. laws which were in force before the commencement of the Constitution. A declaration by the Court of their invalidity, however, will be necessary before they can be disregarded and declares that pre-constitution laws are void to the extent to which they are inconsistent with the fundamental rights.

Future Laws : Article 13(2) relates to future laws, i.e., laws made after the commencement of the Constitution. After the Constitution comes into force the State shall not make any law which takes away or abridges the rights conferred by Part III and if such a law is made, it shall be void to the extent to which it curtails any such right.

The word 'law' according to the definition given in Article 13 itself includes—

“... any Ordinance, order, bye-law, rule, regulation, notification, custom or usage having in the territory of India, the force of law.”

By the Constitution (Twenty-Fourth Amendment) Act, 1971 a new clause has been added to Article 13 which provides that—

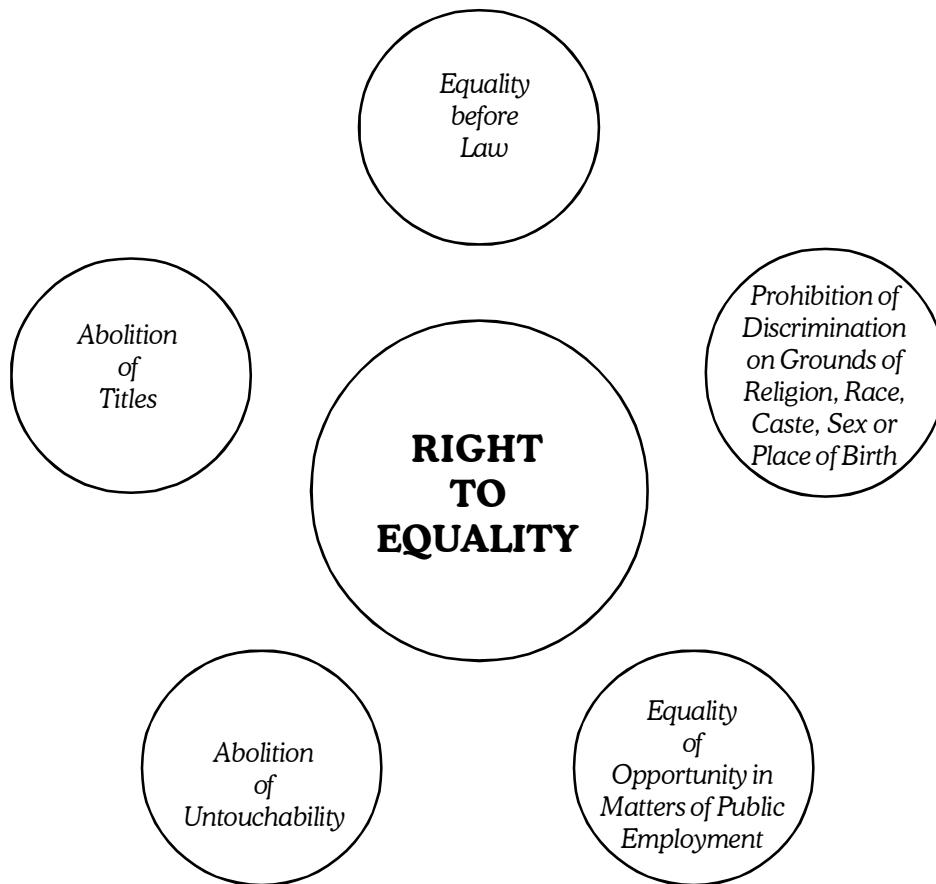
“Nothing in this Article shall apply to any amendment of this Constitution made under Article 368”

Article 13 came up for judicial review in a number of cases and the Courts have evolved doctrines like doctrine of eclipse, severability, prospective overruling, acquiescence etc. for interpreting the provisions of Article 13.

Example: There was a Law in force before 26th January, 1950 which was against the Fundamental Rights. It was contended that it can still be in force as the constitution does not make it void. Is the contention correct?

According to Article 13(1) of the Constitution of India, all the laws that are inconsistent with Fundamental Rights are void.

Right of Equality



Articles 14 to 18 of the Constitution deal with equality and its various facets. The general principle finds expression in Article 14. Particular applications of this right are dealt with in Articles 15 and 16. Still more specialised applications of equality are found in Articles 17 and 18.

Equality before the law and equal protection of the laws

Article 14 of the Constitution says that “the State shall not deny to any person equality before the law or the equal protection of the laws within the territory of India”.

As is evident, Article 14 guarantees to every person the right to equality before the law or the equal protection of the laws. The expression ‘equality before the law’ which is borrowed from English Common Law is a declaration of equality of all persons within the territory of India, implying thereby the absence of any special privilege in favour of any individual. Every person, whatever be his rank or position is subject to the jurisdiction of the ordinary courts.

The second expression “the equal protection of the laws” which is based on the last clause of the first section of the Fourteenth Amendment to the American Constitution directs that equal protection shall be secured to all persons within the territorial jurisdiction of the Union in the enjoyment of their rights and privileges without favouritism or discrimination.

Article 14 applies to all persons and is not limited to citizens. A corporation, which is a juristic person, is also entitled to the benefit of this Article (*Chiranjit Lal Chowdhurary v. Union of India*, AIR 1951 SC 41). The right to equality is also recognised as one of the basic features of the Constitution (*Indra Sawhney v. Union of India*, AIR 2000 SC 498).

Example: A law has been passed for grant of financial assistance to women below the Age of 14 years for education. It was contented that there shall be equality before the law. Can it be passed?

Yes, it can be passed if the Legislation is based on reasonable classification and intelligible differentia.

Prohibition of discrimination on grounds of religion etc.

Article 15(1) prohibits the State from discriminating against any citizen on grounds only of:

- (a) Religion
- (b) Race
- (c) Caste
- (d) Sex
- (e) Place of birth or
- (f) Any of them

Article 15(2) lays down that no citizen shall be subjected to any disability, restriction or condition with regard to—

- (a) Access to shops, public restaurants, hotels and places of public entertainment; or
- (b) The use of wells, tanks, bathing ghats, roads and places of public resort, maintained wholly or partially out of State funds or dedicated to the use of the general public.

Article 15(3) and 15(4) and 15(5) and 15(6) create certain exceptions to the right guaranteed by Article 15(1) and 15(2). Under Article 15(3) the State can make special provision for women and children. It is under this provision that courts have upheld the validity of legislation or executive orders discriminating in favour of women (*Union of India v. Prabhakaran*, (1997) 2 SCC 633).

Article 15(4) permits the State to make special provision for the advancement of—

- (a) Socially and educationally backward classes of citizens;
- (b) Scheduled Castes; and
- (c) Scheduled tribes.

Article 15(5) inserted in the Constitution of India by the Constitution (Ninety-third Amendment) Act, 2005, permits the State to make special provision for the advancement of any socially and educationally backward classes of citizens or for the Scheduled Castes or the Scheduled Tribes in so far as such special provisions relate to their admission to educational institutions including private educational institutions, whether aided or unaided by the State, other than the minority educational institutions referred to in clause (1) of article 30.

Further, Article 15(6) inserted in the Constitution of India by the Constitution (One Hundred and Third Amendment) Act, 2019, provides that nothing in this article or sub-clause (g) of clause (1) of article 19 or clause (2) of article 29 shall prevent the State from making,—

- (a) any special provision for the advancement of any economically weaker sections of citizens other than the classes mentioned in clauses (4) and (5); and
- (b) any special provision for the advancement of any economically weaker sections of citizens other than the classes mentioned in clauses (4) and (5) in so far as such special provisions relate to their admission to educational institutions including private educational institutions, whether aided or unaided by the State, other than the minority educational institutions referred to in clause (1) of article 30, which in the case of reservation would be in addition to the existing reservations and subject to a maximum of ten per cent. of the total seats in each category.

Explanation.—For the purposes of Article 15 and Article 16, "economically weaker sections" shall be such as may be notified by the State from time to time on the basis of family income and other indicators of economic disadvantage.

Example: Fundamental Right have been given to the citizens but they are not without any restrictions. Certain exceptions are also provided with the Fundamental rights.

Equality of opportunity in matters of public employment

Article 16(1) guarantees to all citizens equality of opportunity in matters relating to employment or appointment of office under the State.

Article 16(2) prohibits discrimination against a citizen on the grounds of religion, race, caste, sex descent, place of birth or residence.

However, there are certain exceptions provided in Article 16(3), 16(4) and 16(5). These are as under:

- (1) Parliament can make a law that in regard to a class or classes of employment or appointment to an office under the Government of a State or a Union Territory, under any local or other authority within the State or Union Territory, residence within that State or Union Territory prior to such employment or appointment shall be an essential qualification. [Article 16(3)]
- (2) A provision can be made for the reservation of appointments or posts in favour of any backward class of citizens which in the opinion of the State is not adequately represented in the services under the State. [Article 16(4)]
- (3) Nothing in this article shall prevent the State from making any provision for reservation in matters of promotion, with consequential seniority, to any class or classes of posts in the services under

- the State in favour of the Scheduled Castes and the Scheduled Tribes which, in the opinion of the State, are not adequately represented in the services under the State. [Article 16(4A)]
- (4) Nothing in this article shall prevent the State from considering any unfilled vacancies of a year which are reserved for being filled up in that year in accordance with any provision for reservation made under clause (4) or clause (4A) as a separate class of vacancies to be filled up in any succeeding year or years and such class of vacancies shall not be considered together with the vacancies of the year in which they are being filled up for determining the ceiling of fifty per cent. reservation on total number of vacancies of that year. [Article 16(4B)]
 - (5) A law shall not be invalid if it provides that the incumbent of an office in connection with the affair of any religious or denominational institution or any member of the governing body thereof shall be a person professing a particular religion or belonging to a particular denomination. [Article 16(5)]
 - (6) Nothing in this article shall prevent the State from making any provision for the reservation of appointments or posts in favour of any economically weaker sections of citizens other than the classes mentioned in clause (4), in addition to the existing reservation and subject to a maximum of ten per cent. of the posts in each category. [Article 16(6)]

Abolition of untouchability

Article 17 says that “Untouchability” is abolished and its practice in any form is forbidden. The enforcement of any disability arising out of “Untouchability” shall be an offence punishable in accordance with law.

Untouchability does not include an instigation to social boycott (*Davarajiah v. Padamanna*, AIR 1961 Mad. 35, 39). Punishment for violation of Article 17 is to be provided by Parliament under Article 35(a) (ii).

Abolition of titles

Article 18 is more a prohibition rather than a fundamental right. British Government used to confer titles upon persons who showed special allegiance to them. Many persons were made Sir, Raj Bahadur, Rai Saheb, Knight, etc. These titles had the effect of creating a class of certain persons which was regarded superior to others and thus had the effect of perpetuating inequality. To do away with that practice, Article 18 provides as under:

- (i) No title, not being a military or academic distinction, shall be conferred by the State.
- (ii) No citizen of India shall accept any title from any foreign State.
- (iii) No person, who is not a citizen of India shall, while he holds any office or trust under the State, accept without the consent of the President, any title from any foreign State.
- (iv) No person, holding any office of profit or trust under State shall without the consent of the President, accept any present, emolument or office of any kind from or under a foreign State.

Rights Relating to Freedom

Articles 19-22 guarantee certain fundamental freedoms.

The Six Freedoms of Citizens

Article 19(1), of the Constitution, guarantees to the citizens of India six freedoms, namely:

- (a) Freedom of speech and expression;
- (b) Assemble peaceably and without arms;

- (c) Form associations or unions or co-operative societies
- (d) Move freely, throughout the territory of India;
- (e) Reside and settle in any part of the territory of India;
- (f) Sub-clause (f) is omitted by section 2 of the Constitution (Forty-fourth Amendment) Act, 1978;
- (g) practise any profession, or to carry on any occupation, trade or business.

These freedoms are those great and basic rights which are recognized as the natural rights inherent in the status of a citizen. At the same time, none of these freedoms is absolute but subject to reasonable restrictions specified under clauses (2) to (6) of the Article 19. The Constitution under Articles 19(2) to 19(6) permits the imposition of restrictions on these freedoms subject to the following conditions:

- (a) The restriction can be imposed by law and not by a purely executive order issued under a statute;
- (b) The restriction must be reasonable;
- (c) The restriction must be imposed for achieving one or more of the objects specified in the respective clauses of Article 19.

Article 19(2) specifies the limits upto which the freedom of speech and expression may be restricted. It enables the Legislature to impose by law reasonable restrictions on the freedom of speech and expression under the following heads:

Permissible Restrictions

- (1) Sovereignty and integrity of India
- (2) Security of the State
- (3) Friendly relations with foreign States
- (4) Public Order
- (5) Decency or morality
- (6) Contempt of court
- (7) Defamation
- (8) Incitement to an offence

Reasonable restrictions under these heads can be imposed only by a duly enacted law and not by the executive action [*Express News Papers Pvt. Ltd. v. Union of India, (1986) 1 SCC 133*].

Example: A certain class of persons were denied to form co-operative societies. They contended that it is their fundamental right to form co-operative societies. Is the contention correct?

Yes, it is the fundamental right of citizen to form co-operatives societies.

Protection of Life and Personal Liberty

Article 21 confers on every person the fundamental right to life and personal liberty. It says that,

“No person shall be deprived of his life or personal liberty except according to procedure established by law.”

The right to life includes those things which make life meaningful. The right to life enshrined in Article 21 guarantees right to live with human dignity. Right to live in freedom from noise pollution is a fundamental

right protected by Article 21 and noise pollution beyond permissible limits is an inroad into that right. (*Noise Pollution (v), in re, (2005) 5 SCC 733*).

In *Satwant Singh Sawhney v. A.P.O., New Delhi, AIR 1967 S.C. 1836*, it was held that right to travel is included within the expression 'personal liberty' and, therefore, no person can be deprived of his right to travel, except according to the procedure established by law. Since a passport is essential for the enjoyment of that right, the denial of a passport amounts to deprivation of personal liberty. In the absence of any procedure prescribed by the law of land sustaining the refusal of a passport to a person, its refusal amounts to an unauthorised deprivation of personal liberty guaranteed by Article 21.

Procedure established by law : The expression 'procedure established by law' means procedure laid down by statute or procedure prescribed by the law of the State. Accordingly, first, there must be a law justifying interference with the person's life or personal liberty, and secondly, the law should be a valid law, and thirdly, the procedure laid down by the law should have been strictly followed. The procedure must be fair, just and reasonable. It must not be arbitrary, fanciful or oppressive.

Right to Education

According to Article 21A of the Constitution of India, the State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may, by law, determine.

Protection against arrest and detention in certain cases

According to Article 22 of the Constitution of India no arrested person shall be detained in custody without being informed, of the grounds for such arrest nor shall he be denied the right to consult, and to be defended by, a legal practitioner of his choice. Further, every arrested person and who is detained in custody shall be produced before the nearest magistrate within a period of twenty-four hours of such arrest excluding the time necessary for the journey from the place of arrest to the court of the magistrate and no such person shall be detained in custody beyond the said period without the authority of a magistrate. However, the protection is not available to an enemy alien and a person arrested or detained under any law providing for preventive detention.

Right against Exploitation

According to Article 23 of Constitution of India traffic in human beings and begar and other similar forms of forced labour are prohibited and any contravention of Article 23 shall be an offence punishable in accordance with law. Further, as per Article 24 of Constitution of India, no child below the age of fourteen years shall be employed to work in any factory or mine or engaged in any other hazardous employment.

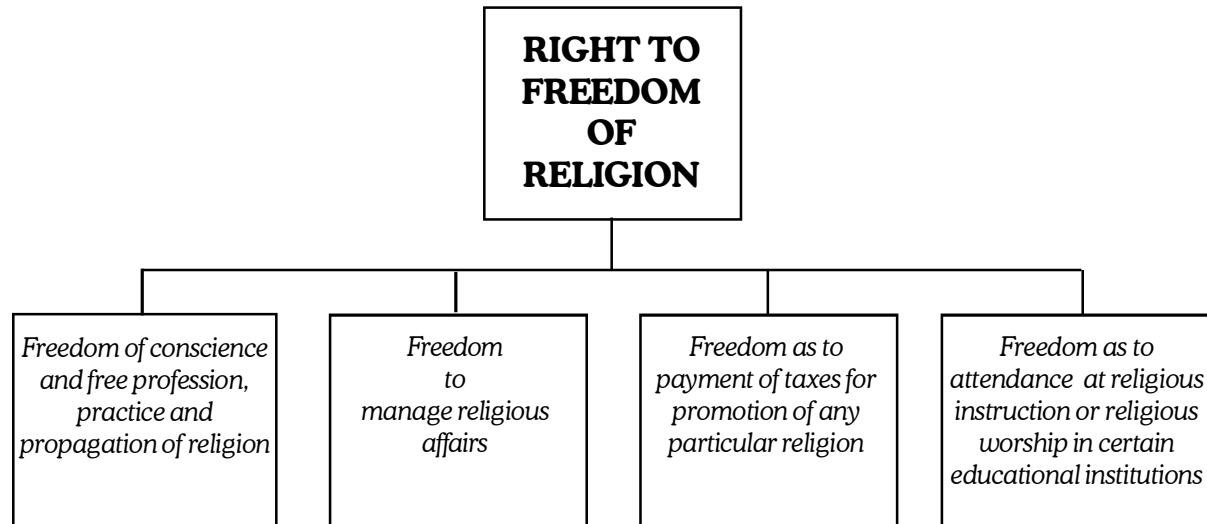
RIGHT AGAINST EXPLOITATION

Prohibition of traffic in human beings and forced labour

Prohibition of employment of children in factories, etc.

Right to Freedom of Religion

Articles 25, 26, 27 and 28 of Constitution of India deals with right to Freedom of Religion.



Right to Constitutional Remedies

Article 32 guarantees the enforcement of Fundamental Rights. It is remedial and not substantive in nature. The rest of the Articles 33 to 35 relate to supplementary matters and do not create or guarantee any right. Therefore, we shall discuss Article 32 first and then rest of the Articles i.e. 33-35 briefly.

Remedies for Enforcement of Fundamental Rights

It is a cardinal principle of jurisprudence that where there is a right there is a remedy (*ubi jus ibi remedium*) and if rights are given without there being a remedy for their enforcement, they are of no use. While remedies are available in the Constitution and under the ordinary laws, Article 32 makes it a fundamental right that a person whose fundamental right is violated has the right to move the Supreme Court by appropriate proceedings for the enforcement of his fundamental right. It is really a far reaching provision in the sense that a person need not first exhaust the other remedies and then go to the Supreme Court. On the other hand, he can directly raise the matter before highest Court of the land and the Supreme Court is empowered to issue directions or orders or writs in the nature of ***habeas corpus, mandamus, prohibition, quo warranto and certiorari***, whichever may be appropriate for the enforcement of the right, the violation of which has been alleged. This power of the Supreme Court to issue directions, etc., may also be assigned to other Courts by Parliament without affecting the powers of the Supreme Court.

The right to move the Supreme Court is itself a guarantee right and the significance of this has been assessed by Gajendragadkar, J. in the following words:

“The fundamental right to move this Court can therefore be appropriately described as the cornerstone of the democratic edifice raised by the Constitution. That is why it is natural that this Court should, in the words of Patanjali Sastri, J., regard itself ‘as the protector and guarantor of fundamental rights’, and should declare that “it cannot, consistently with the responsibility laid upon it, refuse to entertain applications seeking protection against infringements of such rights. In discharging the duties assigned to it, this Court has to play the role of ‘sentinel on the qui vive’ (*State of Madras v. V.G. Row, AIR 1952 SC 196*)

and it must always regard it as its solemn duty to protect the said fundamental rights 'zealously and vigilantly' (*Daryao v. State of U.P.*, AIR 1961 SC 1457).

DIRECTIVE PRINCIPLES OF STATE POLICY

The Sub-committee on Fundamental Rights constituted by the Constituent Assembly suggested two types of Fundamental Rights — one which can be enforced in the Courts of law and the other which because of their different nature cannot be enforced in the law Courts. Later on however, the former were put under the head 'Fundamental Rights' as Part III which we have already discussed and the latter were put separately in Part IV of the Constitution under the heading 'Directive Principles of State Policy' which are discussed in the following pages.

The Articles included in Part IV of the Constitution (Articles 36 to 51) contain certain Directives which are the guidelines for the Government to lead the country. Article 37 provides that the 'provisions contained in this part (i) shall not be enforceable by any Court, but the principles therein laid down are nevertheless (ii) fundamental in the governance of the country and it shall be the duty of the state to apply these principles in making laws. The Directives, however, differ from the fundamental rights contained in Part-III of the Constitution or the ordinary laws of the land in the following respects:

- (i) The Directives are not enforceable in the courts and do not create any justiciable rights in favour of individuals.
- (ii) The Directives require to be implemented by legislation and so long as there is no law carrying out the policy laid down in a Directive, neither the state nor an individual can violate any existing law.
- (iii) The Directives *per-se* do not confer upon or take away any legislative power from the appropriate legislature.
- (iv) The courts cannot declare any law as void on the ground that it contravenes any of the Directive Principles.
- (v) The courts are not competent to compel the Government to carry out any Directives or to make any law for that purpose.
- (vi) Though it is the duty of the state to implement the Directives, it can do so only subject to the limitations imposed by the different provisions of the Constitution upon the exercise of the legislative and executive power by the state.

Important Directive Principles

To be specific, the important Directive Principles are enumerated below:

- (a) State to secure a social order for the promotion of welfare of the people:
 - (1) The State must strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political should inform all the institutions of the national life.
 - (2) The State shall, in particular, strive to minimise the inequalities in income and endeavour to eliminate inequalities in status, facilities, and opportunities, not only amongst individuals but also among groups of people residing in different areas or engaged in different vocations. (Article 38).
- (b) Certain principles of policy to be followed by the State. The State, particularly, must direct its policy towards securing:

- (i) that the citizens, men and women equally, have the right to an adequate means of livelihood;
 - (ii) that the ownership and control of the material resources of the community are so distributed as best to subserve the common goods;
 - (iii) that the operation of the economic systems does not result in the concentration of wealth and means of production to the common detriment;
 - (iv) equal pay for equal work for both men and women;
 - (v) that the health and strength of workers and children is not abused and citizens are not forced by the economic necessity to enter avocation unsuited to their age or strength;
 - (vi) that childhood, and youth are protected against exploitation and against moral and material abandonment (Article 39).
- (bb) The State shall secure that the operation of legal system promotes justice on a basis of equal opportunity, and shall, in particular provide free legal aid, by suitable legislation or schemes or in any other way, to ensure that opportunities for securing justice are not denied to any citizen by reason of economic or other disabilities (Article 39A).
- (c) The State must take steps to organise the Village Panchayats and enable them to function as units of self-government (Article 40).
- (d) Within the limits of economic capacity and development the State must make effective provision for securing the right to work, to education and to public assistance in case of unemployment, old age, etc. (Article 41).
- (e) Provision must be made for just and humane conditions of work and for maternity relief (Article 42).
- (f) The State must endeavour to secure living wage and good standard of life to all types of workers and must endeavour to promote cottage industries on an individual or co-operative basis in rural areas (Article 43).
- (ff) The State take steps, by suitable legislation or in any other way, to secure the participation of workers in the management of undertakings, establishments or other organisations engaged in any industry (Article 43A).
- (g) The State must endeavour to provide a uniform civil code for all Indian citizens (Article 44).
- (h) Provision for free and compulsory education for all children upto the age of fourteen years (Article 45).
- (i) The State must promote the educational and economic interests of Scheduled Castes, Scheduled Tribes and other weaker sections (Article 46).
- (j) The State must regard it one of its primary duties to raise the level of nutritional and the standard of living and to improve public health and in particular it must endeavour to bring about prohibition of the consumption, except for medicinal purposes, of intoxicating drinks and of drugs which are injurious to health (Article 47).
- (k) The State must organise agriculture and animal husbandry on modern and scientific lines and improve the breeds and prohibit the slaughter of cows and calves and other milch and draught cattle (Article 48).
- (kk) The State shall endeavour to protect and improve the environment and to safeguard the forests and wild life of the country (Article 48A).

- (l) Protection of monuments and places and objects of national importance is obligatory upon the State (Article 49).
- (m) The State must separate executive from judiciary in the public services of the State (Article 50).
- (n) In international matters the State must endeavour to promote peace and security, maintain just and honourable relations in respect of international law between nations, treaty obligations and encourage settlement of international disputes by arbitration (Article 51).

FUNDAMENTAL DUTIES

Article 51A imposes the fundamental duties on every citizen of India. These Fundamental Duties are:

- (a) to abide by the constitution and respect its ideals and institutions, the National Flag and the National Anthem;
- (b) To cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
- (k) who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

Since the duties are imposed upon the citizens and not upon the States, legislation is necessary for their implementation. Fundamental duties can't be enforced by writs (*Surya Narain v. Union of India*, AIR 1982 Raj 1).

CITIZENSHIP

"The State is a compound made of citizens; and this compels us to consider who should properly be called a citizen and what a citizen really is. The nature of Citizenship like that of the State, is a question which is often disputed; there is no general agreement on a single definition; the man who is a citizen in democracy is often not one in an oligarchy."

Aristotle

National citizenship remains an essential and enduring feature of modern life in terms of politics and elections, welfare state benefits, all round integration etc. Articles 5 to 9 of the Constitution determine who are the Indian citizens at the commencement of the Constitution. Article 10 provides for their continuance as such citizens subject to the provisions of any law that may be made by Parliament. Article

11 entrust the Parliament with powers to regulate the right of citizenship. In other words, the Constitution under Article 11 expressly left acquisition and termination of citizenship and all other matters relating thereto to the Parliament by way of legislation. The legislation related to this matter is the Citizenship Act, 1955.

Article 5: Citizenship at the commencement of the Constitution

Article 5 provides that at the commencement of the Constitution, every person who has his domicile in the territory of India and—

- (a) Who was born in the territory of India; or
- (b) Either of whose parents was born in the territory of India; or
- (c) Who has been ordinarily resident in the territory of India for not less than five years immediately preceding such commencement, shall be a citizen of India.

PARLIAMENT

There shall be a Parliament for the Union which shall consist of the President and two Houses to be known respectively as the Council of States and the House of the People.

President

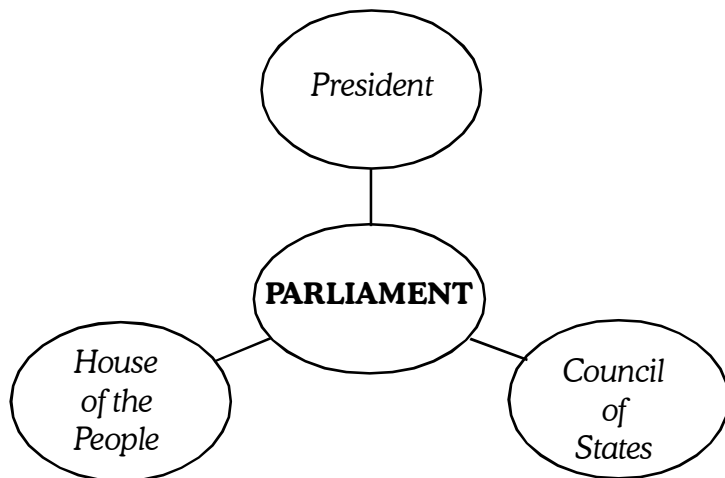
The President shall be elected by the members of an electoral college consisting of— (a) the elected members of both Houses of Parliament; and (b) the elected members of the Legislative Assemblies of the States.

Powers of the President

Article 53 the Constitution lays down that the executive power of the union shall be vested in the President. The President of India shall, thus, be the head of the ‘executive power’ of the union. The executive power may be defined as the power of “carrying on the business of Government” or “the administration of the affairs of the state” excepting functions which are vested in any other authority by the Constitution. Various powers that are included within the comprehensive expression ‘executive power’ in a modern state have been classified under following heads :

- (i) Administrative power, i.e., the execution of the laws and the administration of the departments of Government.
- (ii) Military power, i.e., the command of the armed forces and the conduct of war.
- (iii) Legislative power, i.e., the summoning prorogation, etc. of the legislature.
- (iv) Judicial power, i.e., granting of pardons, reprieves etc. to persons convicted of crime.

These powers vest in the President under each of these heads, subject to the limitations made under the Constitution.



Power to Promulgate Ordinance

The most important legislative power conferred on the President is to promulgate Ordinances. Article 123 of the Constitution provides that the President shall have the power to legislate by Ordinances at any time when it is not possible to have a parliamentary enactment on the subject, immediately. This is a special feature of the Constitution of India.

The ambit of this Ordinance-making power of the President is co-extensive with the legislative powers of Parliament, that is to say it may relate to any subject in respect of which Parliament has the right to legislate and is subject to the same constitutional limitations as legislation by Parliament.

Rajya Sabha (Council of States)

The Council of States shall consist of twelve members to be nominated by the President and not more than two hundred and thirty-eight representatives of the States and of the Union territories.

The allocation of seats in the Council of States to be filled by representatives of the States and of the Union territories shall be in accordance with the provisions in that behalf contained in the Fourth Schedule of the Constitution. The members to be nominated by the President shall consist of persons having special knowledge or practical experience in respect of literature, science, art and social service. The representatives of each State in the Council of States shall be elected by the elected members of the Legislative Assembly of the State in accordance with the system of proportional representation by means of the single transferable vote. The representatives of the Union territories in the Council of States shall be chosen in such manner as Parliament may by law prescribe.

Lok Sabha (House of the People)

Lok Sabha is composed of representatives of the people chosen by direct election on the basis of the adult suffrage. The maximum strength of the House envisaged by the Constitution is 552, which is made up by election of upto 530 members to represent the States, upto 20 members to represent the Union Territories and not more than two members of the Anglo-Indian Community to be nominated by the Hon'ble President, if, in his/her opinion, that community is not adequately represented in the House. The total elective membership is distributed among the States in such a way that the ratio between the number of seats allotted to each State and the population of the State is, so far as practicable, the same for all States.

COUNCIL OF MINISTERS

There shall be a Council of Ministers with the Prime Minister at the head to aid and advise the President who shall, in the exercise of his functions, act in accordance with such advice. The Prime Minister shall be appointed by the President and the other Ministers shall be appointed by the President on the advice of the Prime Minister. The total number of Ministers, including the Prime Minister, in the Council of Ministers shall not exceed fifteen per cent. of the total number of members of the House of the People.

The Ministers shall continue office at the pleasure of the President. The Council of Ministers shall be collectively responsible to the House of the People. Before a Minister enters upon his office, the President shall administer to him the oaths of office and of secrecy. The salaries and allowances of Ministers shall be such as Parliament may from time to time by law determine and, until Parliament so determines, shall be as specified in the Second Schedule.

The total number of Ministers, including the Prime Minister, in the Council of Ministers shall not exceed fifteen per cent of the total number of members of the House of the People.

CONSTITUTION OF LEGISLATURES IN STATES

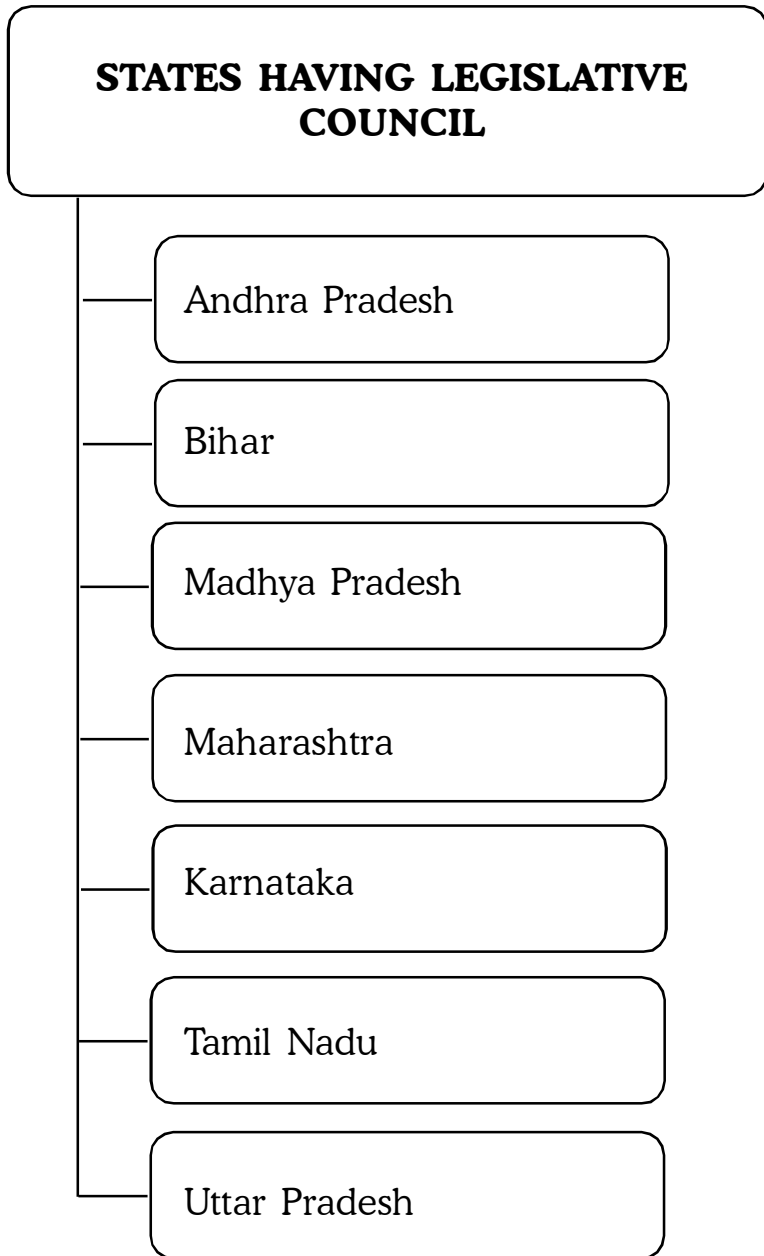
For every State there shall be a Legislature which shall consist of the Governor, and

- (i) in the States of Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Karnataka, Tamil Nadu, Telangana and Uttar Pradesh having two Houses
- (ii) in other States, one House.

Where there are two Houses of the Legislature of a State, one shall be known as the Legislative Council and the other as the Legislative Assembly, and where there is only one House, it shall be known as the Legislative Assembly.

The Legislative Assembly of each State shall consist of not more than five hundred, and not less than sixty, members chosen by direct election from territorial constituencies in the State. The total number of members in the Legislative Council of a State having such a Council shall not exceed one third of the total number of members in the Legislative Assembly of that State. The total number of members in the Legislative Council of a State shall in no case be less than forty.

Legislative Assembly of every State, unless sooner dissolved, shall continue for five years from the date appointed for its first meeting and no longer and the expiration of the said period of five years shall operate as a dissolution of the Assembly. The Legislative Council of a State shall not be subject to dissolution, but as nearly as possible one third of the members thereof shall retire as soon as may be on the expiration of every second year in accordance with the provisions made in that behalf by Parliament by law.



GOVERNOR

The executive power of the State is vested in the Governor and all executive action of the State has to be taken in the name of the Governor. Normally there shall be a Governor for each State but the same person

can be appointed as Governor for two or more states. The Governor of a State is not elected but is appointed by the President and holds his office at the pleasure of the President. The head of the executive power to a State is the Governor just as the President for the Union.

The Governor possesses executive, legislative and judicial powers as the Presidents except that he has no diplomatic or military powers like the President.

The Governor's power to make Ordinances as given under Article 213 is similar to the Ordinance making power of the President and have the force of an Act of the State Legislature. He can make Ordinance only when the state Legislature or either of the two Houses (where it is bicameral) is not in session. He must be satisfied that circumstances exist which render it necessary to take immediate action. While exercising this power, the Governor must act with the aid and advise of the Council of Ministers. But in following cases, the Governor cannot promulgate any Ordinance without instructions from the President:

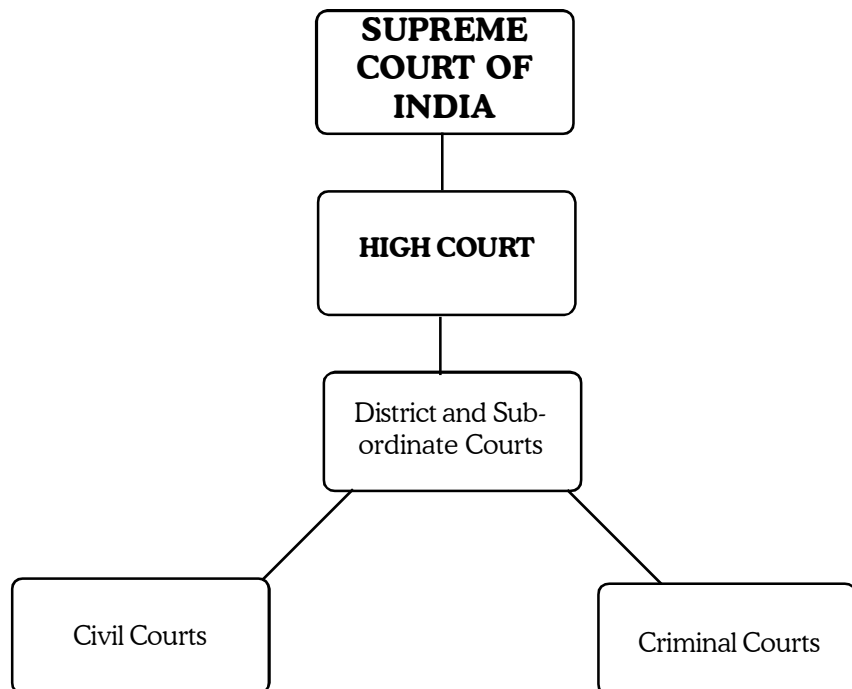
- (a) if a Bill containing the same provisions would under this constitution have required the previous sanction of the President.
- (b) he would have deemed it necessary to reserve a Bill containing the same provisions for the consideration of the President.
- (c) an Act of the state legislature containing the same provisions would under this constitution have been invalid unless, having been reserved for the consideration of the President, it had received the assent of the President.

The Ordinance must be laid before the state legislature (when it re-assembles) and shall automatically cease to have effect at the expiration of six weeks from the date of the re-assembly unless disapproved earlier by that legislature.

THE JUDICIARY

The Supreme Court

The Courts in the Indian legal system, broadly speaking, consist of (i) the Supreme Court, (ii) the High Courts, and (iii) the Subordinate Courts. The Supreme Court, which is the highest Court in the country (both for matters of ordinary law and for interpreting the Constitution) is an institution created by the Constitution. Immediately before independence, the Privy Council was the highest appellate authority for British India, for matters arising under ordinary law. But appeals from High Courts in constitutional matters lay to the Federal Court (created under the



Government of India Act, 1935) and hence to the Privy Council. The Supreme Court of India, in this sense, has inherited the jurisdiction of both the Privy Council and the Federal Court. However, the jurisdiction of the Supreme Court under the present Constitution is much more extensive than that of its two predecessors mentioned above.

The Supreme Court, entertains appeals (in civil and criminal and other cases) from High Courts and certain Tribunals. It has also writ jurisdiction for enforcing Fundamental Rights. It can advise the President on a reference made by the President on questions of fact and law. It has a variety of other special jurisdictions.

High Courts

The High Courts that function under the Constitution were not created for the first time by the Constitution. Some High Courts existed before the Constitution, although some new High Courts have been created after 1950. The High Courts in (British) India were established first under the Indian High Courts Act, 1861 (an Act of the U.K. Parliament). The remaining High Courts were established or continued under the Constitution or under special Acts. High Courts for each State (or Group of States) have appellate, civil and criminal jurisdiction over lower Courts. High Courts have writ jurisdiction to enforce fundamental rights and for certain other purposes.

Some High Courts (notably) Bombay, Calcutta and Delhi, have ordinary original civil jurisdiction (i.e. jurisdiction to try regular civil suits) for their respective cities. High Courts can also hear references made by the Income Tax Appellate Tribunal under the Income Tax Act and other tribunals.

It should be added, that the "writ" jurisdiction vested at present in all High Courts by the Constitution was (before the Constitution came into force) vested only in the High Courts of Bombay, Calcutta and Madras (i.e. the three Presidency towns).

Subordinate Courts

Finally, there are various subordinate civil and criminal courts (original and appellate), functioning under ordinary law. Although their nomenclature and powers have undergone change from time to time, the basic pattern remains the same. These have been created, not under the Constitution, but under laws of the competent legislature. Civil Courts are created mostly under the Civil Courts Act of each State. Criminal courts are created mainly under the Code of Criminal Procedure.

Civil Courts

In each district, there is a District Court presided over by the District Judge, with a number of Additional District Judges attached to the court. Below that Court are Courts of Judges (sometimes called subordinate Judges) and in, some States, Munsiffs. These Courts are created under State Laws.

Criminal Courts

Criminal courts in India primarily consist of the Magistrate and the Courts of Session. Magistrates themselves have been divided by the Code of Criminal Procedure into 'Judicial' and 'Executive' Magistrates.

Executive Magistrate

The Executive Magistrate do not try criminal prosecutions, and their jurisdiction is confined to certain miscellaneous cases, which are of importance for public tranquillity and the like. Their proceedings do not end in conviction or acquittal, but in certain other types of restrictive orders. In some States, by local amendments, Executive Magistrates have been vested with powers to try certain offences.

Judicial Magistrate

Judicial Magistrates, are of two classes: Second Class and First Class. Judicial Magistrates are subject to

the control of the Court of Session, which also in itself a Court of original jurisdiction. The powers of Magistrates of the two classes, vary according to their grade. The Court of Session can try all offences, and has power to award any sentence, prescribed by law for the offence, but a sentence of death requires confirmation by the High Court.

In some big cities (including the three Presidency towns and Ahmedabad and Delhi), the Magistrates are called Metropolitan Magistrates. There is no gradation inter se. Further, in some big cities (including the three Presidency towns and Ahmedabad and Hyderabad), the Sessions Court is called the "City Sessions Court", its powers being the same as those of the Courts of Session in the districts.

Special Tribunals

Besides these Courts, which form part of the general judicial set up, there are specialised Tribunals dealing with Direct Taxes, Labour, Customs, Claims for accidents caused by motor vehicles, Copyright and Environment, Anti- Competitive Agreement etc.

WRIT JURISDICTION OF HIGH COURTS AND SUPREME COURT

Under the Constitution by virtue of Article 226, every High Court has the power to issue directions or orders or writs including writs in the nature of Habeas corpus, Mandamus, Prohibition, Quo warranto and Certiorari or any of them for the enforcement of fundamental rights stipulated in Part III of the Constitution or for any other purpose. This power is exercisable by each High Court throughout the territory in relation to which it exercises jurisdiction.

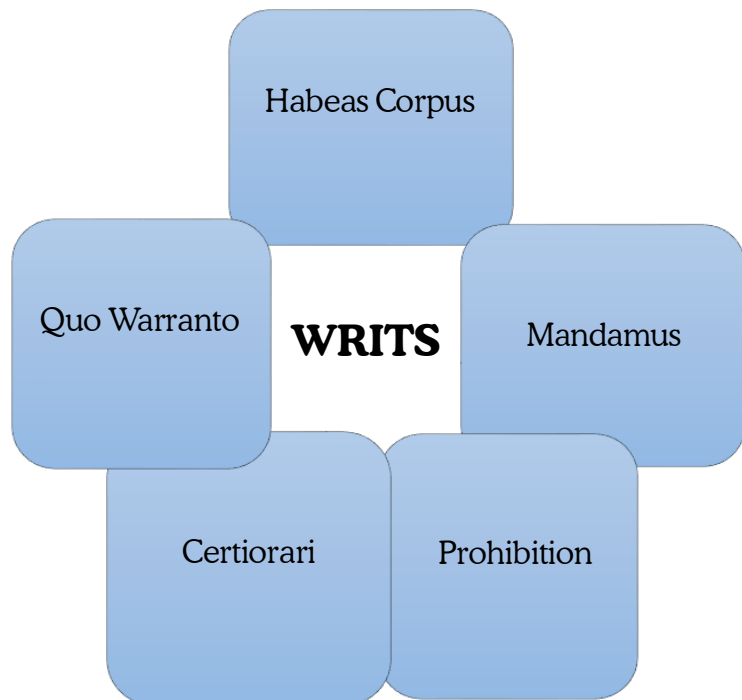
A person can also approach the Supreme Court by appropriate proceedings for the issue of directions or orders or writs, as referred to under Article 226 for the enforcement of the rights guaranteed by Part III of the Constitution. Article 32 itself being a fundamental right, the Constitutional remedy of writ is available to anyone whose fundamental rights are infringed by state action.

Types of Writs

A brief description of the various types of writs is given below:

1. *Habeas Corpus*

The writ of Habeas corpus - an effective bulwark of personal liberty - is a remedy available to a person who is confined without legal justification. The words 'Habeas Corpus' literally mean "to have the body". When a prima facie case for the issue of writ has been made then the Court issues a rule nisi upon the relevant authority to show cause why the writ should not be issued. This is in national order to let the Court know on what grounds he has been confined and to set him free if there is no justification for his



detention. This writ has to be obeyed by the detaining authority by producing the person before the Court. Under Articles 32 and 226 any person can move for this writ to the Supreme Court and High Court respectively. The applicant may be the prisoner or any person acting on his behalf to safeguard his liberty for the issuance of the writ of Habeas Corpus as no man can be punished or deprived of his personal liberty except for violation of law and in the ordinary legal manner. An appeal to the Supreme Court of India may lie against an order granting or rejecting the application (Articles 132, 134 or 136). The disobedience to this writ is met with by punishment for contempt of Court under the Contempt of Courts Act.

2. *Mandamus*

The word 'Mandamus' literally means we command. The writ of mandamus is, a command issued to direct any person, corporation, inferior court, or Government requiring him or it do a particular thing specified therein which pertains to his or its office and is further in the nature of a public duty. This writ is used when the inferior tribunal has declined to exercise jurisdiction while resort to certiorari and prohibition arises when the tribunal has wrongly exercised jurisdiction or exceeded its jurisdiction and are available only against judicial and quasi-judicial bodies. Mandamus can be issued against any public authority. It commands activity. The writ is used for securing judicial enforcement of public duties. In a fit case, Court can direct executives to carry out Directive Principles of the Constitution through this writ (*State of Maharashtra v. MP Vashi*, 1995 (4) SCALE). The applicant must have a legal right to the performance of a legal duty by the person against whom the writ is prayed for. It is not issued if the authority has a discretion.

The Constitution of India by Articles 226 and 32 enables mandamus to be issued by the High Courts and the Supreme Court to all authorities.

3. *Prohibition*

A writ of prohibition is issued to an Inferior Court preventing the latter from usurping jurisdiction which is not legally vested in it. When a tribunal acts without or in excess of jurisdiction, or in violation of rules or law, a writ of prohibition can be asked for. It is generally issued before the trial of the case.

While mandamus commands activity, prohibition commands inactivity, it is available only against judicial or quasi-judicial authorities and is not available against a public officer who is not vested with judicial functions. If abuse of power is apparent this writ may be of right and not a matter of discretion.

4. *Certiorari*

It is available to any person, wherever anybody of persons having legal authority to determine questions affecting the rights of subjects and having the duty to act judicially in excess of their legal authority" (See *The King v. Electricity Commissioners*, (1924) I.K.B. 171, P. 204-5).

The writ removes the proceedings from such body to the High Court, to quash a decision that goes beyond its jurisdiction. Under the Constitution of India, all High Courts can issue the writ of certiorari throughout their territorial jurisdiction when the subordinate judicial authority acts (i) without or in excess of jurisdiction or (ii) in contravention of the rules of natural justice or (iii) commits an error apparent on the face of the record. The jurisdiction of the Supreme Court to issue such writs arises under Article 32. Although the object of both the writs of prohibition and of certiorari is the same, prohibition is available at an earlier stage whereas certiorari is available at a later stage but on similar grounds i.e. Certiorari is issued after authority has exercised its powers.

5. *Quo Warranto*

The writ of quo warranto enables enquiry into the legality of the claim which a person asserts, to an office or franchise and to oust him from such position if he is an usurper. The holder of the office has to show to the court under what authority he holds the office. It is issued when:

- (i) the office is of public and of a substantive nature,
- (ii) created by statute or by the Constitution itself, and
- (iii) the respondent has asserted his claim to the office. It can be issued even though he has not assumed the charge of the office.

The fundamental basis of the proceeding of Quo warranto is that the public has an interest to see that a lawful claimant does not usurp a public office. It is a discretionary remedy which the court may grant or refuse.

MAJOR CONSTITUTIONAL AMENDMENTS 1951 - 2022

The Constitution (First Amendment) Act, 1951

- Added Ninth Schedule to protect the land reform and other laws included in it from the judicial review.
- Added three more grounds of restrictions on freedom of speech and expression, viz., public order, friendly relations with foreign states and incitement to an offence. Also, made the restrictions 'reasonable' and thus, justiciable in nature.
- Empowered the state to make special provisions for the advancement of socially and economically backward classes.

The Constitution (Second Amendment) Act, 1952

The scale of representation in the Lok Sabha by providing that one member could represent even more than 7, 50,000 persons.

Constitution (Forty – Second Amendment) Act, 1976

- It is also known as Mini-Constitution. It was enacted to give effect to the recommendations of Swaran Singh Committee).
- Added three new words (i.e., socialist, secular and integrity) in the Preamble.
- Added Fundamental Duties by the citizens (new Part IV A).
- Made the president bound by the advice of the cabinet.
- Added three new Directive Principles viz., equal justice and free legal aid, participation of workers in the management of industries, protection and improvement of environment and safeguarding of forest & wild life.
- Shifted five subjects from the state list to the concurrent list, viz, education, forests, protection of wild animals and birds, weights and measures and administration of justice, constitution and organisation of all courts except the Supreme Court and the high courts.

- Empowered the Centre to deploy its armed forces in any state to deal with a grave situation of law and order.

Constitution (Fifty – Second Amendment) Act, 1985

- This amendment popularly known as Anti-Defection Law
- Provided for disqualification of members of Parliament and state legislatures on the ground of defection and added a new Tenth Schedule containing the details in this regard.

Constitution (Sixty – First Amendment) Act, 1989

Reduced the voting age from 21 years to 18 years for the Lok Sabha and state legislative assembly elections.

Constitution (Sixty – Ninth Amendment) Act, 1991

Accorded a special status to the Union Territory of Delhi by designing it as the National Capital Territory of Delhi.

Constitution (Seventieth Amendment) Act, 1989

Provided for the inclusion of the members of the Legislative Assemblies of National Capital Territory of Delhi and the Union Territory of Puducherry in the Electoral College for the election of the president.

Constitution (Eighty-Fourth Amendment) Act, 2001

The number of seats in the Lok Sabha and the assemblies are to remain same till 2026.

Constitution (Eighty-Sixth Amendment) Act, 2002

- Made elementary education a fundamental right. Added Article 21-A which declares that “the State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may determine”.
- Changed the subject matter of Article 45 in Directive Principles. It now reads—“The State shall endeavour to provide early childhood care and education for all children until they complete the age of six years”.
- Added a new fundamental duty under Article 51-A which reads—“It shall be the duty of every citizen of India who is a parent or guardian to provide opportunities for education to his child or ward between the age of six and fourteen years”.

Constitution (Ninety-First Amendment) Act, 2003

- The total number of ministers, including the Prime Minister, in the Central Council of Ministers shall not exceed 15% of the total strength of the Lok Sabha [Article 75(1A)].
- The total number of ministers, including the Chief Minister, in the Council of Ministers in a state shall not exceed 15% of the total strength of the legislative Assembly of that state. But, the number of ministers, including the Chief Minister, in a state shall not be less than 12 [Article 164(1A)].
- The provision of the Tenth Schedule (anti-defection law) pertaining to exemption from disqualification in case of split by one-third members of legislature party has been deleted. It means that the defectors have no more protection on grounds of splits.

Constitution (One Hundred-One Amendment) Act, 2016

- Goods and Services Tax (GST) has commenced with the enactment of the 101st Constitution Amendment Act, 2016.
- Articles 246A, 269A and 279A were added in the constitution. The amendment made changes in the 7th schedule of the constitution.

Constitution (One Hundred-Second Amendment) Act, 2018

- Constitutional status to the National Commission for Backward Classes.
- Inserted a new Article 342-A which empowers President to notify the list of socially and educationally backward classes of that state/union territory.

Constitution (One Hundred-Third Amendment) Act, 2019

It changed two fundamental rights, Article 15 and 16. It provides for the advancement of the economically weaker sections of society. Ten (10%) of all government jobs and college seats will be reserved for people outside the high-income bracket.

Lesson 2

**ELEMENTS OF
GENERAL LAWS**

A. INDIAN CONTRACT ACT

INTRODUCTION

A contract is an agreement enforceable at law, made between two or more persons, by which rights are acquired by one or more to acts or forbearances on the part of the other or others. A contract is an agreement creating and defining obligations between the parties.

The Indian Contract Act, 1872 lays down general principles relating to formation and enforceability of contracts; rules governing the provisions of an agreement and offer; the various types of contracts including those of indemnity and guarantee, bailment and pledge and agency. It also contains provisions pertaining to breach of a contract.

The Law of Contract constitutes the most important branch of Mercantile or Commercial Law. It affects everybody, more so, trade, commerce and industry. It may be said that the contract is the foundation of the civilized world.

The Indian Contract Act, 1872 came into force on the first day of September, 1872. The preamble to the Act says that it is an Act “to define and amend certain parts of the law relating to contract”. The Act is by no means exhaustive on the law of contract. It does not deal with all the branches of the law of contract. Thus, contracts relating to partnership, sale of goods, negotiable instruments, insurance etc. are dealt with by separate Acts. The Indian Contract Act majorly deals with the general principles and rules governing contracts. The Act is divisible into two parts:

- The first part (Section 1-75) deals with the general principles of the law of contract, and therefore applies to all contracts irrespective of their nature.
- The second part (Sections 124-238) deals with certain special kinds of contracts, namely contracts of Indemnity and Guarantee, Bailment, Pledge, and Agency.

CONTRACT

The Indian Contract Act has defined “Contract” in Section 2(h) as “an agreement enforceable by law”. This definition indicate that a contract essentially consists of two distinct parts. First, there must be an agreement. Secondly, such an agreement must be enforceable by law. To be enforceable, an agreement must be coupled with an obligation. A contract therefore, is a combination of the two elements:

- An agreement, and
- An obligation.

AGREEMENT

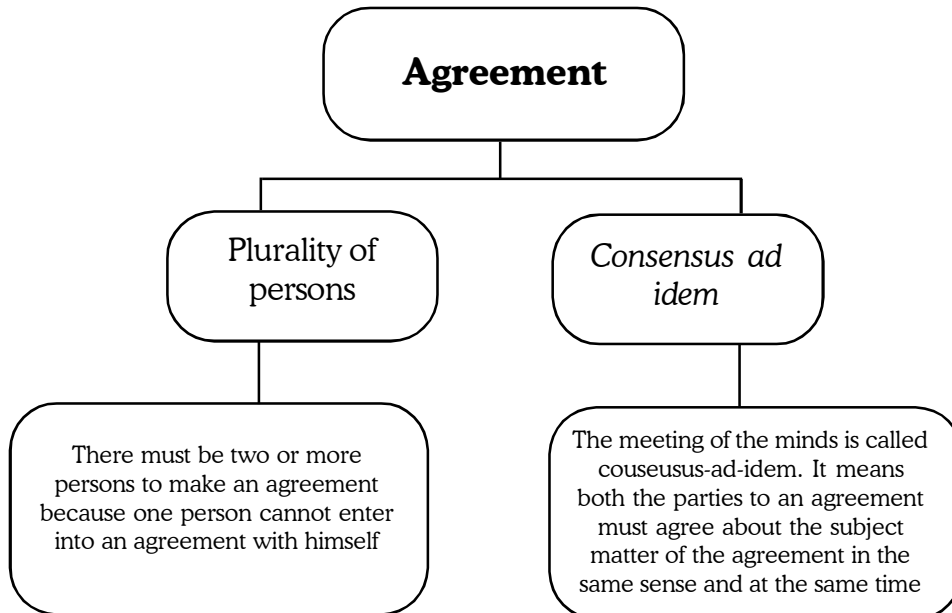
An agreement gives birth to a contract. As per Section 2(e) of the Indian Contract Act every promise and every set of promises, forming the consideration for each other, is an agreement.

It is evident from the definition given above that an agreement is based on a promise. What is a promise? According to Section 2(b) of the Indian Contract Act “when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted, becomes a promise. An agreement, therefore, comes into existence when one party makes a proposal or offer to the other party and that other party signifies his assent thereto. In a nutshell, an agreement is the sum total of offer and acceptance.”

Example: Mr. A orally agreed to supply 50 Kg Rice of a certain brand and quality to Mr. B and to receive payment against it. Is it an agreement?

Yes, it is an agreement.

An analysis of the definition given above reveals the following characteristics of an agreement:



OBLIGATION

An obligation is the legal duty to do or abstain from doing what one has promised to do or abstain from doing. A contractual obligation arises from a bargain between the parties to the agreement who are called the promisor and the promisee. Section 2(b) says that when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted; and a proposal when accepted becomes a promise. In broad sense, therefore, a contract is an exchange of promises by two or more persons, resulting in an obligation to do or abstain from doing a particular act, where such obligation is recognised and enforced by law.

Rights and Obligations

Where parties have made a binding contract, they have created rights and obligations between themselves. The contractual rights and obligations are correlative, e.g., A agrees with B to sell his car for Rs.10,00,000/- to him. In this example, the following rights and obligations have been created:

- (i) A is under an obligation to deliver the car to B. B has a corresponding right to receive the car.
- (ii) B is under an obligation to pay Rs.10,00,000/- to A. A has a correlative right to receive Rs.10,00,000/-.

Agreements which are not Contracts

Agreements in which the idea of bargain is absent and there is no intention to create legal relations are not contracts. These are:

- (a) *Agreements relating to social matters* : An agreement between two persons to go together to the cinema, or for a walk, does not create a legal obligation on their part to abide by it. Similarly, if I promise to take you for dinner and break that promise, I do not expect to be liable to legal penalties. There cannot be any offer and acceptance to hospitality.

- (b) *Domestic arrangements between husband and wife* : In *Balfour v. Balfour* (1919) 2 KB 571, a husband working in Ceylone, had agreed in writing to pay a housekeeping allowance to his wife living in England. On receiving information that she was unfaithful to him, he stopped the allowance. He was held to be entitled to do so. This was a mere domestic arrangement with no intention to create legally binding relations. Therefore, there was no contract.

Three consequences follow from the above discussion

- To constitute a contract, the parties must intend to create legal relationship.
- The law of contract is the law of those agreements which create obligations, and those obligations have their source in agreement.
- Agreement is the genus of which contract is the specie and, therefore, all contracts are agreements but all agreements are not contracts.

Essential Elements of a Valid Contract

Section 10 of the Indian Contract Act, 1872 provides that “all agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void”.

The essential elements of a valid contract are:

- (i) An offer or proposal by one party and acceptance of that offer by another party resulting in an Agreement — consensus-ad-idem.
- (ii) An intention to create legal relations or an intent to have legal consequences.
- (iii) The agreement is supported by a lawful consideration.
- (iv) The parties to the contract are legally capable of contracting.
- (v) Genuine consent between the parties.
- (vi) The object and consideration of the contract is legal and is not opposed to public policy.
- (vii) The terms of the contract are certain.
- (viii) The agreement is capable of being performed i.e., it is not impossible of being performed.

Therefore, to form a valid contract there must be:

- An agreement
- Based on the genuine consent of the parties
- Supported by a lawful consideration
- Made for a lawful object, and
- Between the competent parties.

Example: There is an agreement with a term that A will provide 50 kg of Wheat on a price of more than Rs. Per 50 Kg?

An agreement cannot be on ambiguous terms. Therefore, this agreement is not valid.

Offer or Proposal and Acceptance

One of the early steps in the formation of a contract lies in arriving at an agreement between the contracting parties by means of an offer and acceptance. Thus, when one party (the offeror) makes a definite proposal to another party (the offeree) and the offeree accepts it in its entirety and without any qualification, there is a meeting of the minds of the parties and a contract comes into being, assuming that all other elements are also present.

A proposal is also termed as an offer. The word 'proposal' is synonymous with the English word "offer". An offer is a proposal by one person, whereby he expresses his willingness to enter into a contractual obligation in return for a promise, act or forbearance. Section 2(a) of the Indian Contract Act defines proposal or offer as "when one person signifies to another his willingness to do or abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal". The person making the proposal or offer is called the proposer or offeror and the person to whom the proposal is made is called the offeree.

Rules Governing Offers

A valid offer must comply with the following rules:

- (a) An offer must be clear, definite, complete and final. It must not be vague. For example, a promise to pay an increased price for a horse if it proves lucky to promisor, is too vague and is not binding.
- (b) An offer must be communicated to the offeree. An offer becomes effective only when it has been communicated to the offeree so as to give him an opportunity to accept or reject the same.
- (c) The communication of an offer may be made by express words-oral or written-or it may be implied by conduct.
- (d) The communication of the offer may be general or specific. Where an offer is made to a specific person it is called specific offer and it can be accepted only by that person. But when an offer is addressed to an uncertain body of individuals i.e. the world at large, it is a general offer and can be accepted by any member of the general public by fulfilling the condition laid down in the offer'.

Lapse of Offer

Section 6 deals with various modes of lapse of an offer. It states that an offer lapses if—

- (a) It is not accepted within the specified time (if any) or after a reasonable time, if none is specified.
- (b) It is not accepted in the mode prescribed or if no mode is prescribed in some usual and reasonable manner, e.g., by sending a letter by mail when early reply was requested;
- (c) The offeree rejects it by distinct refusal to accept it;
- (d) Either the offeror or the offeree dies before acceptance;
- (e) The acceptor fails to fulfil a condition precedent to an acceptance.
- (f) The offeree makes a counter offer, it amounts to rejection of the offer and an offer by the offeree may be accepted or rejected by the offeror.

Revocation of Offer by the Offeror

- An offer may be revoked by the offeror at any time before acceptance.
- Revocation must be communicated to the offeree, as it does not take effect until it is actually

communicated to the offeree. Before its actual communication, the offeree, may accept the offer and create a binding contract. The revocation must reach the offeree before he sends out the acceptance.

- An offer to keep open for a specified time (option) is not binding unless it is supported by consideration.

Acceptance

A contract emerges from the acceptance of an offer. Acceptance is the act of assenting by the offeree to an offer. Under Section 2(b) of the Contract Act when a person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted becomes a promise.

Rules Governing Acceptance

- (a) Acceptance may be express i.e. by words spoken or written or implied from the conduct of the parties.
- (b) If a particular method of acceptance is prescribed, the offer must be accepted in the prescribed manner.
- (c) Acceptance must be unqualified and absolute and must correspond with all the terms of the offer.
- (d) A counter offer or conditional acceptance operates as a rejection of the offer and causes it to lapse, e.g., where a horse is offered for Rs. 1,000 and the offeree counter-offers Rs.990, the offer lapses by rejection.
- (e) Acceptance must be communicated to the offeror, for acceptance is complete the moment it is communicated. Where the offeree merely intended to accept but does not communicate his intention to the offeror, there is no contract. Mere mental acceptance is not enough.
- (f) Mere silence on the part of the offeree does not amount to acceptance.

Ordinarily, the offeror cannot frame his offer in such a way as to make the silence or inaction of the offeree as an acceptance. In other words, the offeror can prescribe the mode of acceptance but not the mode of rejection.

- (g) If the offer is one which is to be accepted by being acted upon, no communication of acceptance to the offeror is necessary, unless communication is stipulated for in the offer itself.

Thus, if a reward is offered for finding a lost dog, the offer is accepted by finding the dog after reading about the offer, and it is unnecessary before beginning to search for the dog to give notice of acceptance to the offeror.

- (h) Acceptance must be given within a reasonable time and before the offer lapses or is revoked. An offer becomes irrevocable by acceptance.

An acceptance never precedes an offer. There can be no acceptance of an offer which is not communicated. Similarly, performance of conditions of an offer without the knowledge of the specific offer, is no acceptance.

Contracts over the Telephone

Contracts over the telephone are regarded the same in principle as those negotiated by the parties in the actual presence of each other. In both cases an oral offer is made and an oral acceptance is expected. It

is important that the acceptance must be audible, heard and understood by the offeror. If during the conversation the telephone lines go “dead” and the offeror does not hear the offeree’s word of acceptance, there is no contract at the moment. If the whole conversation is repeated and the offeror hears and understands the words of acceptance, the contract is complete (*Kanhaiyalal v. Dineshwarchandra* (1959) AIR, M.P. 234).

Intention to Create Legal Relations

The second essential element of a valid contract is that there must be an intention among the parties that the agreement should be attached by legal consequences and create legal obligations. If there is no such intention on the part of the parties, there is no contract between them. Agreements of a social or domestic nature do not contemplate legal relationship. As such they are not contracts.

A proposal or an offer is made with a view to obtain the assent of the other party and when that other party expresses his willingness to the act or abstinence proposed, he accepts the offer and a contract is made between the two. But both offer and acceptance must be made with the intention of creating legal relations between the parties. The test of intention is objective. The Courts seek to give effect to the presumed intention of the parties. Where necessary, the Court would look into the conduct of the parties, for much can be inferred from the conduct. The Court is not concerned with the mental intention of the parties, rather what a reasonable man would say, was the intention of the parties, having regard to all the circumstances of the case.

For example, if two persons agree to assist each other by rendering advice, in the pursuit of virtue, science or art, it cannot be regarded as a contract. In commercial and business agreements, the presumption is usually that the parties intended to create legal relations. But this presumption is rebuttable which means that it must be shown that the parties did not intend to be legally bound.

Consideration

Consideration is one of the essential elements of a valid contract. The requirement of consideration stems from the policy of extending the arm of the law to the enforcement of mutual promises of parties. A mere promise is not enforceable at law. For example, if A promises to make a gift of Rs. 500 to B, and subsequently changes his mind, B cannot succeed against A for breach of promise, as B has not given anything in return.

It is only when a promise is made for something in return from the promisee, that such promise can be enforced by law against the promisor. This something in return is the consideration for the promise.

Sir Fredrick Pollock has defined consideration “*as an act or forbearance of one party, or the promise thereof is the price for which the promise of the other is bought*”.

It is “some right, interest, profit, or benefit accruing to one party or some forbearance, detriment, loss or responsibility, given, suffered or undertaken by the other” (*Currie v. Misa* (1875) L.R. 10 Ex. 153).

Section 2(d) of the Indian Contract Act, 1872 defines consideration thus: “*when at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing something, such act or abstinence or promise is called a consideration for the promise*”.

The fundamental principle that consideration is essential in every contract, is laid down by both the definitions but there are some important points of difference in respect of the nature and extent of consideration and parties to it under the two systems:

- (a) *Consideration at the desire of the promisor* : Section 2(d) of the Act begins with the statement that

consideration must move at the desire or request of the promisor. This means that whatever is done must have been done at the desire of the promisor and not voluntarily or not at the desire of a third party. If A rushes to B's help whose house is on fire, there is no consideration but a voluntary act. But if A goes to B's help at B's request, there is good consideration as B did not wish to do the act gratuitously.

- (b) *Consideration may move from the promisee or any other person* : In English law, consideration must move from the promisee, so that a stranger to the consideration cannot sue on the contract. A person seeking to enforce a simple contract must prove in court that he himself has given the consideration in return for the promise he is seeking to enforce.

In Indian law, however, consideration may move from the promisee or any other person, so that a stranger to the consideration may maintain a suit. In *Chinnaya v. Ramaya*, (1882) 4 Mad. 137, a lady by a deed of gift made over certain property to her daughter directing her to pay an annuity to the donor's brother as had been done by the donor herself before she gifted the property. On the same day, her daughter executed in writing in favour of the donor's brother agreeing to pay the annuity. Afterwards the donee (the daughter) declined to fulfil her promise to pay her uncle saying that no consideration had moved from him. The Court, however, held that the uncle could sue even though no part of the consideration received by his niece moved from him. The consideration from her mother was sufficient consideration.

Example: A & B, entered into a contract in which A will send goods to B free of cost and B is not required to do anything against it. Is the contract valid?

No, a valid contract must have consideration.

Privity of Contract

A stranger to a contract cannot sue both under the English and Indian law for want of privity of contract. The following illustration explains this point.

In *Dunlop Pneumatic Tyre Co. v. Selfridge Ltd.* (1915) A.C. 847, D supplied tyres to a wholesaler X, on condition that any retailer to whom X re-supplied the tyres should promise X, not to sell them to the public below D's list price. X supplied tyres to S upon this condition, but nevertheless S sold the tyres below the list price. Held: There was a contract between D and X and a contract between X and S. Therefore, D could not obtain damages from S, as D had not given any consideration for S's promise to X nor was he party to the contract between D and X.

Thus, a person who is not a party to a contract cannot sue upon it even though the contract is for his benefit. A, who is indebted to B, sells his property to C, and C the purchaser of the property, promises to pay off the debt to B. In case C fails to pay B, B has no right to sue C for there is no privity of contract between B and C.

Kinds of Consideration

Consideration may be:

- (a) Executory or future which means that it makes the form of promise to be performed in the future, e.g., an engagement to marry someone; or
- (b) Executed or present in which it is an act or forbearance made or suffered for a promise. In other words, the act constituting consideration is wholly or completely performed, e.g., if A pays today Rs.100 to a shopkeeper for goods which are promised to be supplied the next day, A has executed his consideration but the shopkeeper is giving executory consideration—a promise to be executed the following day. If the price is paid by the buyer and the goods are delivered by the seller at the same time, consideration is executed by both the parties.

- (c) Past which means a past act or forbearance, that is to say, an act constituting consideration which took place and is complete (wholly executed) before the promise is made.

Rules Governing Consideration

- (a) Every simple contract must be supported by valuable consideration otherwise it is formally void subject to some exceptions.
- (b) Consideration may be an act of abstinence or promise.
- (c) There must be mutuality i.e., each party must do or agree to do something. A gratuitous promise as in the case of subscription for charity, is not enforceable.
- (d) Consideration must be real, and not vague, indefinite, or illusory, e.g., a son's promise to "stop being a nuisance" to his father, being vague, is no consideration.
- (e) Although consideration must have some value, it need not be adequate i.e., a full return for the promise. Section 25 (Exp. II) clearly provides that "an agreement to which the consent of the promisor is freely given is not void merely because the consideration is inadequate.
- (f) Consideration must be lawful, e.g., it must not be some illegal act such as paying someone to commit a crime. If the consideration is unlawful, the agreement is void.
- (g) Consideration must be something more than the promisee is already bound to do for the promisor. Thus, an agreement to perform an existing obligation made with the person to whom the obligation is already owed, is not made for consideration

When Consideration not Necessary

The general rule is that an agreement made without consideration is void. But Section 25 of the Indian Contract Act lays down certain exceptions which make a promise without consideration valid and binding. Thus, an agreement without consideration is valid:

If it is expressed in writing and registered and is made out of natural love and affection between parties standing in a near relation to each other; or

If it is made to compensate a person who has already done something voluntarily for the promisor, or done something which the promisor was legally compellable to do; or

If it is promise in writing and signed by the person to be charged therewith, or by his agent, to pay a debt barred by the law of limitation; or

Besides, according to section 185 of the Indian Contract Act, consideration is not required to create an agency; or

In the case of gift actually made, no consideration is necessary. There need not be nearness of relation and even if it is, there need not be any natural love and affection between them.

The requirements in the above exceptions are noteworthy. The first one requires written and registered promise. The second may be oral or in writing and the third must be in writing.

Flaws in Contract

There may be circumstances under which a contract made under these rules may still be bad, because there is a flaw, vice or error somewhere. As a result of such a flaw, the apparent agreement is not a real agreement. Where there is no real agreement, the law has three remedies:

Firstly : The agreement may be treated as of no effect and it will then be known as void agreement.

Secondly : The law may give the party aggrieved the option of getting out of his bargain, and the contract is then known as voidable.

Thirdly : The party at fault may be compelled to pay damages to the other party

Void Agreement and Voidable Contract

A void agreement is one which is destitute of all legal effects. It cannot be enforced and confers no rights on either party. It is really not a contract at all, it is non-existent. Technically the words 'void contract' are a contradiction in terms. But the expression provides a useful label for describing the situation that arises when a 'contract' is claimed but in fact does not exist. For example, a minor's contract is void.

According to Section 2 (j) of the Indian Contract Act, a contract which ceases to be enforceable by law becomes void when it ceases to be enforceable. Void means a lack of existence or a nullity.

Contract Act, an agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract.

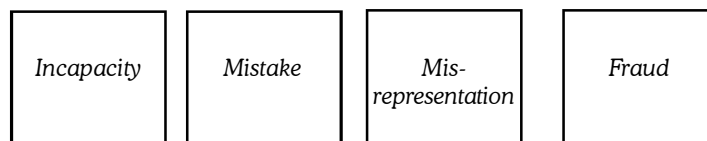
A voidable contract is one which a party can put to an end. He can exercise his option, if his consent was not free. The contract will, however be binding, if he does not exercise his option to avoid it within a reasonable time. The consent of a party is not free and so he is entitled to avoid the contract, if he has given his consent due to misrepresentation, fraud, coercion or undue influence.

Illegal Agreement

An illegal agreement is one which, like the void agreement has no legal effects as between the immediate parties. Further, transactions collateral to it also become tainted with illegality and are, therefore, not enforceable. Parties to an unlawful agreement cannot get any help from a Court of law, for no polluted hands shall touch the pure fountain of justice. On the other hand, a collateral transaction can be supported by a void agreement.

For example, one party may have deceived the other party, or in some other way there may be no genuine consent. The parties may be labouring under a mistake, or one or both the parties may be incapable of making a contract. Again, the agreement may be illegal or physically impossible. All these are called "the FLAWS in contract or the VICIES of contract".

The chief flaws in contract are:



Flaw in Capacity - Capacity and Persons

In law, persons are either natural or artificial. Natural persons are human beings and artificial persons are corporations. Contractual capacity or incapacity is an incident of personality.

The general rule is that all natural persons have full capacity to make binding contracts. But the Indian Contract Act, 1872 admits an exception in the case of:

- (i) minors,
- (ii) lunatics, and
- (iii) persons disqualified from contracting by any law to which they are subject.

These persons are not competent to contract. Section 11 of the Act provides that every “person is competent to contract who is of the age of majority according to the law to which he is subject, and who is of sound mind, and is not disqualified from contracting by any law to which he is subject”. A valid agreement requires that both the parties should understand the legal implications of their conduct. Thus, both must have a mature mind. The legal yardstick to measure maturity according to the law of contract is, that both should be major and of sound mind and if not, the law would presume that the maturity of their mind has not reached to the extent of visualising the pros and cons of their acts, hence, a bar on minors and lunatics competency to contract.

Example: A & B entered into a contract in which A will steal a Diamond from a museum and B will give him Rs. 5,00,000/- against its delivery. Is it a valid contract?

No, the consideration should not be illegal.

Example: S, a nurse is taking medical care of H, a seriously ill patient. They entered into a contract in which H transfers his Flat situated at Mumbai and S pays a consideration of Rs. 500/-. The actual market value of the flat is 50 Lakh. Is this agreement voidable?

Yes, this contract may have the element of undue influence. Therefore, it may be voidable.

Lunatics Agreement

A person of unsound mind is a lunatic. That is to say for the purposes of making contract, a person is of unsound mind if at the time when he makes the contract, he is incapable of understanding it and of forming rational judgment as to its effect upon his interests.

A person of unsound mind cannot enter into a contract. A lunatic's agreement is therefore void. But if he makes a contract when he is of sound mind, i.e., during lucid intervals, he will be bound by it.

If a contract entered into by a lunatic or person of unsound mind is for his benefit, it can be enforced (for the benefit) against the other party but not vice-versa [*Jugal Kishore v. Cheddu*, (1903) 1 All. L.J 43]

Flaw in Consent

The basis of a contract is agreement, i.e., mutual consent. In other words, the parties should mean the something in the same sense and agree voluntarily. It is when there is consent, that the parties are said to be consensus ad idem i.e. their minds have met. Not only consent is required but it must be a free consent. Consent is not free when it has been caused by coercion, undue influence, misrepresentation, fraud or mistake. These elements if present, may vitiate the contract.

When this consent is wanting, the contract may turn out to be void or voidable according to the nature of the flaw in consent. Where there is no consent, there can be no contract as in the case of mutual mistake. Where there is consent, but it is not free, a contract is generally voidable at the option of the party whose consent is not free. In the case of misrepresentation, fraud, coercion, undue influence, the consent of one of the parties is induced or caused by the supposed existence of a fact which did not exist.

Wilful Misrepresentation or Fraud

As per Section 7 of the Indian Contract Act, 'Fraud' means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent, with intent to deceive another party thereto or his agent, or to induce him to enter into the contract:

- The suggestion, as a fact, of that which is not true, by one who does not believe it to be true;
- The active concealment of a fact by one having knowledge or belief of the fact;
- A promise made without any intention of performing it;
- Any other act fitted to deceive;
- Any such act or omission as the law specially declares to be fraudulent.

Fraud is an untrue statement made knowingly or without belief in its truth or recklessly, carelessly, whether it be true or false with the intent to deceive. The chief ingredients of a fraud are:

- (i) a false representation or assertion;
- (ii) of fact (and not a mere opinion),
- (iii) made with the intention that it should be acted upon,
- (iv) the representation must have actually induced the other party to enter into the contract and so deceived him,
- (v) the party deceived must thereby be indemnified, for there is no fraud without damages, and
- (vi) the statement must have been made either with the knowledge that it was false or without belief in its truth or recklessly without caring whether it was true or false.

It is immaterial whether the representation takes effect by false statement or with concealment. The party defrauded can avoid the contract and also claim damages.

Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless silence is in itself equivalent to speech, or where it is the duty of the person keeping silent to speak as in the cases of contracts *uberrimae fidei*- (contracts requiring utmost good faith).

Contracts *Uberrimae Fidei*

There are contracts in which the law imposes a special duty to act with utmost good faith i.e., to disclose all material information. Failure to disclose such information will render the contract voidable at the option of other party.

Contracts *uberrimae fidei* are:

- (a) *Contract of insurance of all kinds* : The assured must disclose to the insurer all material facts and whatever he states must be correct and truthful.
- (b) *Company prospectus* : When a company invites the public to subscribe for its shares, it is under statutory obligation to disclose truthfully the various matters set out in the Companies Act. Any person responsible for non-disclosure of any of these matters is liable to damages. Also, the contract to buy shares is voidable where there is a material false statement or non-disclosure in the prospectus.
- (c) *Contract for the sale of land* : The vendor is under a duty to the purchaser to show good title to the land he has contracted to sell.

- (d) *Contracts of family arrangements* : When the members of a family make agreements or arrangements for the settlement of family property, each member of the family must make full disclosure of every material fact within his knowledge.

Coercion

Coercion as defined in Section 15 of the Act means “the committing or threatening to commit any act forbidden by the Indian Penal Code, or unlawful detaining or threatening to detain, any property to the prejudice of any person whatever with the intention of causing any person to enter into an agreement”. Simply stated, the doing of any act forbidden by the Indian Penal Code is coercion even though such an act is done in a place where the Indian Penal Code is not in force. If A at the point of a pistol asks B to execute a promissory note in his favour and B to save his life does so he can avoid this agreement as his consent was not free. Even a threat to third-party, e.g., where A compels B to sign a document threatening to harm C, in case B does not sign would also amount to coercion.

It has been held that mere threat by one person to another to prosecute him does not amount to coercion. There must be a contract made under the threat and that contract should be one sought to be avoided because of coercion (*Ramchandra v. Bank of Kohlapur*, 1952 Bom. 715). It may be pointed out that coercion may proceed from any person and may be directed against any person, even a stranger and also against goods, e.g., by unlawful detention of goods.

Undue Influence

Under Section 16 of the Indian Contract Act, 1872, a contract is said to be produced by undue influence “where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other”.

The elements of undue influence are:

- (i) A dominant position, and
- (ii) The use of it to obtain an unfair advantage.

The words “unfair advantage” do not limit the jurisdiction to cases where the transaction would be obviously unfair as between persons dealing on an equal footing. In the words of Lord Kingston, “the principle applies to every case where influence is acquired and abused where confidence is reposed and betrayed”.

Legality of Object

One of the requisites of a valid contract is that the object should be lawful. Section 10 of the Indian Contract Act, 1872, provides, “All agreements are contracts if they are made by free consent of parties competent to contract for a lawful consideration and with a lawful object...” Therefore, it follows that where the consideration or object for which an agreement is made is unlawful, it is not a contract.

Section 23 of the Indian Contract Act, 1872 provides that the consideration or object of an agreement is lawful unless it is

- (i) forbidden by law; or
- (ii) it is of such nature that if permitted it would defeat the provisions of law; or
- (iii) is fraudulent; or
- (iv) involves or implies injury to the person or property of another; or
- (v) the Court regards it as immoral or opposed to public policy.

In each of these cases the consideration or object of an agreement is said to be unlawful. Every agreement of which the object or consideration is unlawful is void.

Void and Illegal Contracts

A void contract is one which is destitute of legal effects altogether. An illegal contract too has no legal effect as between the immediate parties to the contract, but has the further effect of tainting the collateral contracts also with illegality. For instance A borrows from B, Rs. 1,000 for lending to C a minor. The contract between A and C is void, but B can nevertheless recover the money from A. On the other hand, if A had borrowed Rs. 1,000 from B to buy a pistol to shoot C, the question whether B can recover the money hinges on whether B was aware of the purpose for which money was borrowed. If B had knowledge of the illegal purpose, he cannot recover. Therefore, it may be said that all illegal agreements are void but all void agreements are not necessarily illegal.

Consequence of Illegal Agreements

- (i) an illegal agreement is entirely void;
- (ii) no action can be brought by a party to an illegal agreement. The maxim is "Ex turpi cause non-oritur action" - from an evil cause, no action arises;
- (iii) money paid or property transferred under an illegal agreement cannot be recovered. The maxim is in parti delicto potierest condition defendeties- In cases of equal guilt, more powerful is the condition of the defendant;
- (iv) where an agreement consist of two parts, one part legal and other illegal, and the legal parts is separable from the illegal one, then the Court will enforce the legal one. If the legal and the illegal parts cannot be separated the whole agreement is illegal; and
- (v) any agreement which is collateral to an illegal agreement is also tainted with illegality and is treated as being illegal, even though it would have been lawful by itself [*Firm Pratapchand v. Firm Kotri Re.* AIR (1975) S.C. 1223].

Agreements Void as being opposed to Public Policy

The head public policy covers a wide range of topics. Agreements may offend public policy by tending to prejudice of the State in times of war, by tending to abuse of justice or by trying to impose unreasonable and inconvenient restrictions on the free choice of individuals in marriage, or their liberty to exercise lawful trade or calling.

The doctrine of public policy is a branch of Common Law and like any other branch of Common Law it is governed by the precedents [*Gherulal Parakh v. MahadeodasMaiya* (1959) 2 S.C.R. (Suppl.) 406; AIR 1959 S.C. 781]. The doctrine of public policy is not to be extended beyond the classes of cases already covered by it and no Court can invent a new head of public policy [*Lord Halsbury, Janson v. Driefontien Consolidated Mines* (1902) A.C. 484, 491]. It has been said by the House of Lords that public policy is always an unsafe and treacherous ground for legal decisions. Even if it is possible for Courts to evolve a new head of public policy, it should be done under extraordinary circumstances giving rise to incontestable harm to the society.

The following agreements are void as being against public policy but they are not illegal:

- (a) *Agreement in restraint of parental rights* : An agreement by which a party deprives himself of the custody of his child is void.
- (b) *Agreement in restraint of marriage* : An agreement not to marry at all or not to marry any particular person or class of persons is void as it is in restraint of marriage.

- (c) *Marriage brokerage or brokerage Agreements* : An agreement to procure marriage for reward is void. Where a purohit (priest) was promised Rs.200 in consideration of procuring a wife for the defendant, the promise was held void as opposed to public policy, and the purohit could not recover the promised sum.
- (d) *Agreements in restraint of personal freedom are void* : Where a man agreed with his money lender not to change his residence, or his employment or to part with any of his property or to incur any obligation on credit without the consent of the money lender, it was held that the agreement was void.
- (e) *Agreement in restraint of trade* : An agreement in restraint of trade is one which seeks to restrict a person from freely exercising his trade or profession.

Wagering Agreements

The literal meaning of the word “wager” is a “bet”. Wagering agreements are nothing but ordinary betting agreements. For example, A and B enter into an agreement that if England’s Cricket Team wins the test match, A will pay B Rs.100 and if it loses B will pay Rs.100 to A. This is a wagering agreement and nothing can be recovered by winning party under the agreement.

The essence of gaming and wagering is that one party is to win and the other to lose upon a future event which at the time of the contract is of an uncertain nature that is to say, if the event turns out one way A will lose; but if it turns out the other way he will win (Thacker v. Hardy, (1878) 4 OBD 685).

Wagering Agreements Void

In India except Mumbai, wagering agreements are void. In Mumbai, wagering agreements have been declared illegal by the Avoiding Wagers (Amendment) Act, 1865. Therefore, in Mumbai a wagering agreement being illegal, is void not only between the immediate parties, but taints and renders void all collateral agreements to it.

Thus, A bets with B and losses, applies to C for a loan, who pays B in settlement of A’s losses. C cannot recover from A because this is money paid “under” or “in respect of” a wagering transaction which is illegal in Mumbai. But in respect of India such a transaction (i.e., betting) being only void, C could recover from A. Of course, if A refused to pay B the amount of the bet that he has lost, B could not sue A anywhere. Again, where an agent bets on behalf of his principal and loses and pays over the money to the winner, he cannot recover the money from his principal, if the transactions took place in Mumbai, but elsewhere he could recover. But if the agent wins, he must pay the winnings to the principal, as this money was received on behalf of the principal.

Sometimes, commercial transactions assume the form of wagering contracts. The sample test to find out whether a particular transaction is a wager or a genuine commercial transaction is: “Where delivery of the goods sold is intended to be given and taken, it is valid contract, but where only the differences are intended to be paid, it will be a wagering contract and unenforceable”.

In a wagering contract there must be mutuality in the sense that the gain of one party should be loss to the other on the happening of an uncertain event which is the subject matter of the contract.

Void Agreements

The following types of agreements are void under Indian Contract Act:

- (a) Agreement by or with a minor or a person of unsound mind or a person disqualified to enter into a contract - Section 11;

- (b) Agreement made under a mistake of fact, material to the agreement on the part of the both the parties - Section 20.
- (c) An agreement of which the consideration or object is unlawful - Section 23.
- (d) If any part of a single consideration for one or more objects, or any one or any part of any one of several considerations for a single object, is unlawful, the agreement is void - Section 24.
- (e) An agreement made without consideration subject to three exceptions provided to Section 25.
- (f) An agreement in restraint of marriage - Section 26.
- (g) An agreement in restraint of trade - Section 27.
- (h) An agreement in restraint of legal proceedings - Section 28.
- (i) Agreements, the meaning of which is not certain, or capable of being made certain - Section 29.
- (j) Agreement by way of wager- Section 30.
- (k) An agreement to enter into an agreement in the future.
- (l) An agreement to do an act impossible in itself - Section 56(1)

When Contract becomes Void

- An agreement not enforceable by law is void ab initio - Section 2(g).
- A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable - Section 2(j)
- A contract becomes void when, by reason of some event which the promisor could not prevent, the performance of the contract becomes impossible, e.g., by destruction of the subject- matter of the contract after the formation of the contract.
- A contract becomes void by reason of subsequent illegality. A in India agrees to supply goods to B in Pakistan. After the formation of the contract war breaks out between India and Pakistan and the supply of goods to Pakistan is prohibited by legislation. The contract becomes void.
- A contingent contract to do or not do to anything if an uncertain future event happens becomes void if the event becomes impossible.
- Where a contract is voidable at the option of the aggrieved party, the contract becomes void when the option is exercised by him.

Contingent Contract

As per Section 31, a contingent contract is a contract to do or not to do something, if some event collateral to such contract, does or does not happen. For example, A contracts to sell B 10 bales of cotton for Rs. 20,000, if the ship by which they are coming returns safely. This is a contingent contract. Contract of insurance and contracts of indemnity and guarantee are popular instances of contingent contracts.

Quasi-Contracts

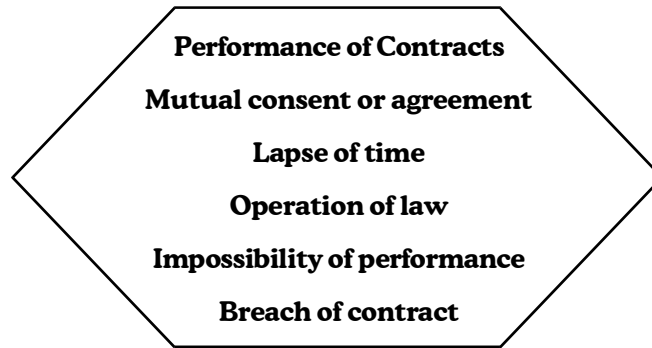
A valid contract must contain certain essential elements, such as offer and acceptance, capacity to contract, consideration and free consent. But sometimes the law implies a promise imposing obligations on one party and conferring right in favour of the other even when there is no offer, no acceptance, no

consensus ad idem, and in fact, there is neither agreement nor promise. Such cases are not contracts in the strict sense, but the Court recognises them as relations resembling those of contracts and enforces them as if they were contracts, hence the term quasi- contracts (i.e., resembling a contract).

A quasi-contract rests on the equitable principle that a person shall not be allowed to enrich himself unjustly at the expense of another. In truth, it is not a contract at all. It is an obligation which the law creates, in the absence of any agreement, when any person is in the possession of other person's money, or its equivalent, under such circumstances that in equity and good conscience he ought not to retain it, and which in justice and fairness belongs to another. It is the duty and not an agreement or intention which defines it. A very simple illustration is money paid under mistake. Equity demands that such money must be paid back.

Discharge or Termination of Contracts

A contract is said to be discharged or terminated when the rights and obligations arising out of a contract are extinguished. Contracts may be discharged or terminated by any of the following modes:



Discharge by Impossibility or Frustration

In India, the doctrine of frustration is primarily looked at as contained in Sections 32 and 56 of the Act. The Court usually gives relief on the ground of subsequent impossibility when it finds that the whole purpose or the basis of the contract was frustrated by the intrusion or occurrence of an event that was not contemplated by the parties. The Court also grants relief where one of the parties was or could have been aware of such a contingency happening and the other party was not. Before invoking the doctrine, it must be shown that the event, which has produced the frustration was one which the parties to the contract did not foresee and could not with reasonable diligence have foreseen.

A contract which is entered into to perform something that is clearly impossible is void. For instance, A agrees with B to discover treasure by magic. The agreement is void by virtue of Section 56 para 1 which lays down the principle that an agreement to do an act impossible in itself is void.

Sometimes subsequent impossibility (i.e. where the impossibility supervenes after the contract has been made) renders the performance of a contract unlawful and stands discharged; as for example, where a singer contracts to sing and becomes too ill to do so, the contract becomes void. In this connection, para 2 of Section 56 provides that a contract to do an act, which after the contract is made, becomes impossible or by reason of some event which the promisor could not prevent, unlawful, becomes void when the act becomes impossible or unlawful.

If the impossibility is not obvious and the promisor alone knows of the impossibility or illegally then existing or the promisor might have known as such after using reasonable diligence, such promisor is bound to compensate the promisee for any loss he may suffer through the non-performance of the promise in spite of the agreement being void ab-initio (Section 56, para 3).

In *Satyabarta Ghose v. Mugnurang A.I.R.* 1954 S.C. 44 the Supreme Court interpreted the term 'impossible' appearing in second paragraph of Section 56. The Court observed that the word 'impossible' has not been used here in the sense of physical or literal impossibility. The performance of an act may not be literally impossible but it may be impracticable and useless from the point of view of the object and purpose which the parties had in view; and if an untoward event or change of circumstances totally upsets the very foundation upon which the parties rested their bargain; it can very well be said that the promisor found it impossible to do the act which he promised to do. In this case, A undertook to sell a plot of land to B but before the plot could be developed, war broke out and the land was temporarily requisitioned by the Government. A offered to return earnest money to B in cancellation of contract. B did not accept and sued A for specific performance. A pleaded discharge by frustration. The Court held that Section 56 is not applicable on the ground that the requisition was of temporary nature and there was no time limit within which A was obliged to perform the contract. The impossibility was not of such a nature which would strike at the root of the contract.

Breach of Contract

Where the promisor neither performs his contract nor does he tender performance, or where the performance is defective, there is a breach of contract. The breach of contract may be (i) actual; or (ii) anticipatory. The actual breach may take place either at the time the performance is due, or when actually performing the contract. Anticipatory breach means a breach before the time for the performance has arrived. This may also take place in two ways – by the promisor doing an act which makes the performance of his promise impossible or by the promisor in some other way showing his intention not to perform it.

Breach of contract may occur, before the time for performance is due. This may happen where one of the parties definitely renounces the contract and shows his intention not to perform it or does some act which makes performance impossible. The other party, on such a breach being committed, has a right of action for damages.

He may either sue for breach of contract immediately after repudiation or wait till the actual date when performance is due and then sue for breach. If the promisee adopts the latter course, i.e., waits till the date when performance is due, he keeps the contract alive for the benefit of the promisor as well as for his own. He remains liable under it and enables the promisor not only to complete the contract in spite of previous repudiation, but also to avail himself of any excuse for non-performance which may have come into existence before the time fixed for performance.

In *Hochester v. De La Tour* (1853) E.R. 922, A hired B in April to act as a courier commencing employment from 1st June, but wrote to B in May repudiating the agreement, B sued A for breach of contract immediately after repudiation. A contended that there could not be breach of contract before June 1. Held, B was immediately entitled to sue and need not wait till 1st June, for his right of action to accrue.

In *Avery v. Bowden* (1856) 116 E.R. 1122, A hired B's ship to carry a cargo from Russia. Later on B repudiated the contract. A delayed taking action hoping B would change his mind before the performance date. War broke out between Russia and Britain before the performance date frustrating the contract. Held, A lost his right to sue B for damages by his delay.

In *Frost v. Knight* (1872) L.R. 7 Ex. 111, the law on the subject of anticipatory breach was summed up as follows:

“The promisee if he pleases may treat the notice of intention as inoperative and await the time when the contract is to be executed and then hold the other party responsible for all the consequences of non-performance: but in that case he keeps the contract alive for the benefit of the other party as well as his own; he remains subject to all his own obligations and liabilities under it, and enables the other party not only to complete the contract, if so advised, notwithstanding his previous repudiation of it, but also to take advantage of any supervening circumstances which would justify him in declining to complete it.”

Remedies for Breach of Contract

Where a contract is broken, the injured party has several courses of action open to him. The appropriate remedy in any case will depend upon the subject-matter of the contract and the nature of the breach.

When a party to a contract has broken the contract, the other party may treat the contract as rescinded and he is absolved from all his obligations under the contract. Under Section 65, when a party treats the contract as rescinded, he makes himself liable to restore any benefits he has received under the contract to the party from whom such benefits were received. Under Section 75 of the Indian Contract Act, if a person rightfully rescinds a contract, he is entitled to a compensation for any damage which he has sustained through the non-fulfilment of the contract by the other party. Section 64 deals with consequences of rescission of voidable contracts, i.e., where there is flaw in the consent of one party to the contract. Under this Section when a person at whose option a contract is voidable rescinds, the other party thereto need not perform any promise therein contained in which he is the promisor. The party rescinding a voidable contract shall, if he has received any benefit thereunder, from another party to such contract, restore such benefit so far as may be, to the person from whom it was received.

IN CASE OF BREACH OF CONTRACT, THE INJURED PARTY MAY:
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Rescind the contract and refuse further performance of the contract	Sue for damages	Sue for specific performance	Sue for an injunction to restrain the breach of a negative term	Sue on quantum meruit
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Contract of Indemnity and Guarantee

A contract of indemnity is a contract by which one party promises to save the other party from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person (Section 124). For example, A contracts to indemnify B against the consequence of any proceedings which C may take against B in respect of a certain sum of 300 rupees. This is a contract of indemnity. The contract of indemnity may be express or implied. The latter may be inferred from the circumstances of a particular case, e.g., an act done by A at the request of B. If A incurs any expenses, he can recover the same from B.

The person who promises to indemnify or make good the loss is called the indemnifier and the person whose loss is made good is called the indemnified or the indemnity holder. A contract of insurance is an example of a contract of indemnity according to English Law. In consideration of premium, the insurer promises to make good the loss suffered by the assured on account of the destruction by fire of his property insured against fire.

Under the Indian Contract Act, the contract of indemnity is restricted to such cases only where the loss promised to be reimbursed, is caused by the conduct of the promisor or of any other person. The loss

caused by events or accidents which do not depend on the conduct of any person, it seems, cannot be sought to be reimbursed under a contract of indemnity.

A contract of guarantee is a contract to perform the promise, or discharge the liability of a third person in case of his default. The person who gives the guarantee is called the Surety, the person for whom the guarantee is given is called the Principal Debtor, and the person to whom the guarantee is given is called the Creditor (Section 126). A guarantee may be either oral or written, although in the English law, it must be in writing.

Illustration

A advances a loan of Rs. 5, 000 to B and C promises to A that if B does not repay the loan, C will do so. This is a contract of guarantee. Here B is the principal debtor, A is the creditor and C is the surety or guarantor.

Like a contract of indemnity, a guarantee must also satisfy all the essential elements of a valid contract. There is, however, a special feature with regard to consideration in a contract of guarantee. The consideration received by the principal debtor is sufficient for surety. Section 127 provides that anything done or any promise made for the benefit of the principal debtor may be a sufficient consideration to the surety for giving the guarantee.

Distinction between Contract of Indemnity and Contract of Guarantee

<i>Contract of Indemnity</i>	<i>Contract of Guarantee</i>
In a contract of indemnity there are only two parties: the indemnifier and the indemnified.	In a contract of guarantee, there are three parties; the surety, the principal debtor and the creditor.
In a contract of indemnity, the liability of the indemnifier is primary.	In a contract of guarantee, the liability of the surety is secondary. The surety is liable only if the principal debtor makes a default, the primary liability being that of the principal debtor.
The indemnifier need not necessarily act at the request of the debtor.	The surety gives guarantee only at the request of the principal debtor.
In the case of indemnity, the possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.	In the case of a guarantee, there is an existing debt or duty, the performance of which is guaranteed by the surety,
The indemnifier cannot sue third-parties in his own name, unless there be assignment. He must sue in the name of the indemnified.	The surety, on payment of the debt when the principal debtor has failed to pay is entitled to proceed against the principal debtor in his own right.

Law of Agency

An agent is a person who is employed to bring his principal into contractual relations with third-parties. As the definition indicates, an agent is a mere connecting link between the principal and a third-party. But during the period that an agent is acting for his principal, he is clothed with the capacity of his principal.

A contract of agency may be express or implied, (Section 186) but consideration is not an essential element in this contract (Section 185). Agency may also arise by estoppel, necessity or ratification.

- (a) *Express Agency* : A contract of agency may be made orally or in writing. The usual form of written contract of agency is the Power of Attorney, which gives him the authority to act on behalf of his principal in accordance with the terms and conditions therein. In an agency created to transfer immovable property, the power of attorney must be registered. A power of attorney may be general, giving several powers to the agent, or special, giving authority to the agent for transacting a single act.
- (b) *Implied Agency* : Implied agency may arise by conduct, situation of parties or necessity of the case.
- (i) *Agency by Estoppel (Section 237)* : Estoppel arises when you are precluded from denying the truth of anything which you have represented as a fact, although it is not a fact. Thus, where P allows third-parties to believe that A is acting as his authorised agent, he will be estopped from denying the agency if such third-parties relying on it make a contract with A even when A had no authority at all.
- (ii) *Wife as agent* : Where a husband and wife are living together, the wife is presumed to have her husband's authority to pledge his credit for the purchase of necessaries of life suitable to their standard of living. But the husband will not be liable if he shows that (i) he had expressly warned the tradesman not to supply goods on credit to his wife; or (ii) he had expressly forbidden the wife to pledge his credit; or (iii) his wife was already sufficiently supplied with the articles in question; or (iv) she was supplied with a sufficient allowance.

Similarly, where any person is held out by another as his agent, the third-party can hold that person liable for the acts of the ostensible agent, or the agent by holding out. Partners are each other's agents for making contracts in the ordinary course of the partnership business.

- (iii) *Agency of Necessity (Sections 188 and 189)* : In certain circumstances, a person who has been entrusted with another's property, may have to incur unauthorised expenses to protect or preserve it. Such an agency is called an agency of necessity. For example, A sent a horse by railway and on its arrival at the destination there was no one to receive it. The railway company, being bound to take reasonable steps to keep the horse alive, was an agent of necessity of A.

A wife deserted by her husband and thus forced to live separate from him, can pledge her husband's credit to buy all necessaries of life according to the position of the husband even against his wishes.

- (iv) *Agency by ratification (Sections 169-200)*: Where a person having no authority purports to act as agent, or a duly appointed agent exceeds his authority, the principal is not bound by the contract supposedly based on his behalf. But the principal may ratify the agent's transaction and so accept liability. In this way an agency by ratification arises. This is also known as *ex post facto* agency—agency arising after the event. The effect of ratification is to render the contract binding on the principal as if the agent had been authorised beforehand. Also ratification relates back to the original making of the contract so that the agency is taken to have come into existence from the moment the agent first acted, and not from the date the principal ratified it. Ratification is effective only if the following conditions are satisfied-
- (a) The agent must expressly contract as agent for a principal who is in existence and competent to contract.
- (b) The principal must be competent to contract not only at the time the agent acted, but also when he ratified the agents act.
- (c) The principal at the time of ratification has full knowledge of the material facts, and must ratify the whole contract, within a reasonable time.

- (d) Ratification cannot be made so as to subject a third-party to damages, or terminate any right or interest of a third person.
- (e) Only lawful acts can be ratified.

Classes of Agents

Agents may be special or general or, they may be mercantile agents:

- (a) *Special Agent* : A special agent is one who is appointed to do a specified act, or to perform a specified function. He has no authority outside this special task. The third-party has no right to assume that the agent has unlimited authority. Any act of the agent beyond that authority will not bind the principal.
- (b) *General Agent* : A general agent is appointed to do anything within the authority given to him by the principal in all transactions, or in all transactions relating to a specified trade or matter. The third-party may assume that such an agent has power to do all that is usual for a general agent to do in the business involved. The third party is not affected by any private restrictions on the agent's authority.

Sub-Agent

A person who is appointed by the agent and to whom the principal's work is delegated to known as sub-agent. Section 191 provides that "a sub-agent is a person employed by, and acting under the control of the original agent in the business of the agency." So, the sub-agent is the agent of the original agent.

As between themselves, the relation of sub-agent and original agent is that of agent and the principal. A sub-agent is bound by all the duties of the original agent. The sub-agent is not directly responsible to the principal except for fraud and wilful wrong. The sub-agent is responsible to the original agent. The original agent is responsible to the principal for the acts of the sub-agent. As regards third persons, the principal is represented by sub-agent and he is bound and responsible for all the acts of sub-agent as if he were an agent originally appointed by the principal.

Mercantile Agents

Section 2(9) of the Sale of Goods Act, 1930, defines a mercantile agent as "a mercantile agent having in the customary course of business as such agent authority either to sell goods or consign goods for the purposes of sale, or to buy goods, or to raise money on the security of goods". This definition covers factors, brokers, auctioneers, commission agents etc.

Factors

A factor is a mercantile agent employed to sell goods which have been placed in his possession or contract to buy goods for his principal. He is the apparent owner of the goods in his custody and can sell them in his own name and receive payment for goods. He has an insurable interest in goods and also a general lien in respect of any claim he may have arising out of the agency.

Brokers

A broker is a mercantile agent whose ordinary course of business is to make contracts with other parties for the sale and purchase of goods and securities of which he is not entrusted with the possession for a commission called brokerage. He acts in the name of principal. He has no lien over the goods as he is not in possession of them.

Del Credere Agent

A del credere agent is a mercantile agent, who is in consideration of an extra remuneration guarantees

to his principal that the purchasers who buy on credit will pay for the goods they take. In the event of a third-party failing to pay, the del credere agent is bound to pay his principal the sum owned by third-party.

Auctioneers

An auctioneer is an agent who sells goods by auction, i.e., to the highest bidder in public competition. He has no authority to warrant his principal's title to the goods. He is an agent for the seller but after the goods have been knocked down he is agent for the buyer also for the purpose of evidence that the sale has taken place.

Partners

In a partnership firm, every partner is an agent of the firm and of his co-partners for the purpose of the business of the firm.

Bankers

The relationship between a banker and his customer is primarily that of debtor and creditor. In addition, a banker is an agent of his customer when he buys or sells securities, collects cheques, dividends, bills or promissory notes on behalf of his customer. He has a general lien on all securities and goods in his possession in respect of the general balance due to him by the customer.

Duties of the Agent

An agent's duties towards his principal are as follows (which give corresponding rights to the principal who may sue for damages in the event of a breach of duty by the agent):

- (a) An agent must act within the scope of the authority conferred upon him and carry out strictly the instructions of the principal (Section 211).
- (b) In the absence of express instructions, he must follow the custom prevailing in the same kind of business at the place where the agent conducts the business (Section 211).
- (c) He must do the work with reasonable skill and diligence whereby the nature of his profession, the agent purports to have special skill, he must exercise the skill which is expected from the members of the profession (Section 212).
- (d) He must disclose promptly any material information coming to his knowledge which is likely to influence the principal in the making of the contract.
- (e) He must not disclose confidential information entrusted to him by his principal (Section 213).
- (f) He must not allow his interest to conflict with his duty, e.g., he must not compete with his principal (Section 215).
- (g) The agent must keep true accounts and must be prepared on reasonable notice to render an account.
- (h) He must not make any secret profit; he must disclose any extra profit that he may make.

Where an agent is discovered taking secret bribe, etc., the principal is entitled to (i) dismiss the agent without notice, (ii) recover the amount of secret profit, and (iii) refuse to pay the agent his remuneration.

He may repudiate the contract, if the third-party is involved in secret profit and also recover damages.

- (i) An agent must not delegate his authority to sub-agent. A sub-agent is a person employed by and acting under the control of the original agent in the business of agency (Section 191). This rule is

based on the principle: *Delegatus non-potest delegare* — a delegate cannot further delegate (Section 190).

But there are exceptions to this rule and the agent may delegate (i) where delegation is allowed by the principal, (ii) where the trade custom or usage sanctions delegation, (iii) where delegation is essential for proper performance, (iv) where an emergency renders it imperative, (v) where nature of the work is purely ministerial, and (vi) where the principal knows that the agent intends to delegate.

Rights of Agents

Where the services rendered by the agent are not gratuitous or voluntary, the agent is entitled to receive the agreed remuneration, or if none was agreed, a reasonable remuneration. The agent becomes entitled to receive remuneration as soon as he has done what he had undertaken to do (Section 219).

Certain classes of agents, e.g., factors who have goods and property of their principal in their possession, have a lien on the goods or property in respect of their remuneration and expense and liabilities incurred. He has a right to stop the goods in transit where he is an unpaid seller.

As the agent represents the principal, the agent has a right to be indemnified by the principal against all charges, expenses and liabilities properly incurred by him in the course of the agency (Sections 222-223).

The extent of the authority of an agent depends upon the terms expressed in his appointment or it may be implied by the circumstances of the case. The contractual authority is the real authority, but implied authority is to do whatever is incidental to carry out the real authority. This implied authority is also known as apparent or ostensible authority. Thus, an agent having an authority to do an act has authority to do everything lawful which is necessary for the purpose or usually done in the course of conducting business.

An agent has authority to do all such things which may be necessary to protect the principal from loss in an emergency and which he would do to protect his own property under similar circumstances. Where butter was becoming useless owing to delay in transit and was therefore sold by the station master for the best price available as it was not possible to obtain instructions from the principal, the sale was held binding upon the principal.

TERMINATION OF AGENCY

- By the performance of the contract of agency; (Section 201)
- By an agreement between the principal and the agent;
- By expiration of the period fixed for the contract of agency;
- By the death of the principal or the agency; (Section 201)
- By the insanity of either the principal or the agent; (Section 201)
- By the insolvency of the principal, and in some cases that of the agent; (Section 201)
- Where the principal or agent is an incorporated company, by its dissolution;
- By the destruction of the subject-matter; (Section 56)
- By the renunciation of his authority by the agent; (Section 201)
- By the revocation of authority by the principal. (Section 201)

E-Contract

Electronic contracts are not paper based but rather in electronic form are born out of the need for speed, convenience and efficiency. In the electronic age, the whole transaction can be completed in seconds, with both parties simply affixing their digital signatures to an electronic copy of the contract. There was initially an apprehension amongst the legislatures to recognize this modern technology, but now many countries have enacted laws to recognize electronic contracts. The conventional law relating to contracts is not sufficient to address all the issues that arise in electronic contracts. The Information Technology Act, 2000 solves some of the peculiar issues that arise in the formation and authentication of electronic contracts.

Example: Sale and Purchase transactions on the online platform like Amazon, Flipkart, OLX etc. attracts the operation of Indian Contract Act, 1872 and Information Technology Act, 2000. Parties enter into e-contracts in these cases.

NECESSARY INGREDIENTS OF ELECTRONIC CONTRACT

- An offer needs to be made.
- The offer needs to be acknowledged.
- There has to be lawful consideration.
- There has to be an intention to create lawful relations.
- The parties must be competent to contract.
- There must be free and genuine consent.
- The object of the contract must be lawful.
- There must be certainty and possibility of performance.

B. LAW RELATING TO TORTS

INTRODUCTION

The word 'tort' is a French equivalent of English word 'wrong'. The word tort is derived from Latin word Tortum. Thus, simply stated 'tort' means wrong. But every wrong or wrongful act is not a tort. Tort is really a kind of civil wrong as opposed to criminal wrong. Wrongs, in law, are either public or private.

Broadly speaking, public wrongs are the violations of 'public law and hence amount to be offences against the State, while private wrongs are the breaches of private law, i.e., wrongs against individuals. Public wrongs or crimes are those wrongs which are made punishable under the penal law belonging to the public law group.

"Tort" means a civil wrong which is not exclusively the breach of a contract or the breach of trust. The distinction between civil and criminal wrongs depends on the nature of the appropriate remedy provided by law.

Section 2(m) of the Limitation Act, 1963, states: "Tort means a civil wrong which is not exclusively a breach of contract or breach of trust."

Salmond defines it as "a civil wrong for which the remedy is a common law action for unliquidated damages and which is not exclusively the breach of a contract or the breach of a trust or other merely equitable obligation."

Fraser describes it as "an infringement of a right in rem of a private individual giving a right of compensation at the suit of the injured party."

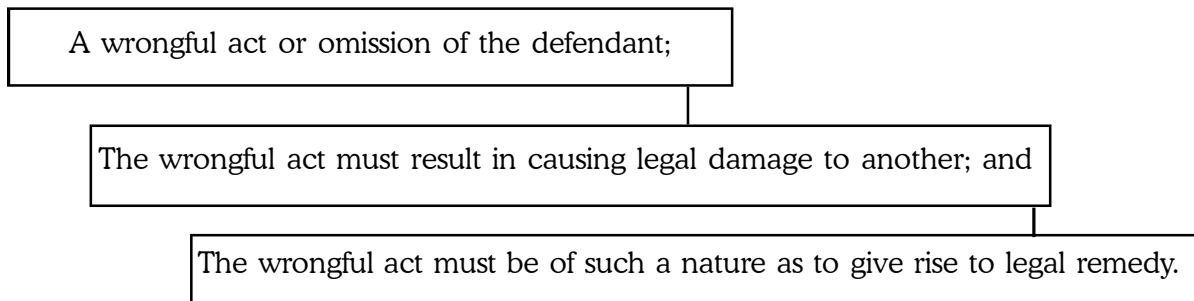
Winfield says: "Tortious liability arises from the breach of duty, primarily fixed by law; this duty is towards persons generally and its breach is redressable by an action for unliquidated damages".

Two important elements can be derived from these definitions, namely: (i) that a tort is a species of civil injury of wrong as opposed to a criminal wrong, and (ii) that every civil wrong is not a tort. Accordingly, it is possible to distinguish tort from a crime and from a contract, a trust and a quasi-contract. The distinction between civil and criminal wrongs depends on the nature of the appropriate remedy provided by law.

General Conditions of Liability for a Tort

As stated earlier, there is no fixed catalogue of circumstances, which along and for all-time mark the limit of what are torts. Certain situations have been held to be torts and will continue to be so in the absence of statutory repeal, and others have been held not to be torts. However, certain general conditions for tortious liability can be laid down.

In general, a tort consists of some act or omission by the defendant (tortfeasor) whereby he has without just cause or excuse caused some harm to plaintiff. To constitute a tort, there must be:



- (i) *Wrongful act* : The act complained of, should under the circumstances, be legally wrongful as regards the party complaining. In other words, it should prejudicially affect any of the above mentioned interests, and protected by law. Thus, every person whose legal rights, e.g., right of reputation, right of bodily safety and freedom, and right to property are violated without legal excuse, has a right of action against the person who violated them, whether loss results from such violation or not.
- (ii) *Legal damages* : It is not every damage that is a damage in the eye of law. It must be a damage which the law recognizes as such. In other words, there should be legal injury or invasion of the legal right. In the absence of an infringement of a legal right, an action does not lie. Also, where there is infringement of a legal right, an action lies even though no damage may have been caused. As was stated in *Ashby v. White*, (1703) 2 Ld. Raym. 938 legal damage is neither identical with actual damage nor is it necessarily pecuniary. Two maxims, namely: (i) *Damnum sine injuria*, and (ii) *injuria sine damnum*, explain this proposition.

Damnum Sine Injuria

Damnum means harm, loss or damage in respect of money, comfort, health, etc. *Injuria* means infringement of a right conferred by law on the plaintiff. The maxim means that in a given case, a man may have suffered damage and yet have no action in tort, because the damage is not to an interest protected by the law of torts. Therefore, causing damage, however substantial to another person is not actionable in law unless there is also a violation of a legal right of the plaintiff. Common examples are, where the damage results from an act done in the exercise of legal rights. Thus, if I own a shop and you open a shop in the neighbourhood, as a result of which I lose some customers and my profits fall off, I cannot sue you for the loss in profits, because you are exercising your legal right. [*Gloucester Grammar School case*, (1410) Y.B. Hill. 11 Hen. IV to 27, pp. 21, 36]

Example: A has stored 100 Ltr of Spirit in a barrel and kept it at a place in which he is legally entitled to store. B kept his goods on the barrel and left it overnight. All the goods were spoilt.

In this case, there is damage to B but there is no legal injury. Therefore, this is not actionable under Law of Torts.

Injuria Sine Damnum

It means injury without damage, i.e., where there is no damage resulted yet it is an injury or wrong in tort, i.e. where there is infringement of a legal right not resulting in harm but plaintiff can still sue in tort.

Some rights or interests are so important that their violation is an actionable tort without proof of damage. Thus when there is an invasion of an "absolute" private right of an individual, there is an *injuria* and the plaintiff's action will succeed even if there is no *Damnum* or damages. An absolute right is one, the violation of which is actionable per se, i.e., without the proof of any damage.

Injuria sine domno covers such cases and action lies when the right is violated even though no damage has occurred. Thus, the act of trespassing upon another's land is actionable even though it has not caused the plaintiff even the slightest harm.

Example: A casted his vote in the election. The returning officer cancelled his vote illegally. The action did not effect the election as the candidate voted by A has won by big majority. Can A sue the returning officer under Law of Torts.

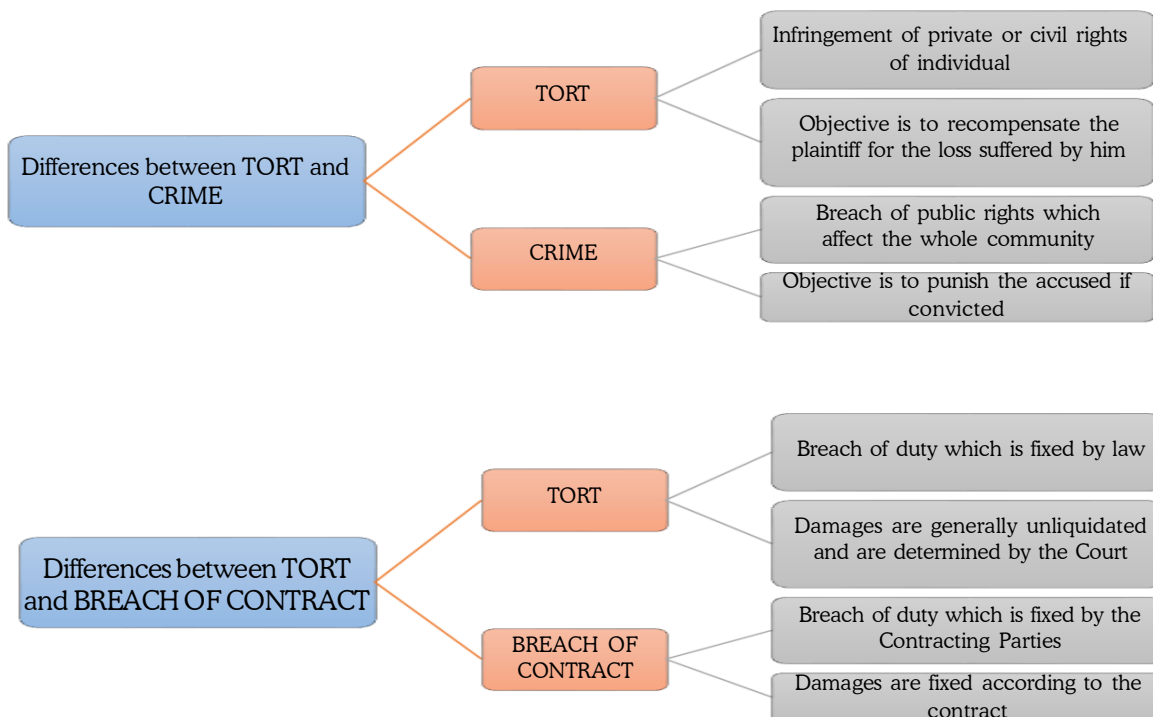
Yes, there is Legal Injury in this case. Therefore, A can take action under Law of Torts.

- (iii) *Legal remedy* : The third condition of liability for a tort is legal remedy. This means that to constitute a tort, the wrongful act must come under the law. The main remedy for a tort is an action for unliquidated damages, although some other remedies, e.g., injunction, may be obtained in addition to damages or specific restitution may be claimed in an action for the detention of a chattel. Self-help is a remedy of which the injured party can avail himself without going to a law court. It does not apply to all torts and perhaps the best example of these to which it does apply is trespass to land. For example, if "A" finds a drunken stranger in his room who has no business to be there, and is thus a trespass, he (A) is entitled to get rid of him, if possible without force but if that be not possible with such force as the circumstances of the case may warrant.

Mens Rea

How far a guilty mind of persons is required for liability for tort?

The General principle lies in the maxim "actus non facit reum nisi mens sit rea" i.e. the act itself creates no guilt in the absence of a guilty mind. It does not mean that for the law or Torts, the act must be done with an evil motive, but simply means that mind must concur in the Act, the act must be done either with wrongful intention or negligence. However, the cases of absolute or strict liability are exceptions to this principle.



Kinds of Tortious Liability

Strict or Absolute Liability	Vicarious Liability	Vicarious Liability of the State
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Strict or Absolute Liability

In some torts, the defendant is liable even though the harm to the plaintiff occurred without intention or negligence on the part of defendant. In other words, the defendant is held liable without fault. These cases fall under the following categories:

- (i) *Liability for Inevitable Accident* – Such liability arises in cases where damage is done by the escape of dangerous substances brought or kept by anyone upon his land. Such cases are where a man is made by law an insurer of other against the result of his activities.
- (ii) *Liability for Inevitable Mistake* – Such cases are where a person interferes with the property or reputation of another.
- (iii) *Vicarious Liability for Wrongs committed by others* – Responsibility in such cases is imputed by law on the grounds of social policy or expediency. These cases involve liability of master for the acts of his servant.

The rule in *Rylands v. Fletcher* (1868) L.R. 3 H.L. 330 is that a man acts at his peril and is the insurer of the safety of his neighbour against accidental harm. Such duty is absolute because it is independent of negligence on the part of the defendant or his servants. It was held in that case that: "If a person brings or accumulates on his land anything which, if it should escape may cause damage to his neighbours, he does so at his own peril. If it does not escape and cause damage he is responsible, however careful he may have been, and whatever precautions he may have taken to prevent damage."

The facts of this case were as follows: B, a mill owner employed independent contractors, who were apparently competent to construct a reservoir on his land to provide water for his mill. There were old disused mining shafts under the site of the reservoir which the contractors failed to observe because they were filled with earth. The contractors therefore, did not block them. When the water was filled in the reservoir, it bursts through the shafts and flooded the plaintiff's coal mines on the adjoining land. It was found as a fact that B did not know of the shafts and had not been negligent, though the independent contractors, had been, B was held liable. Blackburn, J., observed; "We think that the true rule of law is that the person, who for his own purposes brings on his lands and collects and keeps there anything likely to do mischief if it escapes, must keep it at his peril and if, he does not do so is, prima facie answerable for all the damage which is the natural consequence of its escape."

Later in the case of *Read v. Lyons* [(1946) 2 All. E.R. 471 (H.L.)], it has been explained that two conditions are necessary in order to apply the rule in *Ryland v. Fletcher*, these are:

- Escape from a place of which the defendant has occupation or over which he has a control to a place which is outside his occupation or control or something likely to do mischief if it escapes; and
- Non-natural use of Land : The defendant is liable if he makes a non-natural use of land. If either of these conditions is absent, the rule of strict liability will not apply.

Exceptions to the Rule of Strict Liability

The following exceptions to the rule of strict liability have been introduced in course of time, some of them being inherent in the judgment itself in *Ryland v. Fletcher*:

(i) *Damage due to Natural Use of the Land*

In *Ryland v. Fletcher* water collected in the reservoir in such large quantity, was held to be non-natural use of land. Keeping water for ordinary domestic purpose is 'natural use'. Things not essentially dangerous which is not unusual for a person to have on his own land, such as water pipe installations in buildings, the working of mines and minerals on land, the lighting of fire in a fire-place of a house, and necessary wiring for supplying electric light, fall under the category of "natural use" of land.

(ii) *Consent of the plaintiff*

Where the plaintiff has consented to the accumulation of dangerous thing on the defendant's land, the liability under the rule in *Ryland v. Fletcher* does not arise. Such a consent is implied where the source of danger is for the 'common benefit' of both the plaintiff and the defendant.

(iii) *Act of Third Party*

If the harm has been caused due to the act of a stranger, who is neither defendant's servant nor agent nor the defendant has any control over him, the defendant will not be liable. Thus, in *Box v. Jubh* (1879) 4 Ex. D. 76, the overflow from the defendant's reservoir was caused by blocking of a drain by stranger, the defendant was held not liable. But if the act of the stranger, is or can be foreseen by the defendant and the damage can be prevented, the defendant must, by due care prevent the damage. Failure on his part to avoid such damage will make him liable.

(iv) *Statutory Authority*

Sometimes, public bodies storing water, gas, electricity and the like are by statute, exempted from liability so long as they have taken reasonable care.

Thus, in *Green v. Chelzea Water Works Co.* (1894) 70 L.T. 547 the defendant company had a statutory duty to maintain continuous supply of water. A main belonging to the company burst without any fault on its part as a consequence of which plaintiff's premises were flooded with water. It was held that the company was not liable as the company was engaged in performing a statutory duty.

(v) *Act of God*

If an escape is caused, through natural causes and without human intervention circumstances which no human foresight can provide against and of which human prudence is not bound to recognize the possibility, there is then said to exist the defence of Act of God.

(vi) *Escape due to plaintiff's own Default*

Damage by escape due to the plaintiff's own default was considered to be good defence in *Rylands v. Fletcher* itself. Also, if the plaintiff suffers damage by his own intrusion into the defendant's property, he cannot complain for the damage so caused.

Example: XYZ Limited is a company engaged in the business of manufacturing of Sun glasses. It has stored 1000 litres of transparent spirit which is dangerous, if consumed by humans. A with the intent to committing theft, entered into the property of XYZ Limited. After entering into the premises, he changed his mind and dropped the idea of theft and decided to go back. While leaving the premises, he saw the spirit and drank one glass out of it, misconceiving it with water. He had to hospitalize for 6 Months due to this. A intends to claim damages under Law of Torts.

In this case, Damage is due to plaintiff's own default. Therefore, he can not claim damages.

Applicability of the Rule in Rylands v. Fletcher in Cases of Enterprises Engaged in a Hazardous or Inherently Dangerous Industry.

The Supreme Court has discussed the applicability of the rule of Rylands v. Fletcher in the case of *M.C. Mehta v. Union of India and Others* (1987) 1. Comp. L.J. p. 99 S.C. while determining the principles on which the liability of an enterprise engaged in a hazardous or inherently dangerous industry depended if an accident occurred in such industry.

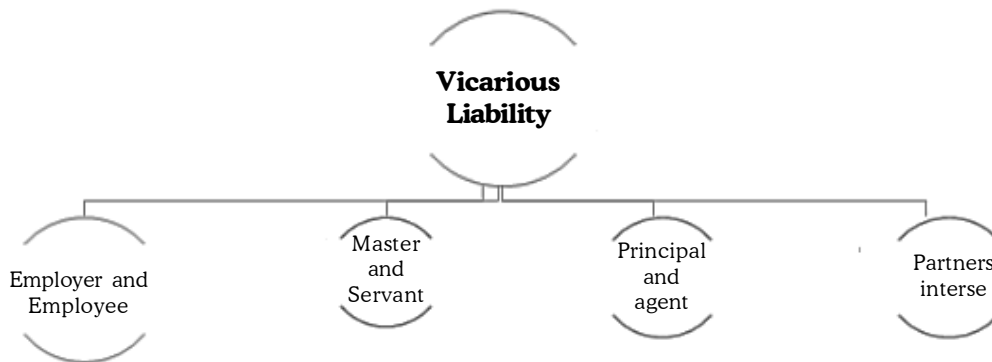
“We have to evolve new principle and lay down new norms which would adequately deal with the new problems which arise in a highly industrialized economy. We cannot allow our judicial thinking to be constricted by reference to the law as it prevails in England or for the matter of that, in any other foreign country”.

On the question of the nature of liability for a hazardous enterprise the court while noting that the above rule as developed in England recognizes certain limitations and responsibilities, recorded its final view as follows:

“We are of the view that an enterprise which is engaged in a hazardous or inherently dangerous industry which poses a potential threat to the health and safety of the persons working in the factory and residing in the surrounding areas, owes an absolute and non-delegable duty to the community to ensure that no harm results to anyone on account of hazardous or inherently dangerous nature of the activity which it has undertaken. The enterprise must be held to be under an obligation to provide that the hazardous or inherently dangerous activity in which it is engaged, must be conducted with the highest standards of safety; and if any harm results on account of such activity, the enterprise must be absolutely liable to compensate for such harm; and it should be no answer to the enterprise to say that it had taken all reasonable care and that the harm occurred without negligence on its part.”

Thus, while imposing absolute liability for manufacture of hazardous substances, the Supreme Court intended that the requirement of non-natural use or the aspect of escape of a dangerous substance, commonly regarded as essential for liability under *Rylands v. Fletcher*, need not be proved in India.

Vicarious Liability



Normally, the tortfeasor is liable for his tort. But in some cases a person may be held liable for the tort committed by another. A master is vicariously liable for the tort of his servant, principal for the tort of his agent and partners for the tort of a partner. This is known as vicarious liability in tort. The common examples of such a liability are:

(a) Principal and Agent [Specific authority]

Qui facit per alium facit per se – he who acts through another is acting himself, so that the act of the agent is the act of the principal. When an agent commits a tort in the ordinary course of his duties as an agent, the principal is liable for the same. In *Lloyd v. Grace, Smith & Co.* (1912) A.C. 716, the managing clerk of a firm of solicitors, while acting in the ordinary course of business committed fraud, against a lady client by fraudulently inducing her to sign documents transferring her property to him. He had done so without the knowledge of his principal who was liable because the fraud was committed in the course of employment.

Partners

For the tort committed by a partner in the ordinary course of the business of firm, all the other partners are liable to the same extent as the guilty partner. The liability of the partners is joint and several. In *Hamlyn v. Houston & Co.* (1903) 1 K.B. 81, one of the two partners bribed the plaintiff's clerk and induced him to divulge secrets relating to his employer's business. It was held that both the partners were liable for the tort committed by only one of them.

(b) Master and Servant [Authority by relation]

A master is liable for the tort committed by his servant while acting in the course of his employment. The servant, of course, is also liable; their liability is joint and several.

In such cases (i) liability of a person is independent of his own wrongful intention or negligence (ii) liability is joint as well several (iii) In case of vicarious liability the liability arises because of the relationship between the principal and the wrongdoer but in case of absolute or strict liability the liability arises out of the wrong itself.

A master is liable not only for the acts which have been committed by the servant, but also for acts done by him which are not specifically authorized, in the course of his employment. The basis of the rule has been variously stated: on the maxim *Respondeat Superior* (Let the principal be liable) or on the maxim *Qui facit per alium facit per se* (he who does an act through another is deemed to do it himself).

The master is liable even though the servant acted against the express instructions, for the benefit of his master, so long as the servant acted in the course of employment.

(c) Employer and Independent Contractor

It is to be remembered that an employer is vicariously liable for the torts of his servants committed in the course of their employment, but he is not liable for the torts of those who are his independent contractors.

A servant is a person who is employed by another (the employer) to perform services in connection with the affairs of the employer, and over whom the employer has control in the performance of these services. An independent contractor is one who works for another but who is not controlled by that other in his conduct in the performance of that work. These definitions show that a person is a servant where the employer "retains the control of the actual performance" of the work.

(d) Where Employer is Liable for the acts of Independent Contractor

The employer is not liable merely because an independent contractor commits a tort in the course of his employment; the employer is liable only if he himself is deemed to have committed a tort. This may happen in one of the following three ways:

- (i) When employer authorizes him to commit a tort.

- (ii) In torts of strict liability.
- (iii) Negligence of independent contractor.

(e) Where Employer is not Liable for the acts of an Independent Contractor

An employer is not liable for the tort of an independent contractor if he has taken care in the appointment of the contractor. In *Philips v. Britania Hygienic Laundry Co.* (1923), the owner of lorry was held not liable when a third-party's vehicle was damaged, in consequence of the negligent repair of his lorry by a garage proprietor. Employers of independent contractors are liable for the "collateral negligence" of their contractors in the course of his employment. Where A employed B to fit casement windows into certain premises. B's servant negligently put a tool on the sill of the window on which he was working at the time. The wind blew the casement open and the tool was knocked off the sill on to a passer-by. The employer was held to be liable, because the harm was caused by the work on a highway and duty lies upon the employer to avoid harm.

(f) Liability for the acts of Servants

An employer is liable whenever his servant commits a tort in the course of his employment. An act is deemed to be done in the course of employment if it is either:

- (i) a wrongful act authorized by the employer, or
- (ii) a wrongful and unauthorized mode of doing some act authorized by the employer.

So far as the first alternative is concerned there is no difficulty in holding the master liable for the tort of his servant. A few examples, however, are necessary to explain the working of the rule in the second. These are as follows:

In *Century Insurance Co. Ltd. v. Northern Ireland Road Transport Board* (1942) A.C. 509, the director of a petrol lorry, while transferring petrol from the lorry to an underground tank at a garage, struck a match in order to light a cigarette and then threw it, still alight on the floor. An explosion and a fire ensued. The House of Lords held his employers liable for the damage caused, for he did the act in the course of carrying out his task of delivering petrol; it was an unauthorized way of doing what he was employed to do.

Similarly, in *Bayley v. Manchester, Sheffield and Lincolnshire Rly. Co.* (1873) L.R. 7 C.P. 415, erroneously thinking that the plaintiff was in the wrong train, a porter of the defendants forcibly removed him. The defendants were held liable.

Vicarious Liability of the State

(a) The Position in England

At Common Law the Crown could not be sued in tort, either for wrongs actually authorized by it or committed by its servants, in the course of their employment. With the passing of the Crown Proceeding Act, 1947, the Crown is liable for the torts committed by its servants just like a private individual. Thus, in England, the Crown is now vicariously liable for the torts of its servants.

(b) The Position in India

Unlike the Crown Proceeding Act, 1947 of England, we have no statutory provision with respect to the liability of the State in India.

When a case of Government liability in tort comes before the courts, the question is whether the

particular Government activity, which gave rise to the tort, was the sovereign function or non-sovereign function. If it is a sovereign function it could claim immunity from the tortious liability, otherwise not. Generally, the activities of commercial nature or those which can be carried out by the private individual are termed as non-sovereign functions.

The whole idea of Vicariously Liability of the State for the torts committed by its servants is based on three principles:

- Respondeat superior (let the principal be liable).
- Quifacit per alium facit per se (he who acts through another does it himself).
- Socialisation of Compensation.

The position of State liability as stated in Article 300 of the Constitution is as under: Clause (1) of Article 300 of the Constitution provides first, that the Government of India may sue or be sued by the name of the Union of India and the Government of a State may sue or be sued by the name of the State; secondly, that the Government of India or the Government of a State may sue or be sued in relation to their respective affairs in the like cases as the Dominion of India and the corresponding Provinces or the corresponding Indian States might have sued or be sued, "if this Constitution had not been enacted", and thirdly, that the second mentioned rule shall be subject to any provisions which may be made by an Act of Parliament or of the Legislature of such State, enacted by virtue of powers conferred by the Constitution.

Torts or Wrongs to Personal Safety and Freedom

An action for damages lies in the following kinds of wrongs which are styled as injuries to the person of an individual:

(a) *Battery*

Any direct application of force to the person of another individual without his consent or lawful justification is a wrong of battery. To constitute a tort of battery, therefore, two things are necessary: (i) use of force, however, trivial it may be without the plaintiff's consent, and (ii) without any lawful justification.

Even though the force used is very trivial and does not cause any harm, the wrong is committed. Thus, even to touch a person in anger or without any lawful justification is battery.

(b) *Assault*

Assault is any act of the defendant which directly causes the plaintiff immediately to apprehend a contact with his person. Thus, when the defendant by his act creates an apprehension in the mind of the plaintiff that he is going to commit battery against him, the tort of assault is committed. The law of assault is substantially the same as that of battery except that apprehension of contact, not the contact itself has to be established. Usually when there is a battery, there will also be assault, but not for instance, when a person is hit from behind. To point a loaded gun at the plaintiff, or to shake first under his nose, or to curse him in a threatening manner, or to aim a blow at him which is intercepted, or to surround him with a display of force is to assault him clearly if the defendant by his act intends to commit a battery and the plaintiff apprehends it, is an assault.

(c) *Bodily Harm*

A wilful act (or statement) of defendant, calculated to cause physical harm to the plaintiff and in fact causing physical harm to him, is a tort.

(d) *False Imprisonment*

False imprisonment consists in the imposition of a total restraint for some period, however short, upon the liberty of another, without sufficient lawful justification. It means unauthorized restraint on a person's body. What happens in false imprisonment is that a person is confined within certain limits so that he cannot move about and so his personal liberty is infringed. It is a serious violation of a person's right and liberty whether being confined within the four walls or by being prevented from leaving place where he is. If a man is restrained, by a threat of force from leaving his own house or an open field there is false imprisonment.

(e) *Malicious Prosecution*

Malicious prosecution consists in instigating judicial proceedings (usually criminal) against another, maliciously and without reasonable and probable cause, which terminate in favour of that other and which results in damage to his reputation, personal freedom or property.

The following are the essential elements of this tort:

- (i) There must have been a prosecution of the plaintiff by the defendant.
- (ii) There must have been want of reasonable and probable cause for that prosecution.
- (iii) The defendant must have acted maliciously (i.e. with an improper motive and not to further the end of justice).
- (iv) The plaintiff must have suffered damages as a result of the prosecution.
- (v) The prosecution must have terminated in favour of the plaintiff.

To be actionable, the proceedings must have been instigated actually by the defendant. If he merely states the fact as he believes them to a policeman or a magistrate he is not responsible for any proceedings which might ensue as a result of action by such policeman or magistrate on his own initiative.

(f) *Nervous Shock*

This branch of law is comparatively of recent origin. It provides relief when a person may get physical injury not by an impact, e.g., by stick, bullet or sword but merely by the nervous shock through what he has seen or heard. Causing of nervous shock itself is not enough to make it an actionable tort, some injury or illness must take place as a result of the emotional disturbance, fear or sorrow.

(g) *Defamation*

Defamation is an attack on the reputation of a person. It means that something is said or done by a person which affects the reputation of another. It is defined as follows:

"Defamation is the publication of a statement which tends to lower a person in the estimation of right thinking members of society generally; or which tends to make them shun or avoid that person."

Defamation may be classified into two heads: Libel and Slander. Libel is a representation made in some permanent form, e.g. written words, pictures, caricatures, cinema films, effigy, statue and recorded words. In a cinema films both the photographic part of it and the speech which is synchronized with it amount to tort.

Slander is the publication of a defamatory statement in a transient form; statement of temporary nature such as spoken words, or gestures.

Generally, the punishment for libel is more severe than for slander. Defamation is tort as well as a crime in India.

In India both libel and slander are treated as a crime. Section 499 of the Indian Penal Code recognizes both libel and slander as an offence. However, torts in criminal law are stricter than in law of tort.

Remedies in Torts

Judicial Remedies

Three types of judicial remedies are available to the plaintiff in an action for tort namely:

(a) *Damages*

The courts may award damages against the wrong caused to any person.

(b) *Injunction*

A person may be prohibited to act in a particular way or compelled to do a certain act under the remedy of Injunction.

(c) *Specific Restitution of Property*

A person may be asked to restore a property under the Specific Restitution of Property.

Extra Judicial Remedies

In certain cases it is lawful to redress one's injuries by means of self-help without recourse to the court. These remedies are:

(a) *Self Defence*

It is lawful for any person to use reasonable forces to protect himself, or any other person against any unlawful use of force.

(b) *Prevention of Trespass*

An occupier of land or any person with his authority may use reasonable force to prevent trespassers entering or to eject them but the force should be reasonable for the purpose.

(c) *Re-entry on Land*

A person wrongfully disposed of land may retake possession of land if he can do so in a peaceful and reasonable manner.

(d) *Re-capture of Goods*

It is neither a crime nor a tort for a person entitled to possession of a chattel to take it either peacefully or by the use of a reasonable force from one who has wrongly taken it or wrongfully detained it.

(e) *Abatement of Nuisance*

The occupier of land may lawfully abate (i.e. terminate by his own act), any nuisance injuriously affecting it. Thus, he may cut overhanging branches as spreading roots from his neighbour's

trees, but (i) upon giving notice; (ii) by choosing the least mischievous method; (iii) avoiding unnecessary damage.

(f) *Distress Damage Feasant*

An occupier may lawfully seize any cattle or any chattel which are unlawfully on his land doing damage there and detain them until compensation is paid for the damage. The right is known as that of distress damage feasant-to distrain things which are doing damage.

Lesson 3

**ELEMENTS
OF
COMPANY
SECRETARIES
LEGISLATION**

THE INSTITUTE OF COMPANY SECRETARIES OF INDIA

The Institute of Company Secretaries of India (ICSI) is the only recognized professional body in India to develop and regulate the profession of Company Secretaries in India. It is a premier national professional body set up under an act of Parliament, the Company Secretaries Act, 1980. ICSI functions under the jurisdiction of the Ministry of Corporate Affairs, Government of India. The Institute provides top-quality education to the students of Company Secretaries (CS) Course and best quality set standards to CS Members.

ICSI has been contributing to the initiatives of Government of India that have potential to excel the social-economic growth of India.

THE VISION, MOTTO, MISSION AND CORE VALUE OF THE INSTITUTE

VISION

To be a global leader in promoting Good Corporate Governance

MISSION

To develop high calibre professionals facilitating good Corporate Governance

MOTTO

सत्यं वद | धर्मं चर | Speak the Truth, Abide by the Law

CORE VALUES

Core values are the expression of beliefs, followed by an individual, group or community in their personal or professional behavior, individually or collectively. The ICSI identifies for itself and its members the following core values:

- Integrity
- Ethics
- Reliability
- Ownership
- Being 'stakeholder-centric'

Integrity

The ICSI's vision to be a global leader in promoting Good Corporate Governance is a promise to the nation. It casts upon the ICSI and the profession of Company Secretaries a huge responsibility to deliver upon this promise, with objectivity and integrity as core values. There is no middle path to integrity.

Etymologically, the word 'integrity' derives from the Latin word 'integer' which means whole or complete. In this context, integrity may comprise the personal inner sense of wholeness deriving from character, courage and consistency. As integrity conveys a sense of wholeness and strength, members shall be guided by a set of core principles that will empower them to remain consistent with high standards, viz compassion, dependability, generosity, honesty, openness, transparency, loyalty, maturity, objectivity, trust, and wisdom.

Ethics

The term 'ethics' has its origin from a Greek word "ethos", which means character or custom – the distinguishing character, moral nature or guiding beliefs of a person, institution or a group.

'Ethics' in its simplest form means possessing a sense of right and wrong. Whatever is conscientiously right is ethical; whatever is not, is unethical. In other words, ethics is the sense of right and wrong, coupled with a desire to do good in some measure for someone.

The ICSI has been built on the principle of ethics and its members continuously strive to promote ethical practices, and hold the profession in high esteem, which is integral to maintaining quality and reputation of both, the ICSI and its members.

Being 'stakeholder-centric'

The ICSI, its members and the Team ICSI pledge to uphold the established principles of professional ethics, values and standards and will always promote honesty and transparency in their behaviour, practices and processes.

Reliability

Reliability is an assurance of quality of service and commitment. At the ICSI, reliability is a core value reinforced by stringent processes specially focusing on quality of service, predictability and reliability. The values are an intrinsic component of work culture and sustainable growth. Quality and predictability through commitment and value-added services is what would be the strongest USP of the ICSI and its members. We shall continuously build on reliability as our core value for it is the sum total of quality service to our stakeholders.

Ownership

Ownership is synonymous with responsibility, accountability and empowerment. The idea of ownership is much more than simply a willingness to accept own criticism, deficiency or oversight. It is more about setting one's priorities, placing rightful obligations on others as high as obligations to self. To be responsible is to always do the right things in the eyes of valued stakeholders and the public at large. It is to value the trust and confidence stakeholders put in them. It is about commitment to keep a promise or make right some unintentional wrong, even when it is inconvenient to do so. "Ownership being one of our core values, we believe that it will reduce risk, increase efficiency and contribute to goodwill, reputation and brand image of the Institute and the profession. We shall uphold this at all times."

Being Stakeholder-Centric

Stakeholder is our most valued constituency when it comes to being able to achieve our goals. We believe in constant stakeholder consultation and in translating their aspirations into achievable goals. We take pride in having a transparent and stakeholder focused approach in having a trustworthy and collaborative relationship with them.

It will be our endeavor to constantly activate new channels and pathways to not only meet but beat the expectations of our stakeholders. This window into the future will help us to achieve sustained performance and growth.

COMPANY SECRETARY

According to Section 2(1)(c) of the Company Secretaries Act, 1980 "Company Secretary" means a person who is a member of the Institute of Company Secretaries of India. The role of the Company secretary is defined in various other legal enactments.

Under the Companies Act, 2013 Company Secretary has been defined under section 2(24) as: 'Company Secretary' or 'Secretary' means a Company Secretary as defined in Section 2(1)(c) of the Company Secretaries Act, 1980 who is appointed by a company to perform the functions of the Company Secretary under the Companies Act, 2013.

Company Secretary is recognized as one of the **Key Managerial Personnel (KMP)** of a company under the Companies Act, 2013. Section 203 of Companies Act, 2013 read with Rule 8 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that every listed company and every other public company having a paid-up share capital of ten crore rupees or more shall have the following whole-time key managerial personnel:

- (i) Managing Director, or Chief Executive Officer or Manager and in their absence, a Whole-Time Director;
- (ii) Company Secretary; and
- (iii) Chief Financial Officer:

According to Rule 8A of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014. Every Private company which has a paid up share capital of 10 crore rupees or more shall have a whole-time company secretary.

Functions of a Company Secretary

The functions of the company secretary shall include,—

- (a) to report to the Board about compliance with the provisions of this Act, the rules made thereunder and other laws applicable to the company;
- (b) to ensure that the company complies with the applicable secretarial standards;
- (c) to discharge such other prescribed duties .

Duties of Company Secretary

The duties of Company Secretary shall also discharge, the following duties, namely:-

- (1) to report to the Board about compliance with the provisions of the Companies Act, 2013 and the rules made thereunder and other laws applicable to the company;
- (2) to ensure that the company complies with the applicable secretarial standards;
- (3) to provide to the directors of the company, collectively and individually, such guidance as they may require, with regard to their duties, responsibilities and powers;
- (4) to facilitate the convening of meetings and attend Board, committee and general meetings and maintain the minutes of these meetings;
- (5) to obtain approvals from the Board, general meeting, the government and such other authorities as required under the provisions of the Act;
- (6) to represent before various regulators, and other authorities under the Act in connection with discharge of various duties under the Act;
- (7) to assist the Board in the conduct of the affairs of the company;

- (8) to assist and advise the Board in ensuring good corporate governance and in complying with the corporate governance requirements and best practices; and
- (9) to discharge such other duties as have been specified under the Act or rules; and
- (10) such other duties as may be assigned by the Board from time to time.

Company Secretary in Practice

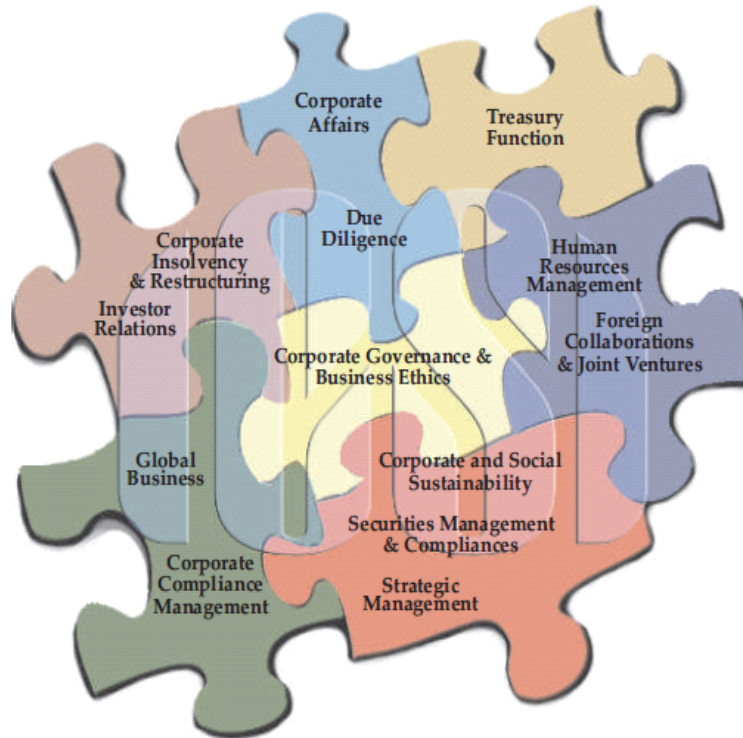
As per Section 2(25) the Companies Act, 2013 "Company Secretary in Practice" means a company secretary who is deemed to be in practice under section 2(2) of the Company Secretaries Act, 1980.

A member of the Institute shall be deemed "to be in practice" when, individually or in partnership with one or more members of the Institute in practice or in partnership with members of such other recognised professions as may be prescribed, he, in consideration of remuneration received or to be received,—

- (a) Engages himself in the practice of the profession of Company Secretaries to, or in relation to, any company; or
- (b) offers to perform or performs services in relation to the promotion, forming, incorporation, amalgamation, reconstruction, reorganisation or winding up of companies; or
- (c) offers to perform or performs such services as may be performed by—
 - (i) an authorised representative of a company with respect to filing, registering, presenting, attesting or verifying any documents (including forms, applications and returns) by or on behalf of the company
 - (ii) a share transfer agent,
 - (iii) an issue house,
 - (iv) a share and stock broker,
 - (v) a secretarial auditor or consultant,
 - (vi) an adviser to a company on management, including any legal or procedural matters
 - (vii) issuing certificates on behalf of, or for the purposes of, a company; or
- (d) holds himself out to the public as a Company Secretary in practice; or
- (e) renders professional services or assistance with respect to matters of principle or detail relating to the practice of the profession of Company Secretaries; or
- (f) renders such other services as, in the opinion of the Council, are or may be rendered by a Company

Company Secretary in Practice have been authorised by Government as well as Regulatory Bodies including Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), NCLT & NCLAT, Insurance Regulatory Authority of India ((IRDA), Competition Commission of India (CCI), Real Estate Regulatory Authority of India (RERA) and Stock Exchanges (SE) to act as authorised representative and issue various certifications and undertake Secretarial Audit of Bigger Companies.

A Company Secretary being multidisciplinary professional renders services in following areas:



CORPORATE GOVERNANCE AND SECRETARIAL SERVICES

Corporate Governance Services

Advising on good governance practices and compliance of Corporate Governance norms as prescribed under various Corporate, Securities and Other Business Laws and regulations and guidelines made thereunder.

Corporate Secretarial Services

1. Promotion, formation and incorporation of companies and matters related therewith
2. Filing, registering any document including forms, returns and applications by and on behalf of the company as an authorized representative
3. Maintenance of secretarial records, statutory books and registers
4. Arranging board/general meetings and preparing minutes thereof
5. All work relating to shares and their transfer and transmission

SECRETARIAL AUDIT

According to Section 204 of the Companies Act, 2013 every listed company and every public company

having a paid-up share capital of fifty crore rupees or more or every public company having a turnover of two hundred fifty crore rupees or more or every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more shall annex with its Board's report made in terms of section 134(3), a secretarial audit report, given by a company secretary in practice, in prescribed form. The format of the Secretarial Audit Report Prescribed in Form No. MR.3.

It shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.

The Board of Directors, in their report made in terms of section 134(3) of the Companies Act, 2013, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report.

If a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees

CORPORATE LAWS ADVISORY AND REPRESENTATION

Advising companies on Compliance of legal and procedural aspects, particularly under

1. SEBI Act, SCRA and Rules and Regulations made thereunder
2. Insolvency and Bankruptcy Code
3. Foreign Exchange Management Act
4. Consumer Protection Act
5. Depositories Act
6. Environment and Pollution Control Laws
7. Labour and Industrial Laws
8. Co-operative Societies Act
9. Mergers and Amalgamations and Strategic Alliances
10. Foreign Collaborations and Joint Ventures
11. Setting up subsidiaries abroad
12. Competition Laws
13. IPR Protection, Management, Valuation and Audit
14. Real Estate(Regulation and Development) Act
15. Arbitration and Conciliation Act
16. Drafting of Legal documents.

Representing on behalf of a company and other persons before-

1. Registrar of Companies(RoC)/Regional Director(RD)

2. National Company Law Tribunal
3. Competition Commission of India
4. Securities Appellate Tribunal
5. National Company Law Appellate Tribunal
6. Consumer Forums
7. Telecom Disputes Settlement and Appellate Tribunal
8. Trade Marks Authority
9. Special Economic Zones Authorities
10. Tax Authorities
11. Other quasi-judicial bodies and Tribunals

Arbitration and Conciliation Services

Acting as Arbitrator/Conciliator in domestic and international commercial disputes. Advising on arbitration, negotiation and conciliation in commercial disputes between the parties and Drafting Arbitration/Conciliation Agreement/Clause.

FINANCIAL MARKETS SERVICES

Public Issue, Listing and Securities Management

1. Advisor/consultant in issue of shares and other securities
2. Preparation of Projects Reports and Feasibility Studies
3. Syndication of Loans from banks & financial institutions
4. Drafting of prospectus/offer for sale/letter of offer/other documents related to issue of securities and obtaining various approvals in association with lead managers
5. Loan Documentation, registration of charges, status and search reports
6. Listing of securities/delisting of securities with recognized stock exchange
7. Private placement of shares and other securities
8. Buy-back of shares and other securities
9. Raising of funds from international markets ADR/GDR/ECB

Takeover Code and Insider Trading

1. Ensuring compliance of the Takeover Regulations and any other laws or rules as may be applicable in this regard.
2. Acting as Compliance Officer and ensuring compliance with SEBI (Prohibition of insider Trading) Regulations including maintenance of various documents.

Securities Compliance and Certification Services

Compliance with rules and regulations in the securities market particularly:

1. Internal Audit of Depository Participants
2. Certification under SEBI LODR/ICDR Regulations
3. Audit in relation to Reconciliation of shares
4. Certificate in respect of compliance of Private Limited and Unlisted Public Company (Buy Back Securities) Rules
5. Certifications of Annual Return
6. Quarterly Share Capital Reconciliation certificates under SEBI (Depository Participants) Regulations, 2018
7. Certifications under IFSCA Regulations
8. Due Diligence Report and Certification under SEBI (Delisting of Equity Shares) Regulations, 2021.

FINANCE AND ACCOUNTING SERVICES

1. Internal Audit
2. Secretary to Audit Committee
3. Working capital and liquidity management
4. Determination of an appropriate capital structure
5. Analysis of capital investment proposals
6. Business valuations prior to mergers and/or acquisitions
7. Loan syndication
8. Budgetary controls
9. Accounting and compilation of financial statements

TAXATION SERVICES

1. Advisory services to companies on tax management and tax planning under Income Tax, GST and Customs Laws
2. Preparing/reviewing various returns and reports required for compliance with the tax laws and regulations
3. Representing companies and other persons before the tax authorities and tribunals

INTERNATIONAL TRADE AND WTO SERVICES

1. Advising on all matters related to IPRs and TRIPs Agreement of WTO
2. Advising on matters relating to antidumping, subsidies and countervailing duties

3. International Commercial Arbitration
4. Advising on and issuing certificates on Foreign Trade Policy and Procedures
5. Advising on Intellectual Property licensing and drafting of Agreement
6. Acting as registered Trade Mark Agent

MANAGEMENT SERVICES

General/Strategic Management

1. Advising on Legal Structure of the organization
2. Business policy strategy and planning
3. Formulation of the organizational structure
4. Acting as management representative to obtain ISO Certification

Corporate Communications and Public Relations

1. Communication with shareholders, stakeholders, Government and Regulators, Authorities, etc.
2. Advisory services for Brand equity and image building

Human Resources Management

1. Manpower planning and development
2. Audit of the HR function
3. Performance appraisal
4. Motivation and remuneration strategies
5. Industrial relations
6. Office management, work studies and performance standards
7. Advising on industrial and labour laws

Information Technology

1. Compliance with cyber laws
2. Conducting Board Meetings through video-conferencing and teleconferencing
3. Advising on software copyright and licensing
4. Development of management reports and controls
5. Maintenance of statutory records in electronic form
6. Sending notices to shareholders by electronic mode
7. Filing of forms/documents in electronic form with Registrar of Companies and other statutory authorities.

Lesson 4

**ELEMENTS
OF
COMPANY LAW**

MEANING OF COMPANY

The word 'company' is derived from the Latin word (Com=with or together; panis =bread), and it originally referred to an association of persons who took their meals together. In the leisurely past, merchants took advantage of festive gatherings, to discuss business matters. Now a days, the business matters have become more complicated and cannot be discussed at length at festive gatherings. Therefore, the word company has assumed greater importance. It denotes a joint stock enterprise in which the capital is contributed by a large number of people. Thus, in popular parlance, a company denotes an association of like-minded persons formed for the purpose of carrying on some business or undertaking. A company is a corporate body and a legal person having status and personality distinct and separate from that of the members constituting it.

It is called a body corporate because the persons composing it are made into one body by incorporating it according to the law and clothing it with legal personality. The word 'corporation' is derived from the Latin term 'corpus' which means 'body'. Accordingly, 'corporation' is a legal person created by the process other than natural birth. It is, for this reason, sometimes called artificial legal person. As a legal person, a corporate is capable of enjoying many of the rights and incurring many of the liabilities of a natural person.

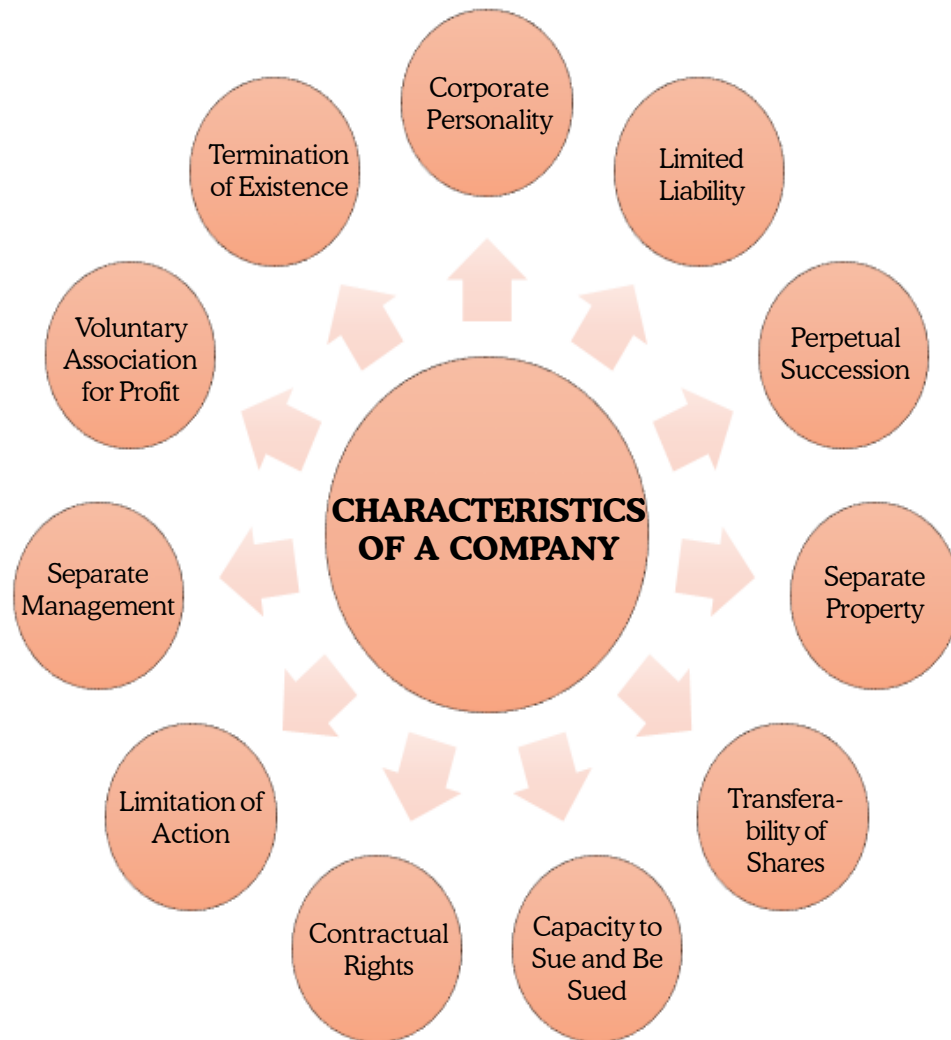
In the legal sense, a company is an association of both natural and artificial persons incorporated under the existing law of a country. In terms of the Section 2(20) of the Companies Act, 2013, Company means a company incorporated under this Act or under any previous company law. In common law, a company is a "legal person" or "legal entity" separate from, and capable of surviving beyond the lives of its members. However, an association formed not for profit acquires a corporate life and falls within the meaning of a company by reason of a licence under Section 8 of the Act.

But a company is not merely a legal institution. It is rather a legal device for the attainment of any social or economic end. It is, therefore, a combined political, social, economic and legal institution. Thus, the term company has been described in many ways. "It is a means of cooperation and organisation in the conduct of an enterprise". It is "an intricate, centralised, economic and administrative structure run by professional managers who hire capital from the investor(s)". Lord Justice James has defined a company as "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising therefrom. The common stock so contributed is denoted in money and is the capital of the company. The persons who form it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is his "share".

From the foregoing discussion it is clear that a company has its own corporate and legal personality distinct and separate from that of its members. A brief description of the various attributes is given here to explain the nature and characteristics of the company as a corporate body.

NATURE & CHARACTERISTICS OF A COMPANY

Since a corporate body (i.e. a company) is the creation of law, it is not a human being, it is an artificial person (i.e. created by law); it is clothed with many rights, obligations, powers and duties prescribed by law; it is called a 'person'. Being the creation of law, it possesses only the properties conferred upon it by its Memorandum of Association. Within the limits of powers conferred by the charter, it can do all acts as a natural person may do.



The most striking characteristics of a company are:

(i) Corporate Personality

By incorporation under the Act, the company is vested with a corporate personality quite distinct from individuals who are its members. Being a separate legal entity it bears its own name and acts under a corporate name. It has a seal of its own. Its assets are separate and distinct from those of its members. It is also a different 'person' from the members who compose it. As such it is capable of owning property, incurring debts, borrowing money, having a bank account, employing people, entering into contracts and suing or being sued in the same manner as an individual. Its members are its owners but they can be its creditors simultaneously as it has a separate legal entity. A shareholder cannot be held liable for the acts of the company even if he holds virtually the entire

share capital. The shareholders are not the agents of the company and so they cannot bind it by their acts. The company does not hold its property as an agent or trustee for its members and they cannot sue to enforce its rights, nor can they be sued in respect of its liabilities. Thus, 'incorporation' is the act of forming a legal corporation as a juristic person. A juristic person is in law also conferred with rights and obligations and is dealt with in accordance with law. In other words, the entity acts like a natural person but only through a designated person, whose acts are processed within the ambit of law [*Shiromani Gurdwara Prabandhak Committee v. Shri Sam Nath Dass* AIR 2000 SCW 139].

The case of *Salomon v. Salomon and Co. Ltd.*, (1897) A.C. 22 has clearly established the principle that once a company has been validly constituted under Companies Act, it becomes a legal person distinct from its members and for this purpose it is immaterial whether any member has a large or small proportion of the shares, and whether he holds those shares beneficially or as a mere trustee.

In the case, Salomon had, for some years, carried on a prosperous business as a leather merchant and boot manufacturer. He formed a limited company consisting of himself, his wife, his daughter and his four sons as the shareholders, all of whom subscribed for 1 share each so that the actual cash paid as capital was £ 7. Salomon sold his business (which was perfectly solvent at that time), to the Company for the sum of £ 38,782. The company's nominal capital was £ 40,000 in £ 1 shares. In part payment of the purchase money for the business sold to the company, debentures of the amount of £10,000 secured by a floating charge on the company's assets were issued to Salomon, who also applied for and received an allotment of 20,000 £ 1 fully paid shares. The remaining amount of £8,782 was paid to Salomon in cash. Salomon was the managing director and two of his sons were other directors.

The company soon ran into difficulties and the debenture holders appointed a receiver and the company went into liquidation. The total assets of the company amounted to £6050, its liabilities were £10,000 secured by debentures, £8,000 owing to unsecured trade creditors, who claimed the whole of the company's assets, viz., £6,050, on the ground that, as the company was a mere 'alias' or agent for Salomon, they were entitled to payment of their debts in priority to debentures. They further pleaded that Salomon, as principal beneficiary, was ultimately responsible for the debts incurred by his agent or trustee on his behalf.

Their Lordships of the House of Lords observed:

"When the memorandum is duly signed and registered, though there be only seven shares taken, the subscribers are a body corporate capable forthwith of exercising all the functions of an incorporated company. It is difficult to understand how a body corporate thus created by statute can lose its individuality by issuing the bulk of its capital to one person. The company is at law a different person altogether from the subscribers of the memorandum; and though it may be that after incorporation the business is precisely the same as before, the same persons are managers, and the same hands receive the profits, the company is not in law their agent or trustee. The statute enacts nothing as to the extent or degree of interest which may be held by each of the seven or as to the proportion of interest, or influence possessed by one or majority of the shareholders over others. There is nothing in the Act requiring that the subscribers to the memorandum should be independent or unconnected, or that they or any of them should take a substantial interest in the undertakings, or that they should have a mind or will of their own, or that there should be anything like a balance of power in the constitution of company."

The case of *Lee v. Lee's Air Farming Ltd.* (1961) A.C. 12 (P.C.) illustrates the application of the principles established in Salomon's case (supra). In this case, a company was formed for the purpose of aerial top-dressing. Lee, a qualified pilot, held all but one of the shares in the company.

He voted himself the managing director and got himself appointed by the articles as chief pilot at a salary. He was killed in an air crash while working for the company. His widow claimed compensation for the death of her husband in the course of his employment. The company opposed the claim on the ground that Lee was not a worker as the same person could not be the employer and the employee. The Privy Council held that Lee and his company were distinct legal persons which had entered into contractual relationships under which he became, the chief pilot, a servant of the company. In his capacity of managing director he could, on behalf of the company, give himself orders in his other capacity of pilot, and the relationship between himself, as pilot and the company, was that of servant and master. Lee was a separate person from the company he formed and his widow was held entitled to get the compensation. In effect the magic of corporate personality enabled him (Lee) to be the master and servant at the same time and enjoy the advantages of both.

The decision of the Calcutta High Court in *Re. Kondoli Tea Co. Ltd.*, (1886) ILR 13 Cal. 43, recognised the principle of separate legal entity even much earlier than the decision in *Salomon v. Salomon & Co. Ltd.* case. Certain persons transferred a Tea Estate to a company and claimed exemptions from ad valorem duty on the ground that since they themselves were also the shareholders in the company and, therefore, it was nothing but a transfer from them in one name to themselves under another name. While rejecting this Calcutta High Court observed: "The company was a separate person, a separate body altogether from the shareholders and the transfer was as much a conveyance, a transfer of the property, as if the shareholders had been totally different persons.

(ii) **Limited Liability**

"The privilege of limited liability for business debts is one of the principal advantages of doing business under the corporate form of organisation." The company, being a separate person, is the owner of its assets and bound by its liabilities. The liability of a member as shareholder, extends to contribution to the assets of the company up to the nominal value of the shares held and not paid by him. Members, even as a whole, are neither the owners of the company's undertakings, nor liable for its debts. In other words, a shareholder is liable to pay the balance, if any, due on the shares held by him, when called upon to pay and nothing more, even if the liabilities of the company far exceed its assets. This means that the liability of a member is limited. For example, if A holds shares of the total nominal value of Rs. 1,000 and has already paid Rs. 500/- (or 50% of the value) as part payment at the time of allotment, he cannot be called upon to pay more than Rs. 500/-, the amount remaining unpaid on his shares. If he holds fully-paid shares, he has no further liability to pay even if the company is declared insolvent. In the case of a company limited by guarantee, the liability of members is limited to a specified amount mentioned in the memorandum.

Buckley, J. in *Re. London and Globe Finance Corporation*, (1903) 1 Ch.D. 728 at 731, has observed: "The statutes relating to limited liability have probably done more than any legislation of the last fifty years to further the commercial prosperity of the country. They have, to the advantage of the investor as well as of the public, allowed and encouraged aggregation of small sums into large capitals which have been employed in undertakings of "great public utility largely increasing the wealth of the country".

There are, however, some statutory exceptions to the principle of limited liability. As the Companies Act, 2013 the members become personally liable if the membership falls below prescribed minimum and the business is carried on for more than six months thereafter.

(iii) **Perpetual Succession**

An incorporated company never dies except when it is wound up as per law. A company, being a separate legal person is unaffected by death or departure of any member and remains the same entity, despite total change in the membership. A company's life is determined by the terms of its

Memorandum of Association. It may be perpetual or it may continue for a specified time to carry on a task or object as laid down in the Memorandum of Association. Perpetual succession, therefore, means that the membership of a company may keep changing from time to time, but that does not affect its continuity.

The membership of an incorporated company may change either because one shareholder has transferred his shares to another or his shares devolve on his legal representatives on his death or he ceases to be a member under some other provisions of the Companies Act. Thus, perpetual succession denotes the ability of a company to maintain its existence by the constant succession of new individuals who step into the shoes of those who cease to be members of the company. Professor L.C.B. Gower rightly mentions, "Members may come and go, but the company can go on for ever. During the war all the members of one private company, while in general meeting, were killed by a bomb, but the company survived — not even a hydrogen bomb could have destroyed it".

(iv) Separate Property

A company being a legal person and entirely distinct from its members, is capable of owning, enjoying and disposing of property in its own name. The company is the real person in which all its property is vested, and by which it is controlled, managed and disposed off. Their Lordships of the Madras High Court in *R.F. Perumal v. H. John Deavin*, A.I.R. 1960 Mad. 43 held that "no member can claim himself to be the owner of the company's property during its existence or in its winding-up". A member does not even have an insurable interest in the property of the company.

(v) Transferability of Shares

The capital of a company is divided into parts, called shares. The shares are said to be movable property and, subject to certain conditions, freely transferable, so that no shareholder is permanently or necessarily wedded to a company. When the joint stock companies were established, the object was that their shares should be capable of being easily transferred, [In *Re. Balia and San Francisco Rly.*, (1968) L.R. 3 Q.B. 588]. Companies Act, 2013 enunciates the principle by providing that the shares held by the members are movable property and can be transferred from one person to another in the manner provided by the articles.

A member may sell his shares in the open market and realise the money invested by him. This provides liquidity to a member (as he can freely sell his shares) and ensures stability to the company (as the member is not withdrawing his money from the company). The Stock Exchanges provide adequate facilities for the sale and purchase of shares.

Further, as of now, in most of the listed companies, the shares are also transferable through Electronic mode i.e. through Depository Participants instead of physical transfers.

(vi) Capacity to Sue and Be Sued

A company being a body corporate, can sue and be sued in its own name. To sue, means to institute legal proceedings against (a person) or to bring a suit in a court of law. All legal proceedings against the company are to be instituted in its own name. Similarly, the company may bring an action against anyone in its own name. A company's right to sue arises when some loss is caused to the company, i.e. to the property of the personality of the company. Hence, the company is entitled to sue for damages in libel or slander as the case may be [*Floating Services Ltd. v. MV San Fransceco Dipaloo* (2004) 52 SCL 762 (Guj)]. A company, as a person separate from its members, may even sue one of its own members for libel.

A company has a right to seek damages where a defamatory material published about it, affects its business. Where video cassettes were prepared by the workmen of a company showing, their

struggle against the company's management, it was held to be not actionable unless shown that the cassette would be defamatory. The court did not restrain the exhibition of the cassette. [*TVS Employees Federation v. TVS and Sons Ltd.*, (1996) 87 Com Cases 37]. The company is not held liable for contempt committed by its officer. [*Lalit Surajmal Kanodia v. Office Tiger Database Systems India (P) Ltd.*, (2006) 129 Comp Cas 192 Mad].

(vii) Contractual Rights

A company, being a separate legal entity different from its members, can enter into contracts for the conduct of the business in its own name. A shareholder cannot enforce a contract made by his company; he is neither a party to the contract nor entitled to the benefit of it, as a company is not a trustee for its shareholders. Likewise, a shareholder cannot be sued on contracts made by his company. The distinction between a company and its members is not confined to the rules of privity, however, it permeates the whole law of contract. Thus, if a director fails to disclose a breach of his duties to his company, and in consequence a shareholder is induced to enter into a contract with the director which he would not have entered into had there been disclosure, the shareholder cannot rescind the contract.

Similarly, a member of a company cannot sue in respect of torts committed against the company, nor can he be sued for torts committed by the company. [*British Thomson-Houston Company v. Sterling Accessories Ltd.*, (1924) 2 Ch. 33]. Therefore, the company as a legal person can take action to enforce its legal rights or be sued for breach of its legal duties. Its rights and duties are distinct from those of its constituent members.

(viii) Limitation of Action

A company cannot go beyond the power stated in the Memorandum of Association. The Memorandum of Association of the company regulates the powers and fixes the objects of the company and provides the edifice upon which the entire structure of the company rests. The actions and objects of the company are limited within the scope of its Memorandum of Association. In order to enable it to carry out its actions without such restrictions and limitations in most cases, sufficient powers are granted in the Memorandum of Association. But once the powers have been laid down, it cannot go beyond these powers unless the Memorandum of Association is itself altered prior to doing so.

(ix) Separate Management

As already noted, the members may derive profits without being burdened with the management of the company. They do not have effective and intimate control over its working and elect their representatives to conduct corporate functioning. In other words, the company is administered and managed by its managerial personnel.

(x) Voluntary Association for Profit

A company is a voluntary association for profit. It is formed for the accomplishment of some public goals and whatsoever profit is gained is divided among its shareholders or restored for the future expansion of the company. Only a Section 8 company can be formed with no profit motive.

(xi) Termination of Existence

A company, being an abstract and artificial person, does not die a natural death. It is created by law, carries on its affairs according to law throughout its life and ultimately is effaced by law. Generally, the existence of a company is terminated by means of winding up. However, to avoid winding up sometimes companies change their form by means of reorganisation, reconstruction and amalgamation.

To sum up, “a company is a voluntary association for profit with capital divisible into transferable shares with limited liability, having corporate entity and a common seal with perpetual succession”.

NATIONALITY & RESIDENCE OF A COMPANY

Though it is established through judicial decisions that a company cannot be a citizen, yet it has nationality, domicile and residence. In *Gasque v. Inland Revenue Commissioners*, (1940) 2 K.B. 88, Macnaghten. J. held that a limited company is capable of having a domicile and its domicile is the place of its registration and that domicile clings to it throughout its existence. He observed in this case:

“It was suggested that a body corporate has no domicile. It is quite true that a body corporate cannot have a domicile in the same sense as an individual. But by analogy with a natural person the attributes of residence, domicile and nationality can be given to a body corporate.”

In *Tulika v. Parry and Co.*, (1903) I.L.R. 27 Mad. 315, Kelly C.B. observed:

“A joint stock company resides where its place of incorporation is, where the meetings of the whole company or those who represent it are held and where its governing body meets in bodily presence for the purposes of the company and exercises the powers conferred upon it by statute and by the Articles of Association.”

The company, though a legal person, is not a citizen under the Citizenship Act, 1955 or the Constitution of India. In *State Trading Corporation of India Ltd. v. C.T.O.*, A.I.R. 1963 S.C. 1811, the Supreme Court held that the State Trading Corporation though a legal person, was not a citizen and can act only through natural persons. Nevertheless, it is to be noted that certain fundamental rights enshrined in the Constitution for protection of “person”, e.g., right to equality (Article 14) etc. are available to company.

CONCEPT OF CORPORATE PERSONALITY

By the provision of law, a corporation is clothed with a distinct personality, yet in reality it is an association of persons who are in fact, in a way, the beneficial owners of the property of the body corporate. A company, being an artificial person, cannot act on its own, it can only act through natural persons.

Lifting of or piercing through the corporate veil

It means the company has a separate legal entity from the persons constituting its members. Indeed, the theory of corporate entity is still the basic principle on which the whole law of corporations is based. But as the separate personality of the company is a statutory privilege, it must be used for legitimate business purposes only. Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality. The Court will break through the corporate shell and apply the principle of what is known as “lifting of or piercing through the corporate veil”. The Court will look behind the corporate entity and take action as though no entity separate from the members existed and make the members or the controlling persons liable for debts and obligations of the company

The corporate veil is lifted when in defence proceedings, such as for the evasion of tax, an entity relies on its corporate personality as a shield to cover its wrong doings. [*BSN (UK) Ltd. v. Janardan Mohandas Rajan Pillai* [1996] 86 Comp. Cas. 371 (Bom).].

However, the shareholders cannot ask for lifting veil for their purposes. This was upheld in *Premlata Bhatia v. Union of India* (2004) 58 CL 217 (Delhi) wherein the premises of a shop were allotted on a licence to the individual licence. She set up a wholly owned private company and transferred the premises to that company with the Government consent. She could not remove the illegality by saying that she and her company were virtually the same person.

Ever since the decision in the *Salomon v. Salomon & Co. Ltd.*, (1897) A.C. 22 normally Courts are reluctant

or at least very cautious to lift the veil of corporate personality to see the real persons behind it. Nevertheless, Courts have found it necessary to disregard the separate personality of a company in the following situations:

- (a) Where the corporate veil has been used for commission of fraud or improper conduct. In such a situation, Courts have lifted the veil and looked at the realities of the situation.
- (b) Where a corporate facade is really only an agency instrumentality.
- (c) Where the doctrine conflicts with public policy, courts lifted the corporate veil for protecting the public policy.
- (d) Further, In *Daimler Co. Ltd. v. Continental Tyre & Rubber Co.*, (1916) 2 A.C. 307, it was held that a company will be regarded as having enemy character, if the persons having de facto control of its affairs are resident in an enemy country or, wherever they may be, are acting under instructions from or on behalf of the enemy.
- (e) Where it was found that the sole purpose for which the company was formed was to evade taxes the Court will ignore the concept of separate entity, and make the individuals liable to pay the taxes which they would have paid but for the formation of the company.
- (f) Avoidance of welfare legislation is as common as avoidance of taxation and the approach in considering problems arising out of such avoidance has necessarily to be the same and, therefore, where it was found that the sole purpose for the formation of the new company was to use it as a device to reduce the amount to be paid by way of bonus to workmen, the Supreme Court upheld the piercing of the veil to look at the real transaction.
- (g) Where it is found that a company has abused its corporate personality for an unjust and inequitable purpose, the court would not hesitate to lift the corporate veil. Further, the corporate veil could be lifted when acts of a corporation are allegedly opposed to justice, convenience and interests of revenue or workman or are against public interest.

Thus, in appropriate cases, the Courts disregard the separate corporate personality and look behind the legal person or lift the corporate veil.

COMPANY AS DISTINGUISHED FROM OTHER BUSINESS ENTERPRISES

Though there are a number of similarities between a limited company and other forms of associations, there are a great number of dissimilarities as well. In both the cases individuals are the subjects, and trading is generally the object. In the following paragraphs, a limited company is distinguished from a partnership firm, a Hindu Joint family business and a registered society.

Distinction between Company and Partnership

The principal points of distinction between a company and a partnership firm, are as follows:

- (1) A company is a distinct legal person. A partnership firm is not distinct from the several persons who compose it.
- (2) In a partnership, the property of the firm is the property of the individuals comprising it. In a company, it belongs to the company and not to the individuals comprising it.
- (3) Creditors of a partnership firm are creditors of individual partners and a decree against the firm can be executed against the partners jointly and severally. The creditors of a company can proceed only against the company and not against its members.
- (4) Partners are the agents of the firm, but members of a company are not its agents. A partner can

dispose of the property and incur liabilities as long as he acts in the course of the firm's business. A member of a company has no such power.

- (5) A partner cannot contract with his firm, whereas a member of a company can.
- (6) A partner cannot transfer his share and make the transferee a member of the firm without the consent of the other partners, whereas a company's share can ordinarily be transferred.
- (7) Restrictions on a partner's authority contained in the partnership contract do not bind outsiders; whereas such restrictions incorporated in the Articles are effective, because the public are bound to acquaint themselves with them.
- (8) A partner's liability is always unlimited whereas that of shareholder may be limited either by shares or a guarantee.
- (9) A company has perpetual succession, i.e. the death or insolvency of a shareholder or all of them does not affect the life of the company, whereas the death or insolvency of a partner dissolves the firm, unless otherwise provided.
- (10) A company is legally required to have its accounts audited annually by a chartered accountant, whereas the accounts of a firm are audited at the discretion of the partners.
- (11) A company, being a creation of law, can only be dissolved as laid down by law. A partnership firm, on the other hand, is the result of an agreement and can be dissolved at any time by agreement.

Distinction between Company and Hindu Joint Family Business

1. A company consists of heterogeneous (varied or diverse) members, whereas a Hindu Undivided Family Business consists of homogenous (unvarying) members since it consists of members of the joint family itself.
2. In a Hindu Joint Family business the Karta (manager) has the sole authority to contract debts for the purpose of the business, other coparceners cannot do so. There is no such system in a company.
3. A person becomes a member of Joint Hindu Family business by virtue of birth. There is no provision to that effect in the company.
4. No registration is compulsory for carrying on business for gain by a Hindu Joint Family even if the number of members exceeds twenty [Shyamlal Roy v. Madhusudan Roy, AIR 1959 Cal. 380 (385)]. Registration of a company is compulsory.

Distinction between company and Limited Liability Partnership (LLP)

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name. LLP is a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.

Further, no partner is liable on account of the independent or un-authorized actions of other partners, thus individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct.

Mutual rights and duties of the partners within a LLP are governed by an agreement between the partners or between the partners and the LLP as the case may be. The LLP, however, is not relieved of the liability for its other obligations as a separate entity.

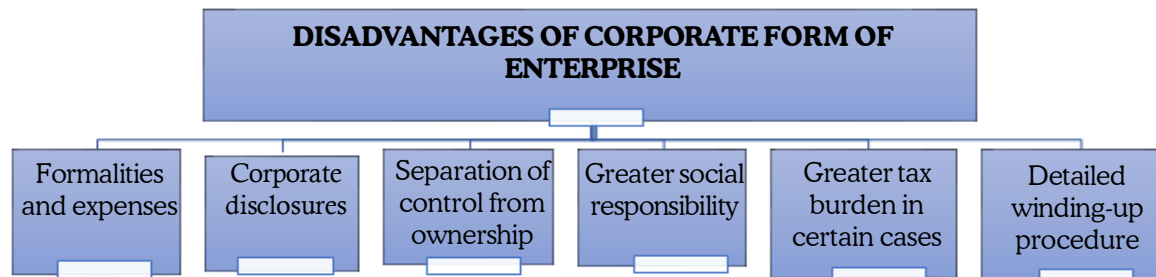
Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.

LLP is a body corporate and a legal entity separate from its partners, having perpetual succession. LLP form is a form of business model which : (i) is organized and operates on the basis of an agreement. (ii) provides flexibility without imposing detailed legal and procedural requirements (iii) enables professional/ technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner

A basic difference between an LLP and a company lies in that the internal governance structure of a company is regulated by statute (i.e. Companies Act) whereas for an LLP it would be by a contractual agreement between partners.

The management-ownership divide inherent in a company is not there in a limited liability partnership. LLP have more flexibility as compared to a company. LLP have lesser compliance requirements as compared to a company.

DISADVANTAGES OF CORPORATE FORM OF ENTERPRISE



There are, however, certain disadvantages and inconveniences in Incorporation. Some of these disadvantages are:

1. *Expenses of Incorporation and Floation* : Incorporation of a company is coupled with complex, cumbersome and detailed legal formalities and procedures, involving considerable amount of time and money. Even after the company is incorporated, its affairs and working must be conducted strictly in accordance with legal provisions. Thus various returns and documents are required to be filed with the Registrar of Companies, some periodically and some on the happening of an event. Certain books and registers are compulsorily required to be maintained by a company. Approval and sanction of the Company Law Board, the Government, the Court, the Registrar of Companies or other appropriate authority, as the case may be, is necessarily required to be obtained for certain corporate activities.
2. *Corporate disclosures* : Notwithstanding the elaborate legal framework designed to ensure maximum disclosure of corporate information, the members of a company comparatively have restricted accessibility to its internal management and day-to-day administration of corporate working.
3. *Separation of control from ownership* : Members of a company do not have an effective and intimate control over its working as one can have in other forms of business organisation, say, a partnership firm. This is particularly so in big companies in which the number of members is too large to exercise any effective control over its day-to-day affairs.
4. *Greater social responsibility* : Having regard to the enormous powers wielded by the companies

and the impact they have on the society, the companies are called upon to show greater social responsibility in their working and, for that purpose, are subject to greater control and regulation than that by which other forms of business organisation are governed and regulated.

5. *Greater tax burden in certain cases* : In certain circumstances, the tax burden on a company is more than that on other forms of business organization including partnership firms.
6. *Detailed winding-up procedure* : The Act provides elaborate and detailed procedure for winding-up of companies which is more expensive and time consuming than that which is applicable to other forms of business organisation.

JOURNEY OF INDIAN COMPANY LAW

Company Law in India, as indicated earlier, is the cherished child of the English parents. Our various Companies Acts have been modelled on the English Acts. Following the enactment of the Joint Stock Companies Act, 1844 in England, the first Companies Act was passed in India in 1850. It provided for the registration of the companies and transferability of shares. The Amending Act of 1857 conferred the right of registration with or without limited liability. Subsequently this right was granted to banking and insurance companies by an Act of 1860 following the similar principle in Britain. The Companies Act of 1856 repealed all the previous Acts. That Act provided inter alia for incorporation, regulation and winding up of companies and other associations. This Act was recast in 1882, embodying the amendments which were made in the Company Law in England upto that time. In 1913 a consolidating Act was passed, and major amendments were made to the consolidated Act in 1936. In the meantime England passed a comprehensive Companies Act in 1948. In 1951, the Indian Government promulgated the Indian Companies (Amendment) Ordinance under which the Central Government and the Court assumed extensive powers to intervene directly in the affairs of the company and to take necessary action in the interest of the company. The ordinance was replaced by an Amending Act of 1951.

The Companies Act, 1956 was enacted with a view to consolidate and amend the earlier laws relating to companies and certain other associations. The Act came into force on 1st April, 1956. The present Companies Act is based largely on the recommendations of the Company Law Committee (Bhabha Committee) which submitted its report in March, 1952. This Act is the longest piece of legislation ever passed by our Parliament. Amendments have been made in this Act periodically. The Companies Act consists of 658 Sections and 15 Schedules.

Full and fair disclosure of various matters in prospectus; detailed information of the financial affairs of company to be disclosed in its account; provision for intervention and investigation by the Government into the affairs of a company; restrictions on the powers of managerial personnel; enforcement of proper performance of their duties by company management; and protection of minority shareholders were some of the main features of the Companies Act, 1956.

The Companies Act, 1956 has undergone changes by amendments in 1960, 1962, 1963, 1964, 1965, 1966, 1967, 1969, 1971, 1977, 1985, 1988, 1996, 1999, 2000, 2002 (Amendment), 2002 (Second Amendment), and 2006.

CONCEPT PAPER ON COMPANY LAW, 2004 & J.J. IRANI REPORT

To frame a law that enables companies to achieve global competitiveness in a fast changing economy, the Government had taken up a fresh exercise for a comprehensive revision of the Companies Act, 1956, albeit through a consultative process. As the first step in this direction, a Concept Paper on Company Law drawn up in the legislative format was exposed for public viewing on the electronic media so that all interested parties may not only express their opinions on the concepts involved but may also suggest formulations on various aspects of Company Law.

The response to the concept paper on Company Law was tremendous. The Government, therefore, felt

it appropriate that the proposals contained in the Concept Paper and suggestions received thereon be put to merited evaluation by an independent Expert Committee. A Committee was constituted on 2nd December, 2004 under the Chairmanship of Dr. J J Irani, the then Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956 with the objective to have a simplified compact law that will be able to address the changes taking place in the national and international scenario, enable the adoption of internationally accepted best practices as well as provide adequate flexibility for timely evolution of new arrangements in response to the requirements of ever-changing business models. The Committee submitted its report to the Government on 31st May 2005.

Dr. J J Irani Expert Committee on Company Law had submitted its report charting out the road map for a flexible, dynamic and user-friendly new company law. The Committee had taken a pragmatic approach keeping in view the ground realities, and had sought to address the concerns of all the stakeholders to enable adoption of internationally accepted best practices. As one wades through the report, one finds an arduous zeal to ensure that flexibility is coupled with accountability and transparency. Be it the role of directors in the management of the company or the role of promoters at the time of incorporation or the responsibility of professionals in ensuring better governance, the report had made very dynamic and balanced recommendations. The Report of the Committee had also sought to bring in multifarious progressive and visionary concepts and endeavored to recommend a significant shift from the "Government Approval Regime" to a "Shareholder Approval and Disclosure Regime".

The Expert Committee had recommended that private and small companies need to be given flexibilities and freedom of operations and compliance at a low cost. Companies with higher public interest should be subject to a stricter regime of Corporate Governance. Further, Government companies and public financial institutions should be subject to similar parameters with respect to disclosures and Corporate Governance as other companies are subjected to.

To attune the Indian Company Law with the global reforms taking place in the arena, the Report of the Committee had sought to bring in multifarious visionary concepts, which if accepted and acted upon would really simplify the voluminous and cumbersome Companies Act in the country.

Important Committees recommending changes to the Companies Act

1952 Bhabha Committee - The Government of India appointed a Committee of twelve members representing various interests under the chairmanship of Shri C.H. Bhabha, to go into the entire question of the revision of the Companies Act, 1913.

1957 Sastri Committee - The Government of India appointed a Committee of six members under the chairmanship of Shri A.V. Visvanatha Sastri to overcome such practical difficulties in its working as may have been encountered since it came into force, to remove such drafting defects and obscurities as may have interfered with the working of the Companies Act, to ensure the better fulfilment of the purposes underlying the Act and to consider what changes in the form or structure of the Act, if any.

1978 Sachar Committee - This Committee was constituted by Government under the Chairmanship of Shri Rajindar Sachar to consider and report on what changes are necessary in the Companies Act, 1956, with particular reference to the modifications which are required to be made in the form and structure of the Companies Act, 1956, so, as to simplify them and to make them more effective, wherever necessary.

1997 Chandrate Committee - Chandrate Committee was formed under the chairmanship of Dr. K.R. Chandratre. The main objective of the Group was to re-write the Companies Act, 1956 to facilitate a healthy growth of the Indian corporate sector under a liberalised, fast changing and highly competitive environment.

2000 Eradi Committee - The Eradi Committee was setup under the Chairmanship of Shri Justice V.

Balakrishna Eradi consisting of experts to examine the existing law relating to winding up proceedings of companies in order to remodel it in line with the latest developments and innovations in the corporate law and governance.

2002 Joshi Committee - The Committee was constituted under the Chairmanship of Shri R.D. Joshi to examine the remanants of the Companies Bill, 1997.

2003 Naresh Chandra Committee - This Committee was constituted by Government under the Chairmanship of Shri. Naresh Chandra, to Regulate Private Companies and Partnerships.

2005 Irani Committee - The Irani Committee was constituted under the chairmanship of Dr. J J Irani, Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956.

2005 Vaish Committee - The Government of India appointed a Committee under the Chairmanship of O.P. Vaish to streamline the prosecution mechanism under the Companies Act, 1956 to make it more effective.

Company Law Committee - The government of India has constituted a Company Law Committee for examining and making recommendations to the Government on various provisions and issues pertaining to implementation of the Companies Act, 2013 and the Limited Liability Partnership Act, 2008.

Companies Bill, 2012

The Government considered the recommendations of Irani Committee and also had detailed discussions and liberations with various stakeholders viz Industry Chambers, Professional Institutes, Government Departments, Legal Experts and Professionals etc. Thereafter, the Companies Bill, 2009 was introduced in the Lok Sabha on 3rd August, 2009, The Bill laid greater emphasis on self-regulation and minimization of regulatory approvals in managing the affairs of the company. The Bill promised greater shareholder democracy, vesting the shareholders with greater powers, containing stricter corporate governance norms and requiring greater disclosures. The Companies Bill, 2009 after introduction in Parliament was referred to the Parliamentary Standing Committee on Finance for examination which submitted its report to Parliament on 31st August, 2010. Certain amendments were introduced in the Bill in the light of the report of the Committee and a revised Companies Bill, 2011 was introduced. This version was also referred to the Hon'ble Committee, which suggested certain further amendments. The amended Bill was passed by the Lok Sabha on 18th December, 2012 and by the Rajya Sabha on 8th August, 2013. The Bill was retitled as Companies Bill, 2012.

COMPANIES ACT, 2013

The Companies Bill, 2012 finally became the Companies Act, 2013. It received the assent of the President on August 29, 2013 and was notified in the Gazette of India on 30.08.2013. Companies Act, 2013 has undergone various amendments aimed at enhancing efficiency and promoting ease of doing business. The Act was also amended by The Insolvency and Bankruptcy Code, 2016 and Finance Act, 2017. The Insolvency and Bankruptcy Code, 2016 led to omission of various sections i.e. section 253 to section 269, section 289, section 304 to section 323 and section 325. The Companies (Amendment) Act, 2019 and Companies Amendment Act, 2020 have decriminalised the Companies Act, 2013 significantly. The Finance Act, 2017 amended section 182 with regard to prohibitions and restrictions regarding political contributions. So far Ministry has come out with several circulars, notifications, Orders and various amendment rules to facilitate better and smooth implementation of the Act.

The Companies Act 2013 introduced new concepts supporting enhanced disclosure, accountability, better board governance, and better facilitation of business and so on. It includes associate company, one

Person Company, small company, dormant company, independent director, women director, resident director, special court, secretarial standards, secretarial audit, class action, registered valuers, rotation of auditors, vigil mechanism, corporate social responsibility, E-voting etc.

Applicability of Companies Act, 2013

According to section 1 of the Companies Act, 2013, the Act extends to whole of India and the provisions of the Act shall apply to the following:-

- (a) Companies incorporated under this Act or under any previous company law;
- (b) Insurance companies, except in so far as the said provisions are inconsistent with the provisions of the Insurance Act, 1938 (4 of 1938) or the Insurance Regulatory and Development Authority Act, 1999;
- (c) Banking companies, except in so far as the said provisions are inconsistent with the provisions of the Banking Regulation Act, 1949;
- (d) companies engaged in the generation or supply of electricity, except in so far as the said provisions are inconsistent with the provisions of the Electricity Act, 2003;
- (e) any other company governed by any special Act for the time being in force, except in so far as the said provisions are inconsistent with the provisions of such special Act; and
- (f) such body corporate, incorporated by any Act for the time being in force, as the Central Government may, by notification, specify in this behalf, subject to such exceptions, modifications or adaptation, as may be specified in the notification.

Companies Act, 2013 is not applicable to unincorporated companies. An unincorporated company, association or partnership consisting of large number of persons has been declared illegal.

By virtue of section 464 of the Companies Act, 2013, no association or partnership consisting of more than such number of persons as may be prescribed shall be formed for the purpose of carrying on any business that has for its object the acquisition of gain by the association or partnership or by the individual members thereof, unless it is registered as a company under this Act or is formed under any other law for the time being in force. Rule 10 of Companies (Miscellaneous) Rules, 2014 prescribes 50 persons in this regard. The maximum number of persons which may be prescribed under this section shall not exceed 100.

Section 464 of the Act does not apply to the case of a Hindu undivided family carrying on any business whatever may be the number of its members. However, this section is also not applicable to an association or partnership, if it is formed by professionals who are governed by special Acts.

TYPES OF COMPANIES

Companies may be classified on the basis of their incorporation, number of members, size, basis of control and motive. On the basis of incorporation of the companies, it may be classified into Charter Companies, Statutory Companies and Registered Companies. On the basis of liability, it may be Companies limited by shares/guarantee and unlimited liability companies. Further, on the basis of number of members, they may be classified into One Person Company, private company and public company. On the basis of size, they may be divided into small companies and other companies. On the basis of control, they may be classified into holding company, subsidiary company and associate company. Besides, companies may be nonprofit companies licensed under Section 8, Government companies, foreign companies, holding/subsidiary companies, investment companies, producer companies etc.

The Companies Act, 2013 provides for the kinds of companies that can be promoted and registered under the Act. The three basic types of companies which may be registered under the Act are:

- Private Companies;
- Public Companies;
- One Person Company

Private Company

Private company means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,—

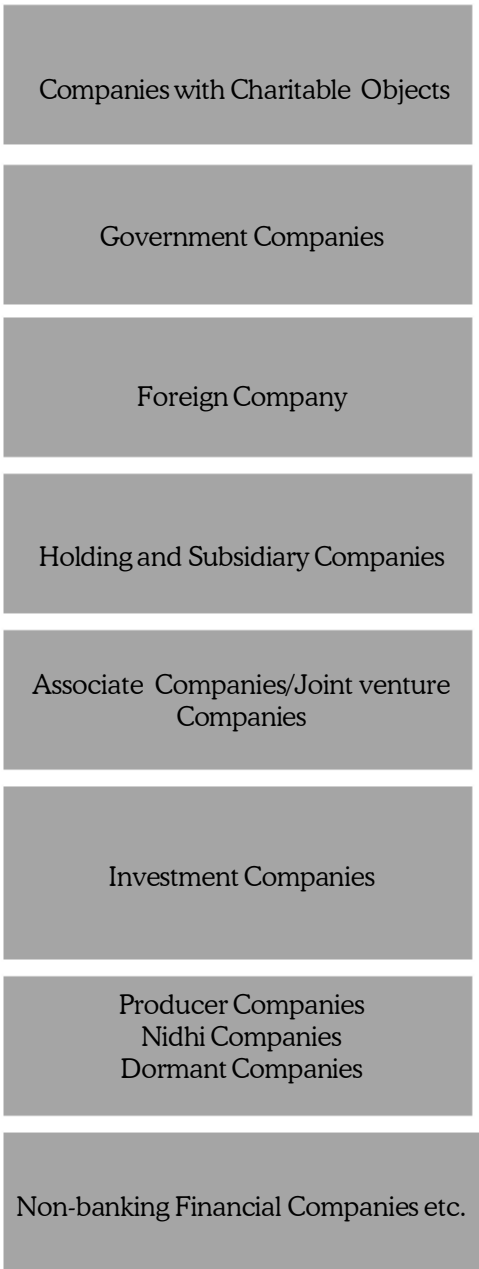
- (i) restricts the right to transfer its shares;
- (ii) except in case of One Person Company, limits the number of its members to two hundred:

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member:

Provided further that—

- (A) persons who are in the employment of the company; and
- (B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and
- (iii) prohibits any invitation to the public to subscribe for any securities of the company.

Other Forms of Companies



Public Company

Public company means a company which—

- (a) is not a private company and;
- (b) has a minimum paid-up share capital as may be prescribed:

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

One Person Company

One Person Company means a company which has only one person as a member.

Companies with Charitable Objects

A person or an association of persons registered and licensed under Section 8 of the Companies Act, 2013 as a limited company—

- (a) has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;
- (b) intends to apply its profits, if any, or other income in promoting its objects; and
- (c) intends to prohibit the payment of any dividend to its members.

Government Company

Government company means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Foreign Company

Foreign company means any company or body corporate incorporated outside India which,—

- (a) Has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) Conducts any business activity in India in any other manner.

Associate Company

Associate Company in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation:

- (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;
- (b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Holding Company

Holding company in relation to one or more other companies, means a company of which such companies are subsidiary companies. It may be noted that here "company" includes anybody corporate.

Subsidiary Company or Subsidiary

Subsidiary company or "subsidiary, in relation to any other company (that is to say the holding company), means a company in which the holding company—

- (i) Controls the composition of the Board of Directors; or

- (ii) Exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation.—For the purposes of this clause,—

- (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression "company" includes anybody corporate
- (d) "Layer" in relation to a holding company means its subsidiary or subsidiaries;

Small Company

Small company means a company, other than a public company,—

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees:

Provided that nothing in this clause shall apply to—

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act;

Dormant Company

- Where a company is formed and registered for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar for obtaining the status of a dormant company.
- "inactive company" means a company which has not been carrying on any business or operation, or has not made any significant accounting transaction during the last two financial years, or has not filed financial statements and annual returns during the last two financial years;
- In case of a company which has not filed financial statements or annual returns for two financial years consecutively, the Registrar shall issue a notice to that company and enter the name of such company in the register maintained for dormant companies.
- A dormant company shall have a minimum number of three directors in case of a public company, two directors in case of a private company and one director in case of a One Person Company.
- The Registrar shall strike off the name of a dormant company from the register of dormant companies, which has failed to comply with the requirements.

Nidhi Company

Nidhi means a company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, and which complies with such rules as are prescribed by the Central Government for regulation of such class of companies.

Producer Companies

According to section 378A(I) of the Companies Act, 2013, "Producer Company" means a body corporate having objects or activities specified in section 378B and registered as Producer Company under Companies Act, 2013 or under the Companies Act, 1956;

In terms of Section 378B (1) of the Companies Act, 2013, the objects of the Producer Company shall relate to all or any of the following matters, namely:

- (a) production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit: Provided that the Producer Company may carry on any of the activities specified in this clause either by itself or through other institution;
- (b) processing including preserving, drying, distilling, brewing, vinting, canning and packaging of produce of its Members;
- (c) manufacture, sale or supply of machinery, equipment or consumables mainly to its Members;
- (d) providing education on the mutual assistance principles to its Members and others;
- (e) rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members;
- (f) generation, transmission and distribution of power, revitalisation of land and water resources, their use, conservation and communications relatable to primary produce;
- (g) insurance of producers or their primary produce;
- (h) promoting techniques of mutuality and mutual assistance;
- (i) welfare measures or facilities for the benefit of Members as may be decided by the Board;
- (j) any other activity, ancillary or incidental to any of the activities referred to in clauses (a) to (i) or other activities which may promote the principles of mutuality and mutual assistance amongst the Members in any other manner;
- (k) financing of procurement, processing, marketing or other activities specified in clauses (a) to (j) which include extending of credit facilities or any other financial services to its Members.

Non-Banking Financial Company (NBFC)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

FORMATION OF COMPANY

According to Companies Act 2013, a company may be formed for any lawful purpose by—

- (a) Seven or more persons, where the company to be formed is a public company;
- (b) Two or more persons, where the company to be formed is a private company; or
- (c) one person, where the company to be formed is a One Person Company that is to say, a private company.

A company formed above may be either—

- (a) a company limited by shares; or
- (b) a company limited by guarantee; or
- (c) an unlimited company.

Company Limited by Shares means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them;

Company Limited by Guarantee means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up;

Unlimited Company means a company not having any limit on the liability of its members.

INCORPORATION OF COMPANY

1. The Application for incorporation of a company shall be in SPICe+ (Simplified Proforma for Incorporating company Electronically Plus: INC-32) alongwith e-Memorandum of Association (e-MOA) in Form No. INC-33 and e-Articles of association (e-AOA) in Form no. INC-34.

In case of incorporation of a company falling under section 8 of the Companies Act, 2013 Form shall be filed with Form No. INC-13 (Memorandum of Association) and Form No. INC-31 (Articles of Association) as attachments.

The application for allotment of Director Identification Number(DIN) upto three Directors, reservation of a name, incorporation of company and appointment of Directors of the proposed company shall be filed in SPICe+ with the Registrar having jurisdiction of proposed office along with the additional fee of rupees five hundred.

The promoter or applicant of the proposed company shall propose only one name in form SPICe+.

The subscribers and witness or witnesses shall affix their digital signatures to the e-MoA and e-AoA.

A company using the above form and provisions may furnish verification of its registered office by filing SPICe+ alongwith the documents specified.

The Certificate of Incorporation of company shall be issued by the Registrar of Companies in Form No. INC-11.”

Declaration in the prescribed form by an advocate, a chartered accountant, cost accountant or company secretary in practice, who is engaged in the formation of the company, and by a person named in the articles as a director, manager or secretary of the company, that all the requirements of the Act and the rules made thereunder in respect of registration and matters precedent or incidental thereto have been complied with;

Directors, if any, in the articles that he is not convicted of any offence in connection with the promotion, formation or management of any company, or that he has not been found guilty of any fraud or misfeasance or of any breach of duty to any company under this Act or any previous company law during the preceding five years and that all the documents filed with the Registrar for registration of the company contain information that is correct and complete and true to the best of his knowledge and belief.

The application for incorporation of a company shall be accompanied by e-form AGILE-PRO-S (INC-35) containing an application for registration of the following numbers, namely:-

- (a) GSTIN with effect from 31st March, 2019
- (b) EPFO with effect from 8th April, 2019
- (c) ESIC with effect from 15th April, 2019
- (d) Profession Tax Registration with effect from the 23rd February, 2020
- (e) Opening of Bank Account with effect from 23rd February, 2020.
- (f) Shops and Establishment Registration.

Important information for Incorporation of a Company

- Address for correspondence till its registered office is established;
 - Particulars of name, including surname or family name, residential address, nationality and such other particulars of every subscriber to the memorandum along with proof of identity;
 - Particulars of the persons mentioned in the articles as the first directors of the company, their names, including surnames or family names, the Director Identification Number, residential address, nationality and such other particulars including proof of identity; and
 - Particulars of the interests of the persons mentioned in the articles as the first directors of the company in other firms or bodies corporate along with their consent to act as directors of the company in such form and manner.
- (2) The Registrar on the basis of documents and information filed above shall register all the documents and information referred to in that sub-section in the register and issue a certificate of incorporation in to the effect that the proposed company is incorporated under the Act.
 - (3) On and from the date mentioned in the certificate of incorporation issued, the Registrar shall allot to the company a corporate identity number, which shall be a distinct identity for the company and which shall also be included in the certificate.
 - (4) The company shall maintain and preserve at its registered office copies of all documents and information as originally filed in point no. (1) above till its dissolution under the Act.
 - (5) If any person furnishes any false or incorrect particulars of any information or suppresses any material information, of which he is aware in any of the documents filed with the Registrar in relation to the registration of a company, he shall be liable for action Punishment for Fraud under section 447.

SHARE CAPITAL

The term 'Capital' has a variety of meanings. It may mean one thing to an economist, another to an accountant, while another to a businessman or a lawyer. A layman views capital as the money, which a

company has raised by issue of its shares. It uses this money to meet its requirements by way of acquiring business premises and stock-in-trade, which are called the fixed capital and the circulating capital respectively.

Share is a share in the share capital of the company, and includes stock except where a distinction between stock and shares is expressed or implied. Share capital refers to the funds that a company raises in exchange for issuing an ownership interest in the company in the form of shares. Share capital may also describe the number and types of shares that compose a company's share structure.

In Company Law, Capital is the share capital of a company, which is classified as:

Nominal, Authorized or Registered Capital : Such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.

Issued Capital : Such capital as the company issues from time to time for subscription. It is that part of the authorised or nominal capital which the company issues for the time being for public subscription and allotment. This is computed at the face or nominal value.

Subscribed Capital : Such part of the capital which is for the time being subscribed by the members of a company. It is that portion of the issued capital at face value which has been subscribed for or taken up by the subscribers of shares in the company. It is clear that the entire issued capital may or may not be subscribed.

Called-up Capital : Such part of the capital, which has been called for payment. It is that portion of the subscribed capital which has been called up or demanded on the shares by the company.

Paid-up Share Capital : Such aggregate amount of money credited as paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called.

Equity Share Capital : equity share capital with reference to any company limited by shares, means all share capital which is not preference share capital.

Preference Share Capital : preference share capital with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to—

- (a) payment of dividend, either as a fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income-tax; and
- (b) repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid-up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company

BOARD OF DIRECTORS

The company is an artificial person and is managed by the human beings. The people who run it are known as Board of Directors. Directors acting collectively are known as Board. The directors play a very important role in the day to day functioning of the company. It is the board, who is responsible for the company's overall performance.

Section 2(10) of the Companies Act, 2013 defines that "Board of Directors" or "Board", in relation to a company, means the collective body of the directors of the company. The term 'Board of Directors' means a body duly constituted to direct, control and supervise the affairs of a company.

As per Section 149 of the Companies Act, 2013, the Board of Directors of every company shall consist of individual only. Thus, no body corporate, association or firm shall be appointed as director.

Section 149(1) of the Companies Act, 2013 requires that every company shall have a minimum number of 3 directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One Person Company. A company can appoint maximum 15 fifteen directors. However, a company may appoint more than fifteen directors after passing a special resolution in general meeting. The restriction of maximum number of directors shall not apply to section 8 companies.

Section 149(3) provides that every company shall have at least one director who has stayed in India for a total period of not less than one hundred and eighty-two days in the previous calendar year.

The proviso to Section 149(1) requires that a certain class of prescribed companies shall have at least one woman director.

Appointment of Directors

Section 152 of the Companies Act, 2013 provides that where there is no provision made in Articles of Association of the company for appointment of first directors then the subscribers to the memorandum who are individuals shall be deemed to be the first directors of the company until the directors are duly appointed by the member. Every director shall be appointed by the company in general meeting.

A person shall not be appointed as a director of a company unless he has been allotted the Director Identification Number or any other number. Every person proposed to be appointed as a director by the company in general meeting or otherwise, shall furnish his Director Identification Number or such other number as may be prescribed and a declaration that he is not disqualified to become a director under the Act.

A person appointed as a director shall not act as a director unless he gives his consent to hold the office as director and such consent has been filed with the Registrar within thirty days of his appointment.

- (a) Unless the articles provide for the retirement of all directors at every annual general meeting, not less than two-thirds of the total number of directors of a public company shall—
 - (i) be persons whose period of office is liable to determination by retirement of directors by rotation; and
 - (ii) save as otherwise expressly provided in the Act, be appointed by the company in general meeting.
- (b) The remaining directors in the case of any such company shall, in default of, and subject to any regulations in the articles of the company, also be appointed by the company in general meeting.
- (c) At the first annual general meeting of a public company held next after the date of the general meeting at which the first directors are appointed in accordance with clauses (a) and (b) and at every subsequent annual general meeting, one-third of such of the directors for the time being as are liable to retire by rotation, or if their number is neither three nor a multiple of three, then, the number nearest to one-third, shall retire from office.
- (d) The directors to retire by rotation at every annual general meeting shall be those who have been longest in office since their last appointment, but as between persons who became directors on the same day, those who are to retire shall, in default of and subject to any agreement among themselves, be determined by lot.
- (e) At the annual general meeting at which a director retires as aforesaid, the company may fill up the vacancy by appointing the retiring director or some other person thereto.

The articles of a company may confer on its Board of Directors the power to appoint any person, other than a person who fails to get appointed as a director in a general meeting, as an additional director at any time who shall hold office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier.

Companies Act empowers the Board, if so authorized by its articles or by a resolution passed by the company in general meeting, to appoint a director (termed as 'alternate director') to act in the absence of an original director during his absence for a period of not less than three months from India.

Removal of Directors

A company may, by ordinary resolution, remove a director, not being a director appointed by the National Company Law Tribunal, before the expiry of the period of his office after giving him a reasonable opportunity of being heard.

An independent director re-appointed for second term shall be removed by the company only by passing a special resolution and after giving him a reasonable opportunity of being heard.

A special notice shall be required of any resolution, to remove a director under this section, or to appoint somebody in place of a director so removed, at the meeting at which he is removed.

A vacancy created by the removal of a director may, if he had been appointed by the company in general meeting or by the Board, be filled by the appointment of another director in his place at the meeting at which he is removed.

A director so appointed shall hold office till the date up to which his predecessor would have held office if he had not been removed.

MEETINGS OF THE BOARD

Meetings of the Board are significant in the light of running of the company more efficiently and effectively. Companies Act, 2013, mandates a company to hold minimal number of meetings of the Board for its proper functioning. Board meetings are crucial for a company's development as the because of the reason that in these formal meetings are held to devise policies, drive the management, strategize and evaluate the expectations of the stakeholders.

Companies Act provides that the first Board meeting should be held within thirty days of the date of incorporation. Thereafter there shall be minimum of four Board meetings every year and not more one hundred and twenty days shall intervene between two consecutive Board meetings.

In case of One Person Company (OPC), small company, dormant company at least one Board meeting should be conducted in each half of the calendar year and the gap between two meetings should not be less than Ninety days. However, this provision would not apply to a one person company in which there is only one director on its Board. Board of Directors of Section 8 Company shall hold at least one meeting within every six calendar months.

Directors may participate in the meeting either in person or through video conferencing or other audio visual means. One third of total strength or two directors, whichever is higher, shall be the quorum for a meeting.

SHAREHOLDERS MEETINGS

A meeting may be generally defined as a gathering or assembly or getting together of a number of persons for transacting any lawful business. There must be at least two persons to constitute a meeting. Therefore, one shareholder usually cannot constitute a company meeting even if he holds proxies for other shareholders. However, in certain exceptional circumstances, even one person may constitute a meeting.

It is to be noted that every gathering or assembly does not constitute a meeting. Company meetings must be convened and held in perfect compliance with the various provisions of the Companies Act, 2013 and the rules framed thereunder. A general meeting is a meeting of the members of the company. The decision making powers of a company are vested in the members and the directors. They exercise their respective powers through Resolutions passed by them. General meetings of the members provide a platform to express their will in regard to the management of the affairs of the company.

Annual general meeting (AGM) is an important annual event where members get an opportunity to discuss the activities of the company. Convening of one such meeting every year is compulsory. Annual general meeting should be held once in each calendar year. Subsequent annual general meeting of the company should be held within 6 months from the date of closing of the relevant financial year. The gap between two annual general meetings shall not exceed 15 months.

An annual general meeting can be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday. It should be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated. However, annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance. The Central Government is empowered to exempt any company from these provisions, subject to such conditions as it may impose.

According to Section 102(2)(a) in the case of an annual general meeting, all business to be transacted thereat shall be deemed special, other than—

- (i) The consideration of financial statements and the reports of the Board of Directors and auditors;
- (ii) The declaration of any dividend;
- (iii) The appointment of directors in place of those retiring;
- (iv) The appointment of, and the fixing of the remuneration of, the auditors; and

Further, Section 102(2) (b) provides that in the case of any other meeting, all business shall be deemed to be special.

Section 99 of the Companies Act provides that if any default is made in complying or holding a meeting of the company, the company and every officer of the company who is in default shall be punishable with fine which may extend to one lakh rupees and in case of continuing default, with a further fine which may extend to five thousand rupees for each day during which such default continues.

CORPORATE SOCIAL RESPONSIBILITY

- According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director.
- The Board's report shall disclose the composition of the Corporate Social Responsibility Committee.
- The Corporate Social Responsibility Committee shall (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII; (b) recommend the amount of expenditure to be incurred on the activities; and (c) monitor the Corporate Social Responsibility Policy of the company from time to time.

- The Board of every company referred to in section 135(1) of the Companies Act, 2013 shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.
- In case the unspent amount does not relate to any ongoing project, unspent amounts to be transferred to a Fund specified under Schedule VII within a period of six months of the expiry of the financial year.
- In case the unspent amount relates to any ongoing project subject to fulfilling of prescribed conditions, unspent amounts to be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account.
- Such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.
- Penal provisions for non-compliances are as under :

The company – liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less.

Every officer of such company who is in default - liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.

Activities which may be included by companies in their Corporate Social Responsibility Policies Activities relating to:—

- (i) Eradicating hunger, poverty and malnutrition, “promoting health care including preventive health care” and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water;
- (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects;
- (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga;
- (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;

- (vi) measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows;
- (vii) training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports;
- (viii) contribution to the prime minister's national relief fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;
- (ix) (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and
 - (b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).]
- (x) rural development projects;
- (xi) slum area development;

Explanation. - For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.
- (xii) disaster management, including relief, rehabilitation and reconstruction activities.

BUSINESS ETHICS

Business ethics is nothing but the application of ethics in business. Business ethics is the application of general ethical ideas to business behaviour. Ethical business behaviour facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity. The concept of business ethics has come to mean various things to various people, but generally it's coming to know what is right or wrong in the workplace and doing what's right - this is in regard to effects of products/ services and in relationships with stakeholders. Business ethics is concerned with the behaviour of a businessman in doing a business. Unethical practices are creating problems to businessman and business units. The life and growth of a business unit depends upon the ethics practiced by a businessman. Business ethics are developed over the passage of time and custom. A custom differs from one business to another. If a custom is adopted and accepted by businessman and public, that custom will become an ethic. Business ethics is applicable to every type of business. The social responsibility of a business requires the observing of business ethics. A business man should not ignore the business ethics while assuming social responsibility. Business ethics means the behaviour of a businessman while conducting a business, by observing morality in his business activities. According to Wheeler, Business Ethics is an art and science for maintaining harmonious relationship with society, its various groups and institutions as well as reorganizing the moral responsibility for the rightness and wrongness of business conduct. According to Rogene. A. Buchholz,

Business ethics refers to right or wrong behaviour in business decisions.

Business Ethics or Ethical standards are the principles, practices and philosophies that guide the business people in the day to day business decisions. It relates to the behaviour of a businessman in a business situation. They are concerned primarily with the impacts of decisions on the society within and outside the business organizations or other groups who keep interest in the business activities. Business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. - School of Distance Education.

The Principles of business ethics developed by well-known authorities like Cantt, J. S. Mill, Herbert Spencer, Plato, Thomas Garret, Woodrad, Wilson etc are as follows:

1. *Sacredness of means and ends* : The first and most important principle of business ethics emphasizes that the means and techniques adopted to serve the business ends must be sacred and pure. It means that a good end cannot be attained with wrong means, even if it is beneficial to the society.
2. *Not to do any evil* : It is unethical to do a major evil to another or to oneself, whether this evil is a means or an end.
3. *Principle of proportionality* : This principle suggests that one should make proper judgment before doing anything so that there is a fair view taken & others do not suffer from any loss or risk of evils by the conduct of business.
4. *Non-co-operation in evils* : It clearly pints out that a business should not co-operate with any one for doing any evil acts.
5. *Co-operation with others* : This principles state that business should help others only in that condition when others deserve help.
6. *Publicity* : According to W. Wilson, anything that is being done or to be done, should be brought to the knowledge of everyone. If everyone knows, none gets opportunity to do an unethical act.
7. *Equivalent price* : According to W. Wilson, the people are entitled to get goods equivalent to the value of money that they will pay.
8. *Universal value* : According to this principle the conduct of business should be done on the basis of universal values.
9. *Human dignity* : As per this principle, man should not be treated as a factor of production and human dignity should be maintained.
10. *Non-violence* : If businessman hurts the interests and rights of the society and exploits the consumer by overlooking their interests this is equivalent to violence and unethical act.

ETHICAL DILEMMA

Dilemma is a situation that requires a choice between options that are or seem equally unfavorable or mutually exclusive. By definition, an ethical dilemma involves the need to choose from among two or more morally acceptable courses of action, when one choice prevents selecting the other; or, the need to choose between equally unacceptable alternatives (Hamric, Spross, and Hanson, 2000).

A dilemma could be a *right vs. wrong situation* in which the right would be more difficult to pursue and wrong would be more convenient. A right versus wrong dilemma is not so easy to resolve. It often

involves an apparent conflict between moral imperatives, in which to obey one would result in transgressing the other. This is also called an ethical paradox.

An ethical dilemma involves a situation that makes a person question what is the 'right' or 'wrong' thing to do. They make individuals think about their obligations, duties or responsibilities. These dilemmas can be highly complex and difficult to resolve. Easier dilemmas involve a 'right' versus 'wrong' answer; whereas, complex ethical dilemmas involve a decision between a right and another right choice. However, any dilemma needs to be resolved.

Addressing Ethical Dilemmas

The ethical dilemma consideration takes us into the grey zone of business and professional life, where things are no longer black or white and where ethics has its vital role today. A dilemma is a situation that requires a choice between equally balanced arguments or a predicament that seemingly defies a satisfactory solution. An ethical dilemma is a moral situation in which a choice has to be made between two equally undesirable alternatives. Dilemmas may arise out of various sources of behaviour or attitude, as for instance, it may arise out of failure of personal character, conflict of personal values and organizational goals, organizational goals versus social values, etc.

A business dilemma exists when an organizational decision maker faces a choice between two or more options that will have various impacts on:

- (i) The organization's profitability and competitiveness; and
- (ii) Its stakeholders.

In situations of this kind, one must act out of prudence to take a better decision.

Lesson 5

**LEGAL
REASONING**

LEGAL TERMINOLOGY AND MAXIMS

A priori : From the antecedent to the consequent.

Ab initio : From the beginning.

Absolute sententia expositore non-indigent : Plain words require no explanation.

Actio mixta : Mixed action.

Actio personalis moritur cum persona : A personal right of action dies with the person.

Actionable per se : The very act is punishable and no proof of damage is required.

Actus Curiae Neminem Gravabit : Act of the Court shall prejudice no one.

Actus non facit reum nisi mens sit rea : An act does not make a man guilty unless there be guilty intention.

Actus reus : Wrongful act.

Ad hoc : For the particular end or case at hand.

Ad idem : At the same point.

Ad valorem : According to value.

Aliunde : From another source.

Amicus Curiae : A friend of court member of the bar who is appointed to assist the Court.

Animus possidendi : Intention to possess

Audi alteram partem : Hear the other side.

Benami : Nameless.

Bona fide : Good faith; genuine.

Caveat : A caution registered with the public court to indicate to the officials that they are not to act in the matter mentioned in the caveat without first giving notice to the caveator.

Caveat emptor : Let the buyer beware.

Caveat actor : Let the doer beware.

Caveat venditor : Let the seller beware.

Certiorari : A writ by which records of proceeding are removed from inferior courts to High Court and to quash decision that goes beyond its jurisdiction.

Cestui que trust : The person who has the equitable right to property in India he is known as beneficiaries.

Consensus ad idem : Common consent necessary for a binding contract.

Contemporanea expositio est optima et fortissima lege : A contemporaneous exposition or language is the best and strongest in Law.

Corpus delicti : Body/gist of the offence.

Cy pres : As nearly as may be practicable.

Damnum sine injuria : Damage without injury.

De facto : In fact.

De jure : By right (opposed to de facto) in Law

Dehors : Outside; foreign to (French term).

De novo : To make something new; To alter.

Dies non : Day on which work is not performed.

Deceit : Anything intended to mislead another.

Del credere agent : is a mercantile agent who in consideration of extra remuneration called a del credere commission undertakes to indemnify his employer against loss arising from the failure of persons with whom he contracts to carry out their contracts.

Delegate potestas non-potest delegari : A delegated power cannot be delegated further.

Delegatus non potest delegare : A delegate cannot delegate.

Dictum : Statement of law made by judge in the course of the decision but not necessary to the decision itself.

Dispono : Convey legally.

Ejusdem generis : Where there are general words following particular and specific words, the general words must be confined to things of the same kind as those specified.

Estoppel : Stopped from denying.

Ex parte : Proceedings in the absence of the other party.

Expressio unius est exclusio alterius : Express mention of one thing implies the exclusion of another or which is shortly put.

Ex turpi causa non oritur actio : No action arises from an illegal or immoral cause.

Fatum : Beyond human foresight.

Fait accompli : Things done and no longer worth arguing against; an accomplished act.

Factum probandum : Fact in issue which is to be proved.

Factum probans : Relevant fact.

Ferae natureae : Dangerous by nature.

Force majeure : Circumstance beyond one's control, irresistible force or compulsion

Generalia specialibus non derogant : General things do not derogate from special.

Habeas corpus : A writ to have the body to be brought up before the judge.

Ignorantia legis neminem excusat : Ignorance of law excuses no one.

Injuria sine damno : Injury without damage.

Interest reipublicae ut sit finis litium : State or public interest requires that there should be a limit to litigation.

Ispo facto : By the very nature of the case.

In promptu : In readiness.

In posse : In a state of possibility.

In limine : Initial stage; at the outset.

In lieu of : Instead of.

Inter alia : Among other things.

Inter se : Among themselves.

In specie : In kind.

Inter vivos : Between living persons.

Intra vires : Within the powers.

In personam : A proceeding in which relief is sought against a specific person.

Indicia : A symbol; token; mark.

Innuendo : Allusive remark.

Jus in personam : Right against a person.

Jus in rem : Right against the world at large.

Jus non scriptum : Unwritten law; Customary Law.

Jus scriptum : Written Law.

Lex Mercatoria : The law merchant, is a body of legal principles founded on the customs of merchants in their dealings with each other, and though at first distinct from the common law, afterwards became incorporated into it.

Lex fori : The law of the forum of court.

Lis : A suit cause of action.

Lis pendens : A pending suit.

Locus standi : Right of a party to an action to appear and be heard on the question before any tribunal.

Mala fide : In bad faith.

Mandamus : A writ of command issued by a Higher Court to a Lower Court/Government/Public Authority.

Mens rea : Guilty mind.

Manesuetae natureae : Harmless by nature.

Mesne profits : The rents and profits which a trespasser has received/made during his occupation of premises.

Misnomer : A wrong name.

Mutatis-mutandis : With necessary changes in points of detail.

Noscitur a sociis : A word is known by its associated, one is known by his companions.

Obiter dictum : An incidental opinion by a judge which is not binding.

Onus Probandi : Burden of proof.

Pari passu : On equal footing or proportionately.

Per se : By itself taken alone.

Persona non-grata : Person not wanted.

Per incuriam : Through want of care; through inadvertance.

Prima facie: At first sight; on the face of it.

Profit a prendre : A right for a man in respect of his tenement.

Pro bono publico : For the public good.

Pro forma : As a matter of form.

Pro rata : In proportion.

Posteriori : From the consequences to the antecedent.

Puisne mortgage : Second mortgage.

Pari causa : Similar circumstances, with equal right.

Pari materia : Relating to same person or thing.

Qui facit per alium facit per se : He who acts through another is acting by himself.

Quo warranto : A writ calling upon one to show under what authority he holds or claims an office.

Quia timet : Protective justice for fear. It is an action brought to prevent a wrong that is apprehended.

Quid pro quo : Something for something.

Ratio decidendi : Principle or reason underlying a decision.

Res judicata : A decision once rendered by a competent court on a matter in issue between the parties after a full enquiry should not be permitted to be agitated again.

Res ipsa loquitur : The things speak for itself.

Respondent superior : Let the principal be liable.

Res sub judice : Matter under consideration.

Res gestae : Facts relevant to a case and admissible in evidence.

Rule nisi : A rule which will become imperative and final unless cause to be shown against it.

Scire facias : Your cause to know.

Status quo : The existing state of things at any given date.

Scientiet volenti non-fit injuria : Injury is not done to one who knows and wills it.

Spes successionis : Chance of a person to succeed as heir on the death of another.

Supra : Above; this word occurring by itself in a book refers the reader to a previous part of the book.

Suppressio veri : Suppression of previous knowledge.

Sui juris : Of his own right.

Simpliciter : Simply; without any addition.

Scienter : Being aware of circumstances, the knowledge of which is necessary to make one liable, as applied to the keeper of a vicious dog, means no more than reasonable cause to apprehend that he might commit the injury complained of.

Sine qua non : An indispensable condition.

Situs : Position; situation; location.

Suo motu : On its own motion.

Stare decisis : Precedent. Literally let the decision stand

Sine die : Without a day being appointed.

Travaux preparatoires : Preparatory records.

Tortum : Civil wrong actionable without contract.

Uberrimae fide : Of utmost good faith.

Ubi jus ibi remedium : Where there is a right there is remedy.

Ultra vires : Beyond the scope, power or authority.

Ut lite pendente nihil innovetur : Nothing new to be introduced during litigation.

Usufructuary : One who has the use and reaps the profits of property, but not ownership.

Ut res magis valeat quam pereat : The words of a statute must be construed so as to give a sensible or reasonable meaning to them.

Vis major : Act of God.

Vigilantibus, non dormientibus, jura subveniunt : The laws help those who are vigilant and not those who are slumber or lazy.

Vice versa : The order being reversed; other way round.

Volenti non-fit injuria : Damage suffered by consent gives no cause of action.

LEGAL REASONING

Legal reasoning is the method that a person use to apply laws to facts in order to answer legal questions. Good legal reasoning requires logical argument. In legal reasoning, legal principles have to be applied to the given factual situations to arrive at the most reasonable conclusion. The meaning of a legal rule and how it should be applied are often subject to multiple interpretations. When the meaning of a legal rule is ambiguous, a person use legal reasoning to argue for the interpretation that they find most convincing or that is most favorable to him. Derive a conclusion from given statements provided in question, and no deviation from it is allowed.

Questions in the Legal Reasoning may be asked mainly from the following areas:—

- (A) Indian Constitution
- (B) Indian Contract Act
- (C) Law of Torts
- (D) Element of Company Law

1. **Legal Principle** : All citizens shall have the right to freedom of speech and expression under Article 19 of the Constitution of India and it is a Fundamental Right.

Factual Situation : Mr. Sinha a famous english writer and orator criticized another novelist, Mr. Rahul stating that: "The novel of Mr. Rahul is irrational and indecent, his mind is impure, he is a loose character, he should write decent and good novel."

Decide

Can Mr. Rahul be sued for defamation?

- (a) He is not liable because he has just expressed his personal views
- (b) He is liable to be sued for defamation if his statement, was not true or said in mala fide intention
- (c) He cannot be liable because he has fundamental right to freedom of speech and expression
- (d) He cannot be sued, because both are writer and novelists and both can criticize each other.

Answer : (c)

2. **Legal Principle** : A contract is an agreement which the law will enforce. all agreements are contracts if they are made with free consent by parties competent to contract for a lawful consideration and with a lawful object.

Factual Situation : Mr. Raja offered to buy Mr. Ram's Car for Rs. 5 lakhs but Mr. Ram refused. Subsequently, Mr. Raja threatened to kill Mr. Ram and Mr. Ram agreed to the sale. Mr. Ram subsequently rescinded from the contract.

Mr. Raja suit to enforce the contract—

Decide

- (a) Will succeed because Mr. Raja was offering lawful consideration for the car

- (b) Will succeed because buying and selling of car is lawful
- (c) Will succeed because both parties have capacity to contract
- (d) Will fail because Mr. Ram was forced to agree to the contract.

Answer : (d)

- 3. Legal Principle :** A contract is an agreement which the law will enforce. All agreements are contracts if they are made with free consent by parties competent to contract for a lawful consideration and with a lawful object.

Factual Situation : Mr. Joy a young boy of 27 years without any consideration agrees to give Ms. Jooly Rs. 10, 000/-. Mr. Joy fails to fulfil his promise. Ms. Jooly sues Mr. Joy for the amount.

Decide

- (a) Ms. Jooly will succeed as Mr. Joy made the promise of his own free will
- (b) Ms. Jooly will fail as the agreement is without consideration
- (c) Ms. Jooly will succeed as Mr. Joy has the capacity to make the contract
- (d) Ms. Jooly will succeed as the money is not being paid for any illegal object.

Answer : (b)

- 4. Legal Principle :** Constitution of India empowers the President of India to appoint the Judge of the High Courts and Supreme Court.

Factual Situation : There is a deadlock between the Council of Minister including Prime Minister of India and the President of India. President of India appointed Mr. Adarsh as the Justice of Supreme Court of India and Mr. Garg appointed as Judge of Delhi High Court by the Prime Minister of India.

Decide

- (a) Appointment of Mr. Garg is valid in the eyes of law
- (b) Appointment of Mr. Adarsh is valid as per the Constitution of India
- (c) Appointment of Mr. Adarsh and Mr. Garg void abinitio
- (d) None of the above.

Answer : (b)

- 5. Legal Principle :** A violation of a legal Right, with or without damage, gives rise to a tort.

Factual Situation : Mr. Ketan establishes a coaching class for Company Secretary Students of Executive Programme and charges Rs.10, 000/- per year as tuition fees. Mr. Ketan's neighbor Mr. Kalia establishes another coaching class for Company Secretary Students of Executive Programme thereby creating a competition between them. This forces Mr. Ketan to reduce his tuition fees to Rs. 7000/- per year.

Decide

Can Mr. Ketan claim damages from Mr. Kalia for the loss caused to him?

- (a) Yes, he can as Mr. Kalia has violated his Legal Right
- (b) No, Mr. Ketan has reduced the fees on his own
- (c) No, because though, there was damage there was no legal injury
- (d) None of the above.

Answer : (c)

6. **Legal Principle** : Company means a company incorporated under the Companies Act, 2013, or under any previous company law.

Factual Situation : (i) ABC Limited is incorporated under the Companies Act, 1956; (ii) ABCLLP incorporated under Limited Liability Partnership Act, 2008; (iii) ABC & Co registered under Partnership Act, 1932 and (iv) ABC Charitable Trust established under Trust Act, 1882.

Decide

Which of the above entity as mentioned in factual situation is a company?

- (a) ABC Limited
- (b) ABCLLP
- (c) ABC & Co
- (d) ABC Charitable Trust

Answer : (a)

7. **Legal Principle** : A master shall be responsible for the wrongful acts of his servants in the course of his employment.

Factual Situation : ABC Limited is a Non-Banking Financial Company (NBFC) is registered with Reserve Bank of India to accept deposit from public. Mr. Shyam appointed as authorised agent by ABC Limited to collect deposit money from several people on daily basis. Mr. Shyam, collecting deposits from people on daily basis. One day he disappeared. One Ms. Shyamlee, who had been handing over her deposit money to Mr. Shyam found that nearly for a month before his disappearance, he was not depositing her money at all. Ms. Shyamlee when approached the ABC Limited, the NBFC took the stand that Mr. Shyam was not its employee, he is his agent and therefore, ABC Limited is not responsible for his misconduct. Ms. Shyamlee files a suit against the ABC Limited.

Decide

Who is liable?

- (a) ABC Limited
- (b) Mr. Shyam

- (c) Ms. Shyamlee
- (d) None of the above.

Answer : (a)

- 8. Legal Principle :** The members of both Lok Sabha and Rajya Sabha are eligible to be Ministers of the Union Government.

Factual Situation : Mr. Ram Singh is sitting member of Upper House of Parliament and as Recommendations of Prime Minister of India, President of India appointed Mr. Ram Singh as Minister for the Ministry of Education.

Decide

Appointment of Mr. Ram Singh as Minister for the Ministry of Education is valid?

- (a) Yes
- (b) No
- (c) President of India cannot be appointed
- (d) Prime Minister of India cannot be recommended

Answer : (a)

- 9. Legal Principle :** Tort is a civil wrong for which the remedy is a common law action for unliquidated damages and which is not exclusively the breach of a contract or the breach of a trust or other merely equitable obligation.

Factual Situation : Mr. Sunil has six pet dogs which are very ferocious and bark a lot. Mr. Surendra is his next door neighbor and feels that he is not able to enjoy his property due to the presence of a large number of dogs in the adjacent house. He is contemplating initiating a legal action against Mr. Sunil. Mr. Surendra can:

Decide

- (a) Initiate action for breach of contract against Mr. Sunil as there is an implied contract between the neighbours.
- (b) Initiate action for unliquidated damages under torts because there is no contract between the neighbours.
- (c) Initiate criminal action against Mr. Sunil because having a large number of ferocious dogs is a criminal act.
- (d) Not be successful as Mr. Sunil has an unrestricted right to enjoy his personal property and has no duty towards Mr. Surendra.

Answer : (b)

- 10. Legal Principle :** Causing damage, however substantial to another person is not actionable in law unless there is also a violation of a legal right of the plaintiff.

Factual Situation : Mr. Nandan opened a petrol pump next to earlier existing petrol pump of Mr. Chandan as a result of which Mr. Chandan suffered huge losses.

Mr. Chandan wants to initiate action against Mr. Nandan for the losses suffered. He will

Decide

- (a) Succeed because he has suffered losses because of Mr. Nandan.
- (b) Fail because no legal right of Mr. Chandan was infringed.
- (c) Succeed because Mr. Nandan was wrong in opening a petrol pump next to already existing one.
- (d) Succeed because Mr. Chandan is entitled to earn reasonable profit on his investments.

Answer : (b)

- 11. Legal Principle** : Even where there is infringement of a legal right which does not result in harm, plaintiff can still sue in tort.

Factual Situation : Cattle owned by Mr. Vinay entered the fields of Mr. Vipin and roamed around freely for considerable time without causing any kind of loss to Mr. Vinay. Mr. Vipin did not like Mr. Vinay and thought of initiating legal action against him using this opportunity. Mr. Vipin will:

Decide

- (a) Fail because he did not suffer any monetary loss.
- (b) Fail because he did not suffer any infringement of his legal right.
- (c) Succeed because his legal right was infringed.
- (d) Fail because he initiated the legal action because of his dislike for the defendant.

Answer : (c)

- 12. Legal Principle** : Normally, the tort-feasor is liable for his tort but in some cases a person may be held liable for the tort committed by another.

Factual situation : Mr. Rahul's car was being driven by his driver when it hit a pedestrian as a result of which the pedestrian suffered heavy injuries. He brought a legal action against Mr. Rahul because the car belonged to him and the driver was employed by him. The legal action of the pedestrian against Mr. Rahul will:

Decide

- (a) Fail because Mr. Rahul had nothing to do with the accident.
- (b) Succeed because responsibility in such cases is imputed by law on grounds of social policy or expediency.
- (c) Succeed because a master is always liable for the acts of his or her servant.
- (d) Fail because it was the duty of the driver to be careful while driving.

Answer : (c)

- 13. Legal Principle :** The defendant is liable if he makes a non-natural use of land.

Factual Situation : Mr. Kundan had stored chemicals on his land which escaped and caused damaged to the adjacent properties one of which belonged to Mr. Ankit. Mr. Ankit will

Decide

- (a) Fail because Mr. Kundan had stored chemicals on his own property.
- (b) Succeed because storing chemicals is a non-natural use of land.
- (c) Fail because storing chemicals is a natural use of land.
- (d) Fail because Mr. Ankit should have taken adequate precautions against the chemicals.

Answer : (b)

- 14. Legal Principle :** Absolute or strict liability are exceptions to the requirement of mens rea.

Factual Situation : B, a mill owner employed independent contractors, who were apparently competent to construct a reservoir on his land to provide water for his mill. There were old disused mining shafts under the site of the reservoir which the contractors failed to observe because they were filled with earth. The contractors therefore, did not block them. When the water was filled in the reservoir, it bursts through the shafts and flooded the plaintiff's coal mines on the adjoining land. It was found as a fact that B did not know of the shafts and had not been negligent.

Decide

- (a) Even though the independent contractors had been negligible, B will be held liable for the losses suffered by the plaintiff.
- (b) B will be held liable for the losses suffered by the plaintiff only if B was negligent and not otherwise.
- (c) Independent contractors would be liable to the plaintiff as there is privity of contract between them.
- (d) Neither B nor the independent contractors would be held liable as there was no guilty mind at work.

Answer : (a)

- 15. Legal Principle :** For the tort committed by a partner in the ordinary course of the business of the firm, all the other partners are liable to the same extent as the guilty partner.

Factual Situation : A, B and C ran a Chartered Accountancy firm in partnership. In order to solicit work from a big bank, A, one of the three partners bribed the Bank's senior manager and induced him to hand over the audit work to their firm.

Decide

- (a) All the partners are liable for the tort committed by only one of them.
- (b) Only the partner who paid the bribe is liable.

- (c) Whether or not all partners are liable would depend on the fact whether B and C had knowledge of bribe or not.
- (d) The liability of B and C would be established only if they had given their written consent to A to bribe the bank official.

Answer : (a)

- 16. Legal Principle :** The State can claim immunity from the tortious liability only in the cases of sovereign function, otherwise not.

Factual Position : Chandra and his father Gopal were lodged in a jail, wherein one day bombs were hurled at them by their rivals, causing the death of Gopal and injuries Chandra. The victims were having previous knowledge of the impending attack, which they conveyed to the authorities, but no additional security was provided to them. On the contrary, there was gross negligence since there was a great relaxation in the number of police men who were to guard the jail on that fateful day. Thus, on the grounds of negligence a suit was filed Chandra against the Government. The suit will

Decide

- (a) Succeed because there was gross negligence on part of the State.
- (b) Fail because maintain jail facilities is part of the sovereign function of the State.
- (c) Succeed because securing law and order is not a sovereign function of the State.
- (d) Fail because the State cannot be held responsible in any way if people lose life because of their personal rivalries even in facilities maintained and operated by the State.

Answer : (b)

- 17. Legal Principle :** Under Article 12, unless the context otherwise requires, "the State" includes—

- (a) the Government and Parliament of India;
- (b) the Government and Legislature of each of the States; and
- (c) all local or other authorities: (i) within the territory of India; or (ii) under the control of the Government of India.

Factual Situation : Mr. Arvind is employed with Oil and Natural Gas Corporation (ONGC). He faces discrimination at work at the hands of the Management and thinks that his right to equality is violated. He contemplates moving a writ petition against ONGC but his colleague suggests that Mr. Arvind will not succeed because ONGC is not 'State'.

Decide

- (a) ONGC is 'State' as per Article 12 of the Constitution.
- (b) ONGC is not 'State' as per Article 12 of the Constitution.
- (c) Mr. Arvind will not succeed because a writ cannot be brought against a Company.
- (d) ONGC is not 'State' because its shares are listed in the stock market.

Answer : (a)

- 18. Legal Principle :** No person shall be convicted of any offence except for violation of a law in force at the time of the commission of the act charged as an offence.

Factual Situation : Ms. Chandni had an altercation with her classmate in her college and in the heat of the moment she hurled a racist abuse at her classmate and her classmate was deeply offended by it. Ms. Chandni had later apologized for it. In the next few months, a law was passed which made racist abuse punishable. Aware of the fact that the law of limitation does not apply to criminal acts, she moved an application to the court to initiate criminal action against Ms. Chandni for the racist abuse. The classmate's application will:

Decide

- (a) Fail because racist abuse was not punishable when it was hurled.
- (b) Succeed because the law made racist abuse punishable with imprisonment and it is undeniable that Ms. Chandni has hurled that abuse.
- (c) Succeed because law of limitation does not apply to criminal acts.
- (d) Fail because it was not a serious offence and Ms. Chandni had already apologized for it.

Answer : (a)

- 19. Legal Principle :** No person shall be subjected to a penalty greater than that which might have been inflicted under the law in force at the time of the commission of the offence.

Factual Situation : A person was accused of cheating and before he was arrested and committed to trial for it, the law relating to cheating was changed and the punishment for it was increased to life imprisonment. The person was found guilty and sentenced to life imprisonment. He decides to challenge his sentence of life imprisonment. He will

Decide

- (a) Fail because the punishment for cheating was increased to life imprisonment before his trial began.
- (b) Succeed because the punishment for cheating was not life imprisonment when he committed it.
- (c) Fail because the law does not provide for such leniency to guilty persons.
- (d) Succeed only if he is able to prove his innocence.

Answer : (b)

- 20. Legal Principle :** The State shall not make any law which takes away or abridges the rights conferred by Part III and if such a law is made, it shall be void to the extent to which it curtails any such right.

Factual Situation : Right to Property was a Fundamental Right but was abolished as such by a Constitutional amendment. Mr. Gautam decides to challenge the constitutional validity of the amendment. He will

Decide

- (a) Succeed because the State cannot make any law which takes away or abridges the rights conferred by Part III.

- (b) Fail because 'law' referred to in the above statement does not apply to Constitutional amendment Acts.
- (c) Succeed because even constitutional amendments cannot take away Part III rights.
- (d) Fail because Right to Property was not conferred by Part III.

Answer : (b)

- 21. Legal Principle :** A person who is usually of unsound mind, but occasionally of sound mind, may make a contract when he is of sound mind.

Factual Situation : Mr. Jamal is a patient in a lunatic asylum who experiences intervals of sound mind. Jamal entered into a contract during such interval of sound mind. On having suffered losses, he challenged the validity of the contract on the ground that he not only was mentally unsound but also lived in lunatic asylum.

Decide

- (a) The contract is valid.
- (b) The contract is invalid.
- (c) The contract is voidable at the option of Mr. Jamal.
- (d) The contract is voidable at the option of the opposite party.

Answer : (a)

PART B
LOGICAL REASONING

Lesson 6

**LOGICAL
REASONING**

"Logic takes care of itself; all we have to do is to look and see how it does it." - Ludwig Wittgenstein

Introduction

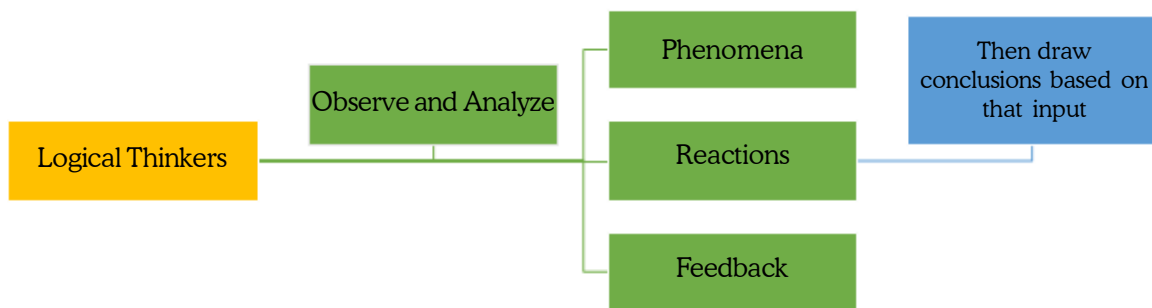
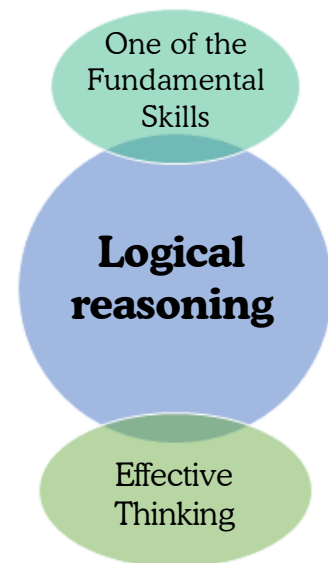
Logical reasoning (or just "logic" for short) is one of the fundamental skills of effective thinking.

It works by raising questions like:

- If this is true, what else must be true?
- If this is true, what else is probably true?
- If this isn't true, what else can't be true?

In the contemporary perspective, Doyle Alison (2019), in his article 'The Importance of Logical Thinking in the Workplace'¹ stated that Logical thinkers observe and analyze phenomena, reactions, and feedback and then draw conclusions based on that input. They can justify their strategies, actions, and decisions based on the facts they gather.

These are all inferences: they're connections between a given sentence (the "premise") and some other sentence (the "conclusion"). Inferences are the basic building blocks of logical reasoning, and there are strict rules governing what counts as a valid inference and what doesn't — it's a lot like math, but applied to sentences rather than numbers.²



Example - 1:

If there is someone at the door, the dog will bark.

Assuming this sentence holds true, there are some other sentences that must also be true.

- If the dog didn't bark, there is no one at the door.
- Just because the dog barked doesn't mean there's someone at the door.

There are also a few sentences that are probably true, such as:

- The dog can sense (hear or smell) when someone is at the door.
- The dog belongs to the people who live in the house where the door is located.

Example - 2

A sales representative modifies a presentation about a product to highlight its user-friendly qualities after

receiving feedback from customers indicating that ease of use was the primary reason that they had purchased the product.

Logical Reasoning: History and Significance

The word 'Logical Reasoning' is made up of two words – Logical and Reasoning. So let us understand, analyse and brief out the history of Logical Reasoning with the help of these two words separately as well as in conjunction.

Logic: Milieu

Logic is a universal part of the human experience. Even agriculture would be impossible without inductive reasoning about weather and sunlight, and construction would be impossible without mathematics and deductive reasoning about what makes a structure sturdy.

Logic (from the Greek "logos", which has a variety of meanings including word, thought, idea, argument, account, reason or principle) is the study of reasoning, or the study of the principles and criteria of valid inference and demonstration. It attempts to distinguish good reasoning from bad reasoning.

Formalized logic has appeared in several places with more or less similar results. The Greek philosopher Aristotle is credited with being the first to develop a formal system of logical reasoning, but there were already people in India and China working on formal logic long before Aristotle was born.³

History of Logic: A Snapshot from Vedas to Contemporary Era⁴

In *Ancient India*, the "Nasadiya Sukta" of the *Rig Veda* contains various logical divisions that were later recast formally as the four circles of *catuskoti*: "A", "not A", "A and not A" and "not A and not not A". The Nyaya school of Indian philosophical speculation is based on texts known as the "Nyaya Sutras" of Aksapada Gautama from around the 2nd Century B.C., and its methodology of inference is based on a system of logic (involving a combination of induction and deduction by moving from particular to particular via generality) that subsequently has been adopted by the majority of the other Indian schools.

But **modern logic** descends mainly from the Ancient Greek tradition. Both Plato and Aristotle conceived of logic as the study of argument and from a concern with the correctness of argumentation. Aristotle produced six works on logic, known collectively as the "Organon", the first of these, the "Prior Analytics", being the first explicit work in formal logic.

Aristotle espoused two principles of great importance in logic, the Law of Excluded Middle (that every statement is either true or false) and the Law of Non-Contradiction (confusingly, also known as the Law of Contradiction, that no statement is both true and false).

He is perhaps most famous for introducing the syllogism (or term logic) (see the section on Deductive Logic below). His followers, known as the Peripatetics, further refined his work on logic.

In medieval times, Aristotelian logic (or dialectics) was studied, along with grammar and rhetoric, as one of the three main strands of the trivium, the foundation of a medieval liberal arts education.

Logic in Islamic philosophy also contributed to the development of modern logic, especially the development of Avicennian logic (which was responsible for the introduction of the hypothetical syllogism, temporal logic, modal logic and inductive logic) as an alternative to Aristotelian logic.

In the 18th Century, Immanuel Kant argued that logic should be conceived as the science of judgment, so that the valid inferences of logic follow from the structural features of judgments, although he still maintained that Aristotle had essentially said everything there was to say about logic as a discipline.

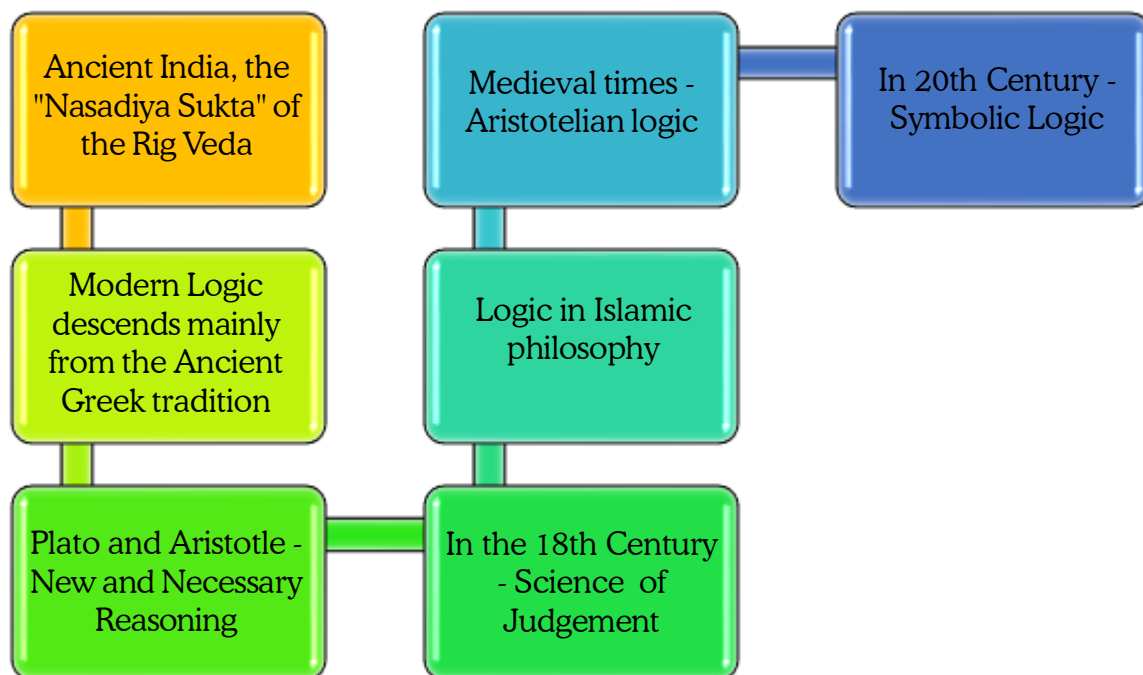
In the 20th Century, however, the work of Gottlob Frege, Alfred North Whitehead and Bertrand Russell on Symbolic Logic, turned Kant's assertion on its head. This new logic, expounded in their joint work

"Principia Mathematica", is much broader in scope than Aristotelian logic, and even contains classical logic within it, albeit as a minor part. It resembles a mathematical calculus and deals with the relations of symbols to each other.

Aristotle defined logic as "new and necessary reasoning", "new" because it allows us to learn what we do not know, and "necessary" because its conclusions are inescapable. It asks questions like "What is correct reasoning?", "What distinguishes a good argument from a bad one?", "How can we detect a fallacy in reasoning?"

The Indian, Chinese, and Greek systems were all remarkably similar in their rules, which suggests that there may have been some mutual influence despite the distance. Traders and travelling scholars may have brought ideas about logical reasoning with them all over the world, allowing for rapid development of new ideas.

Logic may seem like a stuffy, abstract discipline used only by philosophers and lawyers, but it has had a profound influence on the history of science and technology as well. Alan Turing, the inventor of the modern computer, was a logician rather than a thinker or engineer, and his famous "Turing Machine" was a product of his rigorous training in formal logical reasoning.



Need and Significance of Logic

Logic investigates and classifies the structure of statements and arguments, both through the study of formal systems of inference and through the study of arguments in natural language. It deals only with propositions (declarative sentences, used to make an assertion, as opposed to questions, commands or sentences expressing wishes) that are capable of being true and false. It is not concerned with the psychological processes connected with thought, or with emotions, images and the like. It covers core topics such as the study of fallacies and paradoxes, as well as specialized analysis of reasoning using probability and arguments involving causality and argumentation theory.

Reasoning: Milieu

As per Merriam Webster Dictionary, Reasoning means the use of reason especially, the drawing of inferences or conclusions through the use of reason.

Reshma S in her writings on 'Reasoning: Meaning, Definition and Types', stated that reasoning is one of the best forms of controlled thinking consciously towards the solution of a problem. It is realistic in the sense that the solution is sought always in reference to the reality of the situation. We can solve many problems in our day-dreams, dreams and imaginations but they are unrealistic solutions.

Sherman defined, "reasoning is a process of thinking during which the individual is aware of a problem identifies, evaluates, and decides upon a solution".

Reasoning is used not only when we want to solve an immediate problem but also when we anticipate future problems.

Reasoning plays a significant role in one's adjustment to the environment. It not only determines one's cognitive activities but also influences the behavior and personality.

Other Definitions of Reasoning:

1. "Reasoning is a stepwise thinking with a purpose or goal in mind" — Garrett.
2. "Reasoning is the term applied to highly purposeful, controlled and selective thinking" — Gates.
3. "Reasoning is the word used to describe the mental recognition of cause and effect relationships, it may be the prediction of an event from an observed cause or the inference of a cause from an observed event"— Skinner.

Thus reasoning is a highly specialized thinking which helps an individual to explore mentally the cause and effect relationship of an event or solution of a problem by adopting some well-organized systematic steps based on previous experience combined with present observation.

Content of Logic/Logic Systems/Logical Reasoning

Logical systems should have three things: consistency (which means that none of the theorems of the system contradict one another); soundness (which means that the system's rules of proof will never allow a false inference from a true premise); and completeness (which means that there are no true sentences in the system that cannot, at least in principle, be proved in the system).

Popular Use or Culture of Logical Reasoning: An Example

On Sherlock, the great detective Sherlock Holmes has a website called "The Art of Deduction," in which he explains his methods for solving crimes. However, the website has the wrong name — nearly all of Sherlock's inferences are inductive rather than deductive. That is, they bring together bits and pieces of evidence to develop a theory about what probably happened in a particular crime. They're not based on the kind of logical certainty that we saw in section 1, but rather on reasoning about likelihoods and probabilities. It's always logically possible that Sherlock could have it wrong, even though that rarely seems to happen.

Types of Logical Reasoning

There are two basic types of logic, each defined by its own type of inference. They correspond to the two categories in the example from section 1.

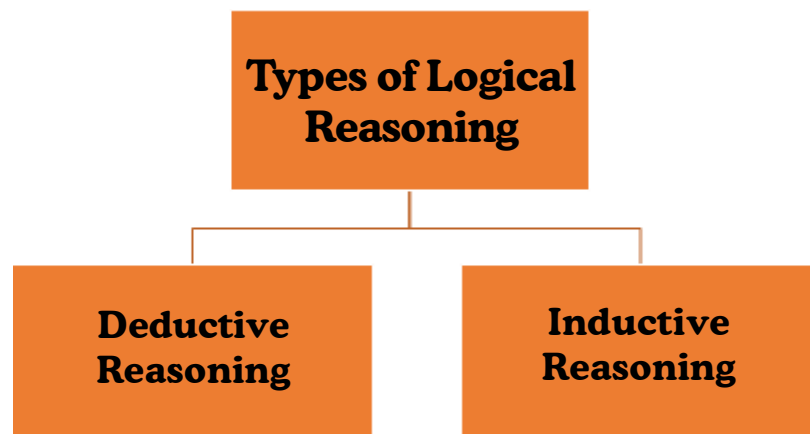
1. **Deductive Reasoning** : It is the ability to draw some logical conclusions from known statements (premises) or evidences. Here one starts with already known or established generalized statement or principle and applies it to specific cases.

For example, all human beings are mortal you are a human being, therefore, you are mortal.

Deductive Reasoning is based on Deduction or Deductive Logic. Deduction is when the conclusion, based on the premises, must be true.

- For example, if it's true that the dog always barks when someone is at the door and it's true that there's someone at the door, then it must be true that the dog will bark. Of course, the real world is messy and doesn't always conform to the strictures of deductive reasoning (there are probably no actual dogs who always bark when someone's at the door), but deductive reasoning is still important in fields like law, engineering, and science, where strict truths still hold. All math is deductive.
 - Another example of Deduction states that - An organization may work with a core belief that employees are more productive if they have control over the ways they carry out their responsibilities. A manager could demonstrate logical thinking using deductive reasoning by meeting with subordinates, communicating department goals, and structuring a brainstorming session for staff to decide methods for reaching those objectives.
- 2. Inductive Reasoning** : It is a specialized thinking aimed at the discovery or construction of a generalized principle by making use of particular cases, special examples and identifying of elements or relations.
- For example, Mohan is mortal, Radha is mortal, Karim is mortal; therefore, all human beings are mortal.

Inductive Reasoning is based on Inductive logic. Inductive logic is when the conclusion, based on the premises, is probably the answers are less definitive than they are in deductive reasoning, but they are often more useful. Induction is our only way of predicting what will happen in the future: we look at the way things are, and the way they have been in the past, and we make an educated guess about what will probably happen. But all predictions are based on probability, not certainty: for example, it's extremely probable that the sun will rise tomorrow morning. But it's not certain, since there are all sorts of catastrophes that could happen in between now and then.



Logical Reasoning vs. Critical Thinking

Logic is one of the main pillars of critical thinking. And there's no question that critical thinking would be impossible without some understanding of logical reasoning. However, there are many other skills involved in critical thinking, such as:

- *Empathy*, or the ability to imagine what someone else is feeling or experiencing. This is a crucial skill for critical thinking, since it allows you to broaden your perspective and reflect on your actions and beliefs. Empathy also makes you a better student of philosophy because it enables you to put yourself in the author's shoes and understand the argument from within.
- *Analogy*, or noticing similarities and thinking them through. Analogies allow us to draw conclusions about, for example, the similarity between our own time and some moment in history, and thus try to make better decisions in the future. This skill is closely related to inductive logic.
- *Creativity*. Critical thinking is all about innovative problem-solving and coming up with new ideas, so it's heavily dependent on creativity. Just like a creative art, critical thinking depends on assembling old parts in new ways, working inventively within constraints, and matching moments of inspiration with hours of rigorous craft.

Logic assists in establishing correlation between two variables, i.e., independent and dependent variables pertaining to corporate activities.

For instance, through Karl Pearson's Correlation Coefficient and Co-efficient of determination the correlation between two variables, i.e. CSR Expenditure and Goodwill may be observed

Significance of Logical Reasoning for Company Secretaries : Key Points

- From the perspective of Logic leads to conclusion by correlating different facts and statements.
- This correlation is done through the arguments.
- As a Company Secretaries, one has to resolve various issues in the day to day affair and also ensure compliances and governance in true letter and spirit. This requires the professionals to argue or to support in favour of some conclusion with the help of certain facts and some assumptions.
- A Company Secretary does all these things throughout his life in imparting his professional excellence.
- Therefore, Logical Reasoning is becoming more important day by day in the entrance test of professional as well as academic bodies.

Logical Reasoning: A Summarized Guidance to CSSET Candidates

- Logic only ensures a valid conclusion.
- This conclusion may or may not be consistent with our usual experience. But the questions based on logic are to be solved only as per information provided, without using one's own conscience.
- Therefore, conclusion should follow directly from the statements provided in question, and no deviation from it is allowed.
- Questions on Logical Reasoning are of different types. You may be asked to derive an inference or a conclusion from given statements. Sometimes, you have to consider a statement and decide from among given assumptions, which one is more implicit in the statement and which is not.
- You may have to weigh pros and cons of some arguments given for a statement.
- You will have to decide whether the argument is a strong argument or a weak argument.

The key to have a command over this Chapter is to practise as many questions as you can.

Contents

Considering the vision and mission of the Institute along with aims and objectives of CSSET under the perspectives of global requirement, the contents of Logical Reasoning are divided under three heads, which includes:

1. Logical Reasoning
2. Verbal Reasoning, and
3. Non- Verbal Reasoning.

These heads are well facilitated with various topics and subtopics under them. The detailed contents covered under this Part of the study are described as below:

Logical Reasoning

- Calendars
- Cause and Effect Reasoning
- Clocks
- Coding and Decoding
- Deriving Conclusion from Passages
- Drawing Inference
- Number Test
- Sequence and Series
- Statement and Assumptions

Verbal Reasoning

- Alphabet Test
- Alpha Numeric Sequence Puzzle
- Analogy
- Assertion and Reason
- Blood Relations
- Decision Making
- Inserting Missing Characters
- Logical Sequence Test
- Logical Venn Diagram
- Number, Ranking and Time Sequence Test
- Syllogism
- Truth Tellers and Liars

Non-Verbal Reasoning

- Analytical Reasoning
- Classification
- Completion of Incomplete Pattern

- Figure Matrix
- Grouping of Identical Figures
- Mirror Image
- Rule Detection
- Numeric and Alphabet Series

To have a clear understanding of all the topics and sub-topics of this part, let us analyse them one by one.

Topic – 1 and 3: Clocks and Calendars (Under Logical Reasoning)

Clocks and Calendars : Concepts

Clock Concepts

- The dial of the clock is circular in shape and was divided into 60 equal minute spaces
- 60 minute spaces traces an angle of 3600. Therefore, 1 minute space traverses an angle of 60
- In 1 hour, Minute hand traverses 60 minute space or 3600 , Hour hand traverses 5 minute space or 300
- The hands of the clock are perpendicular in 15 minute spaces apart
- The hands of the clock are in straight line and opposite to each other in 30 minute spaces apart.
- The hands of the clock are in straight line when they coincide or opposite to each other.
- The hands of the clock are perpendicular to each other for 22 times in 12 hours and for 44 times in a day.
- The hands of the clock are opposite to each other for 11 times in 12 hours and 22 times in a day.
- The hands of the clock coincides with each other for 11 times in 12 hours and 22 times per day
- The hands of the clock are 44 times in a straight line per day
- The minute hand gain 55 minutes over hour hand per hour.
- Hence x minute space to be gained by minute hand over hour hand can be calculated as $x \cdot (60/55)$ or $x \cdot (12/11)$

For Example

At what time between 2'O clock and 3'O clock the hands of the clock are opposite to each other.

1. 34(6/11) past 2'Oclock
2. 43(7/11) past 2'Oclock
3. 56 (8/11) past 2'Oclock
4. 64(9/11)past 2'Oclock

Solution

At 2'O clock the minute hand will be at 12 as shown:

- The minutes hand to coincide with the hour hand it should trace at first 10 minute spaces;

- And then the hands of the clocks to be opposite to each other minute hand should trace 30 minute spaces i.e. totally it should gain $10 + 30 = 40$ minute spaces to be opposite to that of hour hand

We know that,

- Minute hand gains 55 minute spaces over hour hand in 1 hour
Therefore, Minute hand gain 40 minute spaces over hour hand in $40 \times (60/55) = 43(7/11)$
Hence the hand of the clock will minutes be opposite to each at $43(7/11)$ past 2'Oclock

Therefore, correct option is 2'

When clock is too fast, too slow

- If a clock or watch indicates 6 hr 10 min when the correct time is 6, it is said that the clock is 10 min too fast
- If it indicates 6. 40 when the correct time is 7, it is said to be 20 min too slow.

Now let us have an example based on this concept.

For Example

My watch, which gains uniformly, is 2 minutes. I have to attend a show at noon on Sunday, and is 4 min 48 seconds fast at 2 PM on the following Sunday. Find out when was it correct ?

Solution

From Sunday noon to the following Sunday at 2 PM, there are 7 days 2 hours or 170 hours.

The watch gains $2 + 4 \frac{4}{5}$ min in 170 hrs.

Therefore, the watch gains 2 min in 2 (divided by) $6 \frac{4}{5}$ (multiply by) 170 hrs i.e., 50 hours.

Now 50 hours = 2 Days 2 Hrs.

Therefore, 2 days 2 hours from Sunday noon = 2 PM on Tuesday.

Calendar Concept

- The time in which the earth travels round the sun is a solar year and is equal to 365 days 5 hrs. 48 minutes and $47 \frac{1}{2}$ seconds
- Year is 365.2422 days approximately.
- The common year consists of 365 days.
- The difference between a common year and a solar year is therefore 0.2422 of a day and we consider it by adding a whole day to every fourth year.
- Consequently in every 4th year there are 366 days.
- The years which have the extra day are called leap years. The day is inserted at the end of February, The difference between 4 common years and 4 solar years is 0.969 of a day.
- If therefore, we add a whole day to every 4th year, we add too much by 0.0312 of a day. To take account of this, we omit the extra day three times every 400 years,
- The thing is to ensure that each season may fall at the same time of the year in all years.

- In course of time, without these corrections, we should have winter in July and summer in January also.

With the very small variation, the present divisions of the year are those given in B.C 46 by Julius Caesar. The omission of the extra day three times in 400 years is called the Gregorian Correction. This correction was adopted at once in 1582 in Roman Catholic Countries. But not in England until, 1752.

The Gregorian mode* of reckoning is called the New Style, the former, the Old Style.

The New Style has not yet been adopted in Russia, so that they are now 13 days behind us. For example – ‘What we call October 26th, they call that 13th October. They have Christmas day on 7th of January and we have on 25th December every year.

- In an ordinary year there are 365 days i.e., 52 weeks + 1 day
- Therefore an ordinary year contains 1 odd day.

A leap year contains 2 odd days.

100 year = 76 ordinary years + 24 leap years.

= 76 odd days + 48 odd days

= 124 odd days = 17 weeks + 5 days. (in the consideration of weeks)

Therefore, 100 years contain 5 odd days.

200 years contains 3 odd days.

300 years contain 1 odd days

- Since there are 5 odd days in 100 years, there will be 20 days in 400 years. But every 4th century is a leap year.
- Therefore, 400 years contain 21 days. Here 400 years contain no odd days.
- As First January 1 AD was Monday. One must count days from Sunday i.e. Sunday for 0 odd days, Monday for 1 odd day, and Tuesday for 2 odd days and so on.
- Last day of a century cannot be either Tuesday. Thursday or Saturday.
- The first day of a century must either be Monday. Tuesday, Thursday or Saturday.

Calendar: Examples

We can clarify the concept of Calendars with following Examples

Example -1

How many times does the 29th days of the month occur in 400 consecutive years

- (1) 97 Times
- (2) 4400 times
- (3) 4497 times
- (4) None

* We have 1 possible answer for the clue as per the Mode of Reckoning dates according to Gregorian Calendar which appears 1 time in our database.

Solution:

In 400 consecutive years there are 97 leap years. Hence in 400 consecutive years, February has the 29th Days - 97 times, and the remaining 11 months have the 29th Day 400×11 or 4400 times.

Therefore, 29th Day of the month occurs $(4400 + 97)$ or 4497 times.

Example – 2

Given that on 10th November 1981 is Tuesday, what was the day on 10th November 1581

- (1) Monday
- (2) Thursday
- (3) Sunday
- (4) Tuesday

Solution

After every 400 years, the same day comes.

Thus if 10th November, 1981 was Tuesday, before 400 years i.e. on 10th November 1581, it has to be Tuesday.

Important Formula and Equations

Some important formulas and equations may help the candidates to solve the questions related to Clocks and Calendars are listed as below

- 1. Minute Spaces :** The face or dial of watch is a circle whose circumference is divided into 60 equal parts, called minute spaces.
- 2. Hour Hand and Minute Hand :** A clock has two hands, the smaller one is called the hour hand or short hand while the larger one is called minute hand or long hand.

In 60 minutes, the minute hand gains 55 minutes on the hour on the hour hand.

In every hour, both the hands coincide once.

The hands are in the same straight line when they are coincident or opposite to each other.

When the two hands are at right angles, they are 15 minute spaces apart.

When the hands are in opposite directions, they are 30 minute spaces apart.

Angle traced by hour hand in 12 hrs = 360°

Angle traced by minute hand in 60 min. = 360° .

If a watch or a clock indicates 8.15, when the correct time is 8, it is said to be 15 minutes too fast.

On the other hand, if it indicates 7.45, when the correct time is 8, it is said to be 15 minutes too slow.

- 3. Odd Days :** We are supposed to find the day of the week on a given date. For this, we use the concept of 'odd days'. In a given period, the number of days more than the complete weeks are called odd days.

- 4. **Leap Year:** (i) Every year divisible by 4 is a leap year, if it is not a century. (ii) Every 4th century is a leap year and no other century is a leap year.
- 5. **Ordinary Year :** The year which is not a leap year is called an ordinary years. An ordinary year has 365 days.
- 6. **Counting of Odd Days :** 1 ordinary year = 365 days = (52 weeks + 1 day). 1 ordinary year has 1 odd day.

1 leap year = 366 days = (52 weeks + 2 days) 1 leap year has 2 odd days.

100 years = 76 ordinary years + 24 leap years

= (76 x 1 + 24 x 2) odd days = 124 odd days.

= (17 weeks) = 5 odd days.

Important Facts/Points to Remember:

Number of odd days in 100 years = 5

Number of odd days in 200 years = (5 x 2) = 3 odd days.

Number of odd days in 300 years = (5 x 3) = 1 odd day.

Number of odd days in 400 years = (5 x 4 + 1) = 0 odd day.

Similarly, each one of 800 years, 1200 years, 1600 years, 2000 years etc. has 0 odd days.

Day of the Week Related to Odd Days (Assuming that 1AD January 1st is a Sunday):

No. of days:	0	1	2	3	4	5	6
Day:	Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.

Sample Questions

1. What is the angle between the two hands of a clock when the time shown by the clock is 6.30 PM?
- (a) 00
 (b) 50
 (c) 30
(d) 150

Explanation : $q = 11/2 m - 30h$
 $= 11/2 * 30 - 30 * 6$
 $= /165-180/ = 150$

2. At what time between 3 and 4 o'clock will the minute hand and the hour hand are on the same straight line but facing opposite directions.
- (a) 3:49
 (b) 3:15
 (c) 3:39 $1/11$
(d) 3:49 $1/11$

Explanation : On straight line means 180 degree angle.

$$180 = 11/2m - 30h$$

$$180 = 11/2 m - 30 * 3$$

$$180 = 11/2m - 90$$

$$(180+90)2 = 11m$$

$$m = 540/11 = 49 \frac{1}{11}$$

3. By how many degrees does the minute hand move in the same time, in which the hour hand move by 280?
- (a) 168
(b) 336
 (c) 196
 (d) 376

Explanation : $28 * 2 * 6 = 336$

4. At what time, between 3 o'clock and 4 o'clock, both the hour hand and minute hand coincide each other?
- (a) 3:30
(b) 3:16 $4/11$

(c) 3:16 $\frac{11}{4}$

(d) 3:16 $\frac{7}{11}$

Explanation : Coincide means 00 angle.

$$0 = 11/2m - 30 \cdot 3$$

$$11m = 90 \cdot 2 = 180$$

$$m = 180/11 = 16\frac{4}{11}$$

$$\text{So time} = 3 : 16\frac{4}{11}$$

5. How many degrees will the minute hand move, in the same time in which the second hand move 4800?

(a) 60

(b) 90

(c) 40

(d) 80

Explanation : Minute hand covers $4800/60 = 80$

6. How many years have 29 days in February from 2001 to 2100?

(a) 26

(b) 25

(c) 23

(d) 24

Explanation : 100th year is not a leap year. So 24 February's has 29 days

7. 2012 January 1st is Sunday, then which day is the Indian Independence Day of the same year.

(a) Saturday

(b) Wednesday

(c) Thursday

(d) Friday

Explanation : $30 + 29 + 31 + 30 + 31 + 30 + 31 + 15 = 227/7 = \text{remainder} = 3$

So Independence Day is Wednesday

8. Which year has the same calendar as 1700?

(a) 1705

(b) 1706

(c) 1707

(d) 1708

Explanation

Year :	1700	1701	1702	1703	1704	1705
Odd Days :	1	1	1	1	2	1

9. If Arun's birthday is on May 25 which is Monday and his sister's birthday is on July 13. Which day of the week is his sister's birthday?

(a) Monday

(b) Wednesday

(c) Thursday

(d) Friday

Explanation : Reference Day: May 25th is Monday

Days from May 25 to July 13 = 6 + 30 + 13 = 49

No of Odd Days: $49/7 = 0$

10. March 1 is Wednesday. Which month of the same year starts with the same day?

(a) October

(b) November

(c) December

(d) None of these

Explanation

Month :	Mar	April	May	June	July	August	September	October
Odd Days :	3	2	3	2	3	3	2	3

Total 21 odd days. $21/7 = 0$. So November has start with the same day.

Topic – 2**Cause and Effect Reasoning****Introduction**

In this type of reasoning, each question contains two statements and the students have to find out relationship between the two statements. Here the students have to test whether the statements are related to each other or not. Read them and choose the best option that describes the relationship between them. These types of problems judge the reasoning and analytical power of the students. Therefore, Candidates are advised to read the statements very well to arrive at a particular conclusion.

*Example***Statement**

- I. Everybody should work hard.
 - II. The only way to achieve success is to work hard.
- A - Statement I is the reason and statement II is the response.
 - B - Statement II is the reason and statement I is the response.
 - C - Both the statements I and II are the not depended reasons.
 - D - Both the statements I and II are the response of not depended reasons.
 - E - Both the statements I and II are the response of some common reasons.

Herein the Answer is Option A*Explanation -*

In the statement I, it told about a generic statement. Working hard can be taken as a reason but to describe it as a reason there should be some response. The response is shown in statement II that tells that through hard work one can achieve success. Hence it shows that, statement I is the reason and statement II is the response.

Types of Statement**Type - I**

These kinds of Statements are about those cases where there will be a direct reason and response type of statement will be present in the question. The last example that we have discussed goes under this category. Now let's discuss another problem of the same kind.

Statement

- I. Apple has vitamin D that helps in boosting immunity.
 - II. Doctors advice to eat an apple every day.
- A - Statement I is the reason and statement II is the response.
 - B - Statement II is the reason and statement I is the response.
 - C - Both the statements I and II are the not depended reasons.
 - D - Both the statements I and II are the response of not depended reasons.

E - Both the statements I and II are the response of some common reasons.

Answer - Option B

Explanation - Here we can clearly see the reason is statement II. This is a reason to describe its response, which is statement I that tells the necessity of consuming an apple every day.

Type - II

Here we will discuss about those cases in which both the statements will be the response of some common reason. Let's analyze it with an example.

Statement

- I. There has been a curfew in the city.
- II. 24 hours police patrolling is going on in the city.

A - Statement I is the reason and statement II is the response.

B - Statement II is the reason and statement I is the response.

C - Both the statements I and II are the not depended reasons.

D - Both the statements I and II are the response of not depended reasons.

E - Both the statements I and II are the response of some common reasons.

Answer - Option E

Explanation

Clearly both the statements are directing towards a common reason. To simply our thought process we can assume that for some common reason like Hindu –Muslim riot must have been reason this type of situation.

Types - III

Sometimes the two statements are the response of some not depended reasons. Let's try to analyze this with an example.

Statement

- I. There has been a curfew in the city.
- II. Doctors advice to eat an apple every day.

A - Statement I is the reason and statement II is the response.

B - Statement II is the reason and statement I is the response.

C - Both the statements I and II are the not depended reasons.

D - Both the statements I and II are the response of not depended reasons.

E - Both the statements I and II are the response of some common reasons.

Answer - Option D

Explanation

We can clearly analyze one thing that, eating apple and curfew are nowhere related to each other. Hence, they must be the response of not depended reasons.

Types of Causes

There can be different causes in following categories:

1. **Immediate Cause** : This is the cause that has occurred most recently. Consider the example of snowfall. Water is heated by the sun and it evaporates into the atmosphere. Once in the atmosphere, it cools down to a very low temperature and precipitates as snow. There are a few causes that have led to snowfall. The most immediate being the fact that the raindrops freeze in the low temperatures of the atmosphere.
2. **Principal Cause** : This is the main cause responsible for an event. The immediate cause may or may not be the Principal cause.
3. **Independent Cause** : This is the cause that is independent of the events. In other words, the effect and the cause may not have a direct relationship or any relationship at all.

Cause and Effect Reasoning: Possibilities

The question on cause and effect reasoning are mainly designed to decide on a candidate's ability to analyze a pair of given statements and to correlate them in terms of cause and effect. Five possibilities may arise:

1. The fact in the first statement is the effect of that mentioned in the second statement i.e. the second statement expresses the cause that leads to the condition mentioned in the first;
2. The contents of the first statement form the direct cause of the result discussed in the second statement;
3. Both the statements express generalized results that may not be backed by any specific cause but may influence certain other factors;
4. Both the statements are independent and may be explained as effects of different independent causes;
5. The effects in both the given statements may be caused or triggered by a third unmentioned event which may thus be called the common cause of the given events.

Directions or Tips

In each of the following questions, two statements numbered I and II are given. There may be cause and effect relationship between the two statements. These two statements may be the effect of the same cause or independent causes. These statements may be independent causes without having any relationship. Read both the statements in each question and mark your answer accordingly.

Give answer (a) if statement I is the cause and statement II is its effect

Give answer (b) if statement II is the cause and statement I is its effect

Give answer (c) if both the statements I and II are independent causes

Give answer (d) if both the statements I and II are effects of independent causes

Give answer (e) if both the statements I and II are effects of some common cause.

Example -1

- I. The local traders' association urged all its members to close down their shops for a day to protest against the government's new tax policy.
- II. Many shopkeepers decided to close down their shops for the day and gave a day off to their employees.

Solution

Clearly, the association's decision to go for a 'bandh' on a massive scale to protest against the government's new policy would have instigated the shopkeepers to keep their shops closed. Thus, I mentions the direct cause of the effect in II. Hence the answer is (a).

Sample Questions

Directions : In each of the following questions, two statements numbered I and II are given. There may be cause and effect relationship between the two statements. These two statements may be the effect of the same cause or independent causes. These statements may be independent causes without having any relationship. Read both the statements in each question and mark your answer accordingly.

Give answer (a) if statement I is the cause and statement II is its effect;

Give answer (b) if statement II is the cause and statement I is its effect;

Give answer (c) if both the statements I and II are independent causes;

Give answer (d) if both the statements I and II are effects of independent causes;

Give answer (e) if both the statements I and II are effects of some common cause.

Q.1.

- I. The prices of vegetables have been increased considerably during this summer.
- II. There is tremendous increase in the temperature during this summer thereby damaging crops greatly.

Answer B

Solution

Clearly, damage to crops due to high temperature may have resulted in a short supply of vegetables and hence an increase in their prices

Q.2

- I. Police resorted to lathi to disperse the unlawful gathering of large number of people.
- II. The citizens' forum called a general strike in protest against the police atrocities.

Answer A

Solution

Clearly, the people's mass protest against the police might have instigated the latter to indulge in lathi-charge to disperse the mob.

Q.3

- I. It is the aim of the city's civic authority to get air pollution reduced by 20% in the next two months.
- II. The number of asthma cases in the city is constantly increasing.

Answer B

Solution

The increase in number of asthma cases must have alerted the authorities to take action to control air pollution that triggers the disease.

Q.4

- I. The police authority has recently caught a group of house breakers.
- II. The citizens group in the locality have started night vigil in the area.

Answer E

Solution

Both the statements are clearly backed by a common cause, which is clearly and increase in the number of thefts in the locality.

Q.5

- I. The university authority has instructed all the colleges under its jurisdiction to ban use of all phones inside the college premises.
- II. Majority of the teachers of the colleges signed a joint petition to the university complaining the disturbances caused by cell phone ring-tones inside the classroom.

Answer B

Solution

Clearly, the university's decision came as a sequel to the complaint received by it from the college teachers against use of mobile phones in the college premises.

Q.6

- I. The government has recently fixed the fees for professional courses offered by the unaided institutions which are much lower than the fees charged last year.
- II. The parents of the aspiring students launched a severe agitation last year protesting against the high fees charged by the unaided institutions.

Answer B

Solution

The parents' protest against high fees being charged by the institutional led the government to interfere and fix the fees at a more affordable level.

Q.7.

- I. Large number of people living in the low-lying areas have been evacuated during the last few days to safer places.
- II. The Government has rushed in relief supplies to the people living in the areas.

Answer E

Solution

Evacuating low-lying areas and rushing in relief to the affected areas clearly that floods have occurred in the area.

Q.8.

- I. The performance of most of the students in final exam of class X in the by the Government was excellent.

- II. Many teachers of the Government schools left the school and joined private school.

Answer D*Solution*

The students of government schools performing well in the examinations and the teacher of government schools leaving their jobs to join private school are two separate situations that must have been triggered by independent causes.

Q.9.

- I. Majority of the citizens in the locality belong to higher income group.
- II. The sales in the local supermarket are comparatively much higher than in other localities.

Answer B*Solution*

The comparatively higher sales in a particular locality are indicative of the high paying capacity of the residents of that locality.

Q.10.

- I. There is considerable reduction in the number of people affected by water-borne disease in City A during this rainy season.
- II. The government has opened four new civil hospitals in City A in the beginning of the year.

Answer C*Solution*

The given statements are self-sufficient and depict independent events.

Topic 4

Coding and Decoding

Coding is a system of signals. This is a method of transmitting information in the form of codes or signals without it being known by a third person.

The person who transmits the code or signal, is called the sender and the person who receives it, is called the receiver. Transmitted codes or signals are decoded on the other side by the receiver—this is known as decoding.

In questions on coding-decoding, a word (basic word) is coded in a particular way and the candidates are asked to code other word in the same way. The coding and decoding tests are set up to judge the candidate's ability to decipher the rule that has been followed to code a particular word/message and break the code to decipher the message.

Order of the English Alphabet

Forward order position	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
Alphabets	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
Backward order position	26	25	24	23	22	21	20	19	18	17	16	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1

Approach

- (1) Observe alphabets or numbers given in the code keenly.
- (2) Find the sequence it follows whether it is ascending or descending.
- (3) Detect the rule in which the alphabets/numbers/words follow.
- (4) Fill the appropriate letter/number/word in the blank given.

Letter coding : Alphabets in a word are replaced by other alphabets according to a specific rule to know its code. So the common rule should be detected first. Some examples are given below:

- (1) 'ZYXW' as coded as 'ABCD' then 'STUV' is coded as.....

Answer : Z – A, Y – B, X – C, W – D

V – E, U – F, T – G, S – H

STUV = HGFE

Answer = HGFE

Rule = front alphabet = back alphabet.

- (2) 'bcd' is coded as 'def' then 'True' is coded as.....

Answer : b – d (+2)

c – e (+2)

d – f (+2)

+2 letters are considered in this code.

True – Vtwg

Answer = Vtwg.

- (3) 'Hyderabad' is coded as 'Ixedszcze' then 'Chennai' is coded as.....

Answer : H – I (+1)

Y – X (1-)

D – E (1+)

E – D (1-)

R – S (1+)

A – Z (1-)

B – C (1+)

A – Z (1-)

D – E (1+)

Here if we observe alternatively the letter increasing and one letter decreasing.

Chennai = dgfmzj

Answer = dgfmzj

Number coding : In this each alphabets or words are assigned to the numeric values we should observe the given letters and the assigned values and use the same rule to find the value to of given code. Some examples are given below:

- (1) Apple is coded as 25563, Rung is coded as 7148. Then purple is coded as

Answer

PURPLE – 517563

Answer = 517563.

- (2) In a language A is coded as 1, B is coded as 2, then FACE is coded as

Answer

Then FACE = 6135

Answer = 6135.

- (3) PUSH is coded as 1234, ROUGH is coded as 65274. Then SOUP is coded as

Answer

SOUP = 3521

Answer = 3521.

Substitution : In this section an object names are substituted with different object names. We should carefully trace the substitution and answer given question. Some examples are given below:

- (1) 'book' is coded as 'pencil', 'pencil' is coded as 'mirror', 'mirror is coded as 'book'. Then what is useful to write on a paper?

Answer : Pencil is coded as mirror

Answer = mirror.

- (2) 'man is coded as 'woman', woman is coded as 'girl', 'girl' is coded as 'boy', 'boy' is coded as 'worker' then 6 years female is known as?

Answer : 6 years female = girl, but 'girl' is coded as 'boy'.

Answer = boy.

- (3) 'Reds' are 'blues', 'blues' are 'whites', 'whites' are 'yellows', 'yellows' are 'oranges', 'oranges' are 'pinks', then what is the colour of the sky?

Answer : Sky is blue, but blues are whites

Answer = white.

Sample Questions

1. In a certain code, COMPUTER is written as RFUVQNPC. How is MEDICINE written in the same code?
 - (a) MFEDJJOE
 - (b) EOJDEJFM
 - (c) MFEJDJOE
 - (d) EOJDJEFM

Answer : Option D

The letters of the word are written in reverse order and except the first and the last letter all other letters are move one step forward

2. In a code language, A is written as B, B is written as C, C is written as D and so on, then how will SMART be written in that code language ?
 - (a) TLBSU
 - (b) SHBSU
 - (c) TNBSU
 - (d) SNBRU

Answer : Option C

The letters are coded by moving them 1 step forward.

3. In a certain code, RIPPLE is written as 613382 and LIFE is written as 8192. How is PILLER written in that code?
 - (a) 318826
 - (b) 776655
 - (c) 786543
 - (d) 156724

Answer : Option A

Word : RIPPLELIFEPILLER

Code : 6 1 3 3 8 2 8 1 9 2 3 1 8 8 2 6

4. In a certain code FLOWER is coded as 36 and SUNFLOWER is coded as 81, then how to code FOLLOWS?
 - (a) 42

- (b) 49
- (c) 63
- (d) 36

Answer : Option B

The word FLOWER has 6 letters. 62 is 36

The word SUNFLOWER has 9 letters. 92 is 81

Like FOLLOWS has 7 letters. So 72 is 49

5. In a certain code, 'il be pee' means 'roses are blue', 'sik hee' means 'red flowers' and 'pee mit hee' means 'flowers are vegetables', How is 'red' written in that code?
- (a) hee
 - (b) sik
 - (c) be
 - (d) cannot be determined
 - (e) none

Answer : Option B

Code Sentence

Il be pee roses are blue

Sik hee red flowers

Pee mit hee flowers are vegetables

In II and III code 'hee' stands for 'flowers'. So 'sik' stands for 'red'

6. In a certain code language : 'dugo hui mul zo' stands for 'work is very hard' 'hui dugo ba ki' for 'Bingo is very smart'; 'nano mul dugo' for 'cake is hard'; and 'mul ki gu' for 'smart and hard' Which of the following word stand for Bingo ?
- (a) Jalu
 - (b) Dugo
 - (c) Ki
 - (d) Ba

Answer : Option D

Code Sentence

1. dugo hui mul zo work is very hard
2. hui dugo ba ki bingo is very smart
3. nano mul dugo cake is hard
4. mul ki gu smart and hard

From second code and its sentence neither 'ba' is repeated nor is 'Bingo'.

7. If rain is called water, water is called air, air is called cloud, cloud is called sky, sky is called sea, sea is called road, where do the aeroplanes fly?
- (a) Water
 - (b) Road
 - (c) Sea
 - (d) Cloud

Answer : Option C

Aeroplanes fly in sky and as per given codes sky is sea

8. If Orange is called Lemon, Lemon is called Flower, Flower is called Fish, Fish is called Tail and Tail is called Pen, what is Rose?
- (a) Pen
 - (b) Lemon
 - (c) Flower
 - (d) Fish

Answer : Option D

Rose is a flower and as per given codes flower is fish.

9. In a certain code language \$#* means 'Shirt is clean', @ D# means 'Clean and neat' and @ ? means 'neat boy', then what is the code for 'and' in that language
- (a) #
 - (b) D
 - (c) @
 - (d) Data inadequate

Answer : Option B

Code sentence

\$#* 'Shirt is clean',

@ D# 'Clean and neat'

@ ? 'neat boy'

Here # stands for clean and @ stands for neat. D stands for 'and'

10. If A stands for +, B stands for -, C stands for x, what is the value of (10C4)(A) (4C4)B6 ?
- (a) 60
 - (b) 50
 - (c) 56
 - (d) 46

Answer : Option B

$(10C4)(A) (4C4) B6 = (10 * 4) + (4*4) - 6 = 50$

Topic 5

Deriving Conclusion from Passages

In this section of logical deduction, the question consists of a brief passage (usually a report containing certain data regarding some social or economic problem), Followed by certain inferences based on it. The candidate is required to analyse the content (or data) of the passage and grasp the desirable facts from it.

Then, he has to consider each of the given inferences in the context of the given passage, decide upon its degree of truth or falsity and then choose the best alternative provided accordingly.

Directions : Read the following passage and examine each inference given below it in the context of this passage.

Mark your answer as:

- (a) if the inference is 'definitely true'
- (b) if the inference is 'probably true';
- (c) if the 'data provided is inadequate';
- (d) if the inference is 'probably false'; and
- (e) if the inference is 'definitely false'.

Example 1. The World Health Organization has called for improved surveillance to combat dengue and says the outbreak can be controlled in two weeks if all necessary steps are taken to stop the mosquitoes from breeding and break the transmission cycle.

Dengue is already the most widespread mosquito-borne disease among humans. In the past 15 years, outbreaks in South and South-East Asia have been rapidly rising mostly due to falling environmental and public health standards during urbanization. WHO, reports that severe forms of the disease such as hemorrhagic fever (DHF) and shock syndrome (DSS) are putting more 2.5 million people at risk worldwide each year. Importantly, 95 % of the DHF cases are among children less than 15 years. Therefore, the disease has major impacts on public health and future generations.

1. If rate of urbanization in South Asia is controlled, outbreaks of all disease are reduced.
2. World Health Organization has not collected data of outbreak of dengue in the past.
3. There was no outbreak of dengue in the European countries in the recent past.
4. Over the last decade, South Asian countries have not successfully stepped up mechanism to combat dengue.
5. DSS type dengue seems mostly to be affecting the adults.

Solution

1. It is mentioned in the passage that 'outbreaks in South and South East Asia have been rapidly rising mostly due to falling environmental and public health standards during urbanization'. Thus, the fact in the question is quite probable. So, the conclusion is probably true.
2. The passage talks of outbreak of dengue during the past 15 years. This contradicts give European countries. Hence, the data are inadequate
3. The passage mentions the outbreak of dengue during in Asian countries only and not the European countries. Hence the data are inadequate

4. It is mentioned in the passage that cases of outbreak of dengue are rapidly rising in South Asian countries since the last 15 years. This means that adequate steps to combat dengue have not been taken. Hence, the conclusion is definitely true.
5. Nothing about the effect of DSS type dengue is mentioned in the passage. Hence the data are inadequate.

Sample Questions

Directions : Read the following passage and examine each inference given below it in the context of this passage.

Mark your answer as:

- (a) if the inference is 'definitely true'
- (b) if the inference is 'probably true';
- (c) if the 'data provided is inadequate';
- (d) if the inference is 'probably false'; and
- (e) if the inference is 'definitely false'.

Procurement of wheat is in full swing in the north-western states of India. By June end, public agencies are likely to end up with food grain stocks of about 40 to 42 million tonnes, the highest ever witnessed in the history of this country. This stock should be more than sufficient to ensure that the country's "food security" is not endangered even if India faces two consecutive droughts.

But strangely enough, while the granaries overflow, there is still widespread hunger in the country even without a drought. The estimates of poverty are being debated, but broadly one-third of India seems to remain underfed. And this coexistent of grain surpluses with large scale hunger should make any serious policy-maker think and examine the existing policy mix with a view to ensure faster economic growth and reduction in poverty.

Q.1 The policy-makers in India are unaware of prevalent hunger.

Answer B

Explanation

The statement '..... while the granaries overflow, there is still widespread hunger in the country' in the passage, indicates a lackening on the part of the policy-makers. Hence, it is quite probable that they are unaware of the prevalent hunger. Thus, the given inference is probably true.

Q.2 India always maintains foodgrain stocks to withstand two consecutive droughts.

Answer D

Explanation

It is mentioned in the passage that the current foodgrain stock is the highest e witnessed in the history of this country'. Thus, it is quite probable that such stocks are not always maintained. Hence, the given inference is probably false.

Q.3 The distribution of foodgrains to the masses has remained a problem area for India.

Answer A

Explanation

The phrase 'coexistence of grain surpluses with large scale hunger' in the passage clearly implies the given fact. Hence, the inference is definitely true.

Q.4 India's foodgrains stock has been satisfactory over the past few years.

Answer C*Explanation*

Nothing about the previous years' foodgrain stock of the country has been mentioned in the passage. Only the current situation has been discussed. Hence, the data are inadequate.

Q.5 More than 30 percent of the population in India do not even get two times meals per day.

Answer A*Explanation*

The given fact is clear from the sentence, "... but broadly one-third of India seems to remain underfed". Hence, the inference is definitely true.

Q.6 The policy of India needs to be revamped to reduce the extent of poverty in the country.

Answer A*Explanation*

The last sentence of the passage clearly implies the given fact. Hence, the given inference is definitely true.

Q.7 India, at present, is one of the countries in the world to have sufficient food for its people.

Answer A*Explanation*

The statement "This stock should be more than sufficient to ensure that country's food security is not endangered" clearly supports the given inference. Hence, the given inference is definitely true.

Direction for [Question No: 8 To 10]: Economic liberalization and globalization have put pressures on Indian industry, particularly on the service sector, to offer quality products and services at low costs and with high speed. Organizations have to compete with unequal partners from abroad. It is well recognized that developing countries like India are already behind other countries technologically, in many areas, although some of them, particularly India, boast of huge scientific and technical manpower. In addition to this, if an entrepreneur or industrialist has to spend a lot of his time, money and energy in dealing with unpredictable services and in negotiating with the local bureaucracy, it can have a significant dampening effect on business.

Q.8 Official formalities are less cumbersome in almost all the countries except India.

A. If you think the inference is 'definitely true'.

B. If you think the inference is 'probably true' though not definitely true in the light of the facts given.

- C. If the data given is inadequate i.e., from the fact given you cannot say whether the inference is likely to be true or false.
- D. If you think the inference is probably false though not definitely false in the light of the facts given.

Answer C*Explanation*

The last sentence of the passage hints at cumbersome official formalities in India, but nothing can be deduced about its comparison to other countries.

- Q.9 India at present is to some extent at par with the developed countries in terms of technological development.
- A. If you think the inference is 'definitely true'.
 - B. If you think the inference is 'probably true' though not definitely true in the light of the facts given.
 - C. If the data given is inadequate i.e., from the fact given you cannot say whether the inference is likely to be true or false.
 - D. If you think the inference is probably false though not definitely false in the light of the facts given.

Answer D*Explanation*

It is mentioned in the passage that though India boasts of huge technical manpower, yet it lags behind other countries in technology. Thus, it is quite probable that India is in no way at par with the developed countries in terms of technological development.

- Q.10 Foreign companies are more equipped than domestic companies to provide quality service in good time.
- A. If you think the inference is 'definitely true'.
 - B. If you think the inference is 'probably true' though not definitely true in the light of the facts given.
 - C. If the data given is inadequate i.e., from the fact given you cannot say whether the inference is likely to be true or false.
 - D. If you think the inference is probably false though not definitely false in the light of the facts given.

Answer A*Explanation*

The fact clearly follows from the first two sentences of the passage.

Topic 6

Drawing Inference

An inference...is a statement about the unknown made on the basis of the known.

S. I. Hayakawa, Language in Thought and Action (2nd ed.) p. 41

Inferences are evidence-based guesses. They are the conclusions a reader draws about the unsaid based on what is actually said. Inferences drawn while reading are much like inferences drawn in everyday life. If your best friend comes in from a blind date and looks utterly miserable, you would probably infer the date was not a success. Drawing inferences while you read requires exactly the same willingness to look at the evidence and come to a conclusion that has not been expressed in words. Only in reading, the evidence for your inference consists solely of words rather than actual events, expressions, or gestures.

To pull meaning from the page, readers need to draw all kinds of inferences. They need to infer main ideas; figure out how sentences and paragraphs relate; connect supporting details to main ideas; match pronouns to antecedents (the words to which pronouns refer); understand the function of allusions (references to people and events that are used to make a point); and determine how visual aids contribute to the author's message (This is just a partial list). While it's commonly assumed that writers supply every word readers need to construct meaning, nothing could be further from the truth. Readers almost always help create the texts they read. Those readers who don't draw inferences to fill in gaps in the text are likely to miss or misunderstand the meaning intended by the author.

For an illustration of how important inferences are to communication between reader and writer, read the following sentence: "After reading that Paris Hilton told an interviewer how the beauty of her hit song 'Stars Are Blind' made her want to cry, I couldn't help thinking of a quotation from Mark Twain: 'Man is the only animal that blushes—or needs to.'" To understand that sentence, readers need to draw at least three essential inferences:

- a. The author thinks the song is just awful.
- b. Mark Twain thought that only humans blushed because they were the only ones who did things they needed to be ashamed of.
- c. The author makes a connection between Hilton and Twain because she thinks Paris Hilton is one of those humans who should blush from shame.

Note as well how the author expects readers to infer that the antecedent for the pronoun "her" is Paris Hilton. Linking pronouns to antecedents is one of the most common kinds of inferences readers are expected to draw on a consistent basis.

What You Need to Know About Inferences

1. There are logical and illogical inferences, inferences that "fit" the rest of the text and inferences that don't. Make sure your inference has the right fit by relying on the author's words more than on your own feelings and opinions. To give you an obvious example: If the writer uses glowing language to describe the presidency of Bill Clinton but never states an opinion of the Clinton years in office, you probably shouldn't infer that the writer is a Clinton critic just because you yourself thought Bill Clinton was a terrible president.
2. Think of inferring implied main ideas as a two-step process, moving from part to whole. Your first step is to understand what each sentence contributes to your knowledge of the topic. Next ask yourself what the sentences combine as group to suggest. The answer to that question is the implied main idea of the paragraph.

3. If you draw an inference about the main idea, check to see if the your inference is contradicted by any statements in the paragraph. If it is, you have probably drawn an illogical inference, one that does not follow from the information given. With particularly difficult readings, see if you can actually identify the language or statements that led you to the main idea you inferred. This kind of close reading is a great inference check. It also gives you practice doing the kind of thoughtful reading that guarantees remembering.
4. Transitions such as "consequently," "next," and "in summary" definitely help readers make connections between sentences and paragraphs. Transitions are the considerate author's way of saying, "This is the connection you need to make between what you just read and what's coming up." However, transitions are not as commonly used as readers might like. It's often the reader's job to supply sentence and paragraph connections. In other words, it's the reader's job to draw the right inference. If a sentence doesn't open with a transition—and a good many won't—make sure you know how the sentence you are reading connects to the ideas that came before.
5. Pay especially close attention to sentence openers. That's where you will often get the clues you need to infer relationships between sentences and paragraphs.
6. Be on the look-out for key allusions or idioms (expressions that might seem completely out of place to those just learning the language, but which make sense to those who grew up hearing or reading these expressions), e.g., she loved her job; the money was "icing on the cake"). Allusions and idioms often suggest meanings that are central to the author's message. For instance, if the writer says that "the shotgun marriage between the unions and management dissolved once the war was over" you can infer that the unions and management were working together because they were forced to by necessity. However, the writer doesn't say anything about either side being forced by necessity. Instead, she uses an idiom and expects reader to draw the correct inference.
7. If the text includes visual aids, but neither the title nor caption tells you exactly how they relate to the author's meaning, take the time to figure out the relationship between text and graphic. Inferring relationships between the author's words and the visual aids will deepen your overall understanding of the point or points being made. You will also have two ways, one verbal, one visual, to anchor information in long-term memory.
8. To get you started thinking about inferences, here are a few warm-up exercises. If you sail through these, you can find more at Online Practice for Reading for Results.

Exercise 1

Directions : Each item in this exercise describes a famous person. It's your job to infer the name of the person described.

1. A small-town lawyer from Illinois, tall and lanky with an Adam's apple that could have gone down in the Guinness Book of Records had it existed in the nineteenth century. Nevertheless, he changed the face of American history, steering it through a civil war that left both sides bloody. Who knows what more he could have done had an assassin's bullet not cut him down.

The person described is _____

In drawing the correct inference, which piece of information is more useful:

- a. He had a big Adam's apple.
- b. He steered the nation through a civil war.

Answer and Explanation:

1. Abraham Lincoln

Clue : He steered the country through civil war.

Explanation : Lots of people have big Adam's apples, but America has had only one civil war.

2. Glittering and shaking to the strains of "Proud Mary," this lady ruled the stage in the sixties, but Ike ruled the roost until she walked out the door. It took her almost a decade to get back on top but she still remains one of pop's great divas. Closing in on sixty, she can still belt out rock and roll with singers half her age, and "Simply the Best" just may qualify as her own personal theme song.

The person described is _____

In drawing the appropriate inference, which piece of information is more useful.

- a. She ruled the stage but Ike ruled the roost.
- b. She was a popular singer in the sixties.

Answer and Explanation

Tina Turner

Clue : She ruled the stage but Ike ruled the roost.

Explanation : There were many popular women singers in the sixties but only one was linked to a domineering husband named Ike.

Exercise 2

Directions : For each situation, draw what you think is an appropriate inference.

1. You have just gotten a pit bull puppy from an animal shelter. He's lovable but nervous. If you raise your voice for any reason, he cowers and trembles. If you scold him, he hides. When you got him from the shelter, he had a slight limp and a deep scratch across his nose.

Inference :

2. You are a high school student sitting in class when a substitute teacher walks in and announces that your regular teacher is ill. Everyone in the class including you erupts in applause. The substitute raps his knuckles on the desk for order, but the students ignore him and talk louder.

Inference : Answers may vary.

1. Inference: The puppy may well have been abused by its former owners.
2. Inference: The students are going to take advantage of the substitute teacher.

Exercise 3

Directions : Each item in this exercise introduces a topic. Six specific statements about the topic follow. Read them carefully. Then choose the more appropriate inference.

1. Topic: Shakespeare in nineteenth-century America

Specific Statements :

- a. In the early nineteenth century, Shakespeare was the most widely performed playwright in both the North and Southeast.
- b. In the first half of the nineteenth century, English and American actors could always earn money by performing Shakespeare in towns both big and small.

- c. American audiences were famous for their participation in performances of Shakespeare's plays: They hurled eggs and tomatoes at the villains and cheered and whistled for the heroes.
- d. By the end of the nineteenth century, theater owners claimed that most ordinary people couldn't understand Shakespeare, and they were refusing to stage his plays.
- e. In the early 1800s, theater goers in big cities could often choose between three different productions of Macbeth or Romeo and Juliet; by the end of the nineteenth century, it was hard to find one production of a Shakespeare play, let alone several.

Answer B*Inference*

- a. Early American audiences embraced Shakespeare's plays enthusiastically because they wanted to prove that they were as clever and sophisticated as their former British rulers.
 - b. The role of Shakespeare in America changed dramatically as the nineteenth century drew to a close.
2. *Topic* : The medics in World War II

Specific Statements

- a. During training for combat, the medics were often despised because most of them had refused to take up arms.
- b. The medics had their own barracks and were separated from combat soldiers, who referred to them as "pill pushers" and laughed at their medical drills.
- c. In actual combat, it was often the medics who meant the difference between life and death for soldiers wounded in battle; they were the ones who braved gunfire to carry wounded soldiers to the hospital.
- d. In many divisions, soldiers who had lived through combat took up collections in order to provide bonuses for the medics.
- e. Interviewing veterans of World War II, author Stephen Ambrose consistently heard from men who believed they owed their lives to some member of the medical core.

Inference

- a. The combat experience profoundly changed the way soldiers felt about the medical core.
- b. Despite their bravery in the battles of World War II, medics never really received the respect that was due them.

Answer A*Exercise 4*

Directions : Read each paragraph. Then choose the inference that could effectively sum up the main idea.

1. When World War II broke out in Europe in 1939, the United States was the only major power without a propaganda agency. More important, despite prodding from England and France, the U.S. had no plans to create one. During World War I, a government-based group known as the Committee for Public Information had successfully stirred up public feeling against German-Americans because America was at war with Germany. As a result, many innocent German-

American citizens had been insulted, beaten, even lynched. In addition, a good portion of the American public still believed that the United States had been tricked into entering World War I because of British propaganda. Distrustful of propaganda in general, there was little widespread support for a government agency dispensing it when the Second World War broke out.

Inference

- a. Because of what had happened during World War I, the American public was suspicious of propaganda and not inclined to support its use when World War II first erupted.
- b. Aware of how the German government was using propaganda to spread hate and violence, the American public was reluctant to make use of it at the beginning of World War II.

Answer A

2. At his death in 1971, trumpeter Louis Armstrong was much loved as a celebrity. Yet as a musician, he no longer commanded wide respect among the general public. To most people, he was the man with the toothy smile who made occasional appearances in television and movies usually singing what had become his signature songs "Hello, Dolly" and "It's a Wonderful World." Jazz enthusiasts, however, had another take on the passing of Louis Armstrong. To them he was the New Orleans-born musician who had, along with Bix Beiderbecke, introduced the solo to jazz. With records like "Struttin' with Some Barbecue," "I'm not Rough," and "Potato Head Blues," Louis became the first great jazz influence. As music critic Terry Teachout has written, Louis Armstrong was "the player other players copied." Still, at his death, few really knew what Louis had accomplished. In his honor, radio and television broadcasts played "Hello Dolly," not "West-End Blues," his 1928 recording that starts off with what may be the most famous horn solo in jazz.

Inference

- a. A hero to much of the jazz community, Louis Armstrong was forgotten by the general public at the time he died.
- b. At his death, Louis Armstrong was a beloved celebrity whose spectacular achievements had been forgotten by all but devoted jazz fans.

Answer B

Exercise 5

Directions : Read each paragraph. Then draw an inference that sums up the main idea.

1. In the movies, England's King Richard the First—he of the lion heart and Robin Hood fame—is a hero of spotless reputation. In Hollywood's many versions of the Robin Hood story, for example, Robin worships good King Richard and would willingly die for him. History, however, offers a different slant on Richard's supposed goodness. In 1189, the Pope called for yet another crusade to take back the holy land of Jerusalem from Moslem rule. Intent on following the Pope's order, Richard combined forces with King Philip the II of France. Together, they managed to take the town of Acre, a port on what is now Israel's Northwestern coast. Attempting to blackmail the Moslem ruler Saladin into giving up sacred lands, Richard took 2,500 civilians hostage, many of them women and children. When Saladin refused, Richard promptly slaughtered every last one of his hostages.

Inference :

2. When Bonnie Parker met Clyde Barrow, she was twenty years old. Although she had been a rebellious child and teenager, she had never broken a law in her life. The worst thing she had

done in her mother's opinion was run off and get married to a shiftless womanizer who humiliated and neglected her. When Clyde came along, Bonnie was ripe for the attentions of a man who seemed to think she was both important and attractive. As long as he didn't desert her, Bonnie didn't much care about Clyde's two-year jail sentence. In jail at least, she knew where he was, and she could write him daily letters about how much she loved him. Bonnie, however, got nervous when she heard that Clyde was planning a jailbreak. To bind him more tightly to her, she smuggled him a gun and helped him escape. After he got caught and sent back to prison, Bonnie was even more determined to wait for the man she called her "one true love." Upon his release from jail, Bonnie took Clyde home to meet her folks and announced she was going to Houston, Texas to get a new job. The next time her mother heard from her, Bonnie Parker was sitting in jail and had formally started her career as one half of the most famous bandit duo in history.

Answers will vary.

1. Richard the Lionhearted was not as pure of heart as some movies suggest.
2. Her romantic attachment to Clyde Barrow led Bonnie Parker into a life of crime.

Topic 7
Number Test

Self – Exercise Questions*Directions to Solve*

In each series, look for the degree and direction of change between the numbers. In other words, do the numbers increase or decrease, and by how much

1. Look at this series: 2, 1, (1/2), (1/4) ... What number should come next?
 - A. (1/3)
 - B. (1/8)
 - C. (2/8)
 - D. (1/16)

Answer : Option B

Explanation

This is a simple division series; each number is one-half of the previous number.

In other terms to say, the number is divided by 2 successively to get the next result.

$$4/2 = 2$$

$$2/2 = 1$$

$$1/2 = 1/2$$

$$(1/2)/2 = 1/4$$

$$(1/4)/2 = 1/8 \text{ and so on.}$$

2. Look at this series: 7, 10, 8, 11, 9, 12,... What number should come next?
 - A. 7
 - B. 10
 - C. 12
 - D. 13

Answer : Option B

Explanation

This is a simple alternating addition and subtraction series. In the first pattern, 3 is added; in the second, 2 is subtracted.

3. Look at this series: 36, 34, 30, 28, 24, ... What number should come next?
 - A. 20
 - B. 22

C. 23

D. 26

Answer: Option B

Explanation:

This is an alternating number subtraction series. First, 2 is subtracted, then 4, then 2, and so on.

4. Look at this series: 22, 21, 23, 22, 24, 23, ... What number should come next?

A. 22

B. 24

C. 25

D. 26

Answer: Option C

Explanation:

In this simple alternating subtraction and addition series; 1 is subtracted, then 2 is added, and so on.

5. Look at this series: 53, 53, 40, 40, 27, 27, ... What number should come next?

A. 12

B. 14

C. 27

D. 53

Answer: Option B

Explanation:

In this series, each number is repeated, then 13 is subtracted to arrive at the next number.

6. Look at this series: 21, 9, 21, 11, 21, 13, 21, ... What number should come next?

A. 14

B. 15

C. 21

D. 23

Answer: Option B

7. Look at this series: 58, 52, 46, 40, 34, ... What number should come next?

A. 26

B. 28

C. 30

D. 32

Answer: Option B

8. Look at this series: 3, 4, 7, 8, 11, 12,... What number should come next?

- A. 7
- B. 10
- C. 14
- D. 15

Answer: Option D

9. Look at this series: 8, 22, 8, 28, 8, ... What number should come next?

- A. 9
- B. 29
- C. 32
- D. 34

Answer: Option D

10. Look at this series: 31, 29, 24, 22, 17, ... What number should come next?

- A. 15
- B. 14
- C. 13
- D. 12

Answer: Option A

Topic 8

Sequence and Series

Number series is important for various competitive examinations. In this category of questions, a series of various numbers is given with a blank. We are supposed to find out a pattern between every number and its predecessor and find out the answer using the same logic.

For the purpose of better understanding of the concept, we classify them into the following categories:

- Series with a constant difference
- Series with an increasing difference
- Series with a decreasing difference
- Squares/ Cubes series
- Combination of different operations
- Miscellaneous

The Best Approach

The best way of approaching number series questions is to observe the difference between various terms. If we see a constant difference, then it's a constant difference series. If the difference is decreasing or increasing by a constant number, then it is a series of type 2 or type 3. But if there is no such increase or decrease in the difference, then try dividing the 2nd term with the first, third with the second and so on. If you obtain the same number each time, then it is a product series.

Also, if none of these seem to work, then you can try writing each term as a product of two factors and try to see if there is any pattern. If you still observe no pattern and the difference is increasing or decreasing rapidly, then try to look for square/ cube series.

If the difference is increasing and decreasing in some fixed manner, then it is a type of combination series.

Let us look at each type of series in greater depth:

1. Series with a constant difference

In this kind of series, any 2 consecutive numbers have the same difference between them.

For example : 1, 5, 9, 13, ?

We can observe that we are adding 4 to the previous number to obtain the next number. So, answer here will be $13+4 = 17$.

2. Series with an increasing difference

In this type of series, the difference between two consecutive terms keep on increasing as we move forward in a series. Let us try to use this theory in a question.

1,2,4,7,11,16,?

We can clearly observe that the series is increasing with the difference: +1, +2, +3, +4, +5.

So, we will obtain our number by adding 6 to 16 which gives us 22.

3. Series with a decreasing difference

In this type of series, the difference between two consecutive terms keep on decreasing as we

move forward in a series. Let us try to use this with some modification in the previous question that we did.

16, 11, 7, 4, 2, ?

We can clearly observe that the series is decreasing with the difference: -5, -4, -3, -2.

So, we will obtain our number by subtracting 1 from 2 which gives us 1.

4. Squares/ Cubes series

We can have series where the terms are related to the squares/ cubes of numbers. We can have a lot of variations here. Let us look at some of the possibilities.

1, 9, 25, 49, ?

We can observe that the above series is square of odd numbers starting from one. So our answer will be $9^2 = 81$.

Let us look at another example:

1, 1, 2, 4, 3, 9, 4, ?

We observe here that the series is formed by writing numbers starting from 1 along with its square as the next number i.e. (1, 1x1), (2, 2x2) and so on. So we obtain our answer as 16 which is 4x4.

Consider the following question:

9, 28, ?, 126.

The answer for above question will be 65, let us discuss how.

9, 28, ?, 126.

(2^3+1) (3^3+1) (5^3+1)

The blank should have 4^3+1 . **Hence, the answer is 65.**

5. Combination of different operations

This kind of series has more than 1 type of arithmetic operations which have been performed or it can also have 2 different series which have been combined to form a single series. This kind of series is the most asked and the most important among all the types of series that we have discussed so far.

Consider the series:

1, 3, 6, 2, 6, 9, 3, 9, ?

The first term 1 is multiplied by 3 to give the second term, 3 has been added to the second term to get the third term. The next term is 2 which is 1 more than the 1st term. It is multiplied with 3 to give next term and the process is continued. With this process, we obtain our answer as 12.

Consider the series:

6, 10, 7, 11, 8, 12, ?

We can see that the above series is a combination of 2 simple series:

1st, 3rd, 5th terms make an increasing series of 6, 7, 8, The 2nd, 4th and 7th term make a series of 10, 11, 12, So, our answer will be 9 which is the 7th term of the original series.

6. Miscellaneous series

Some series do not come under any of the above mentioned categories but are very important and also asked in many examinations.

The series of prime numbers or any other related operation done on it comes under this category.

Consider the example:

9, 25, 49, 121, ?

The above series is the squares of prime numbers. So next term will be square of 13 which is 169.

Topic 9

Statement and Assumptions

Logical Reasoning (LR) is an integral part of Competitive Exams. It is designed to measure a person's ability to draw logical conclusions based on statements or arguments, and to identify the strengths and weaknesses of those arguments. It is important to keep in mind that the statements and assumptions in logical reasoning might defy your expectations rooted in the real world,

For instance, eating a lot makes you lose weight.

Rahul has lost weight.

Rahul eats a lot.

This goes against the knowledge that eating a lot leads to obesity, but within the limits of logical reasoning, this is a valid argument.

Statements, Premises, Assumptions, Conclusion are some of the terms associated with logical reasoning and you will be tested on these in IIFT, CAT, XAT, NMAT and MAT Exams.

1. Statement

In logic, a statement is either a meaningful declarative sentence that is either true or false, or that which a true or false declarative sentence asserts. For instance,

'Socrates is a mortal', 'Delhi is the capital of India.'

A statement is different from a sentence. A sentence is one form of a statement, whereas there may be several ways of formulating the same statement. For instance,

'All men are mortal'

'Every man is mortal',

are two different sentences that form the same statement.

2. Assumption

An assumption is an unstated premise that supports the conclusion. Both premise and assumption are unquestionable facts but the assumption, unlike the premise, is not explicitly stated and needs to be deciphered. Assumption is something that is taken for granted in the context of a statement. For instance, 'All kids are happy when they get new gadgets. Vicky will be thrilled when he gets the new mobile phone.' In this, the assumption is that Vicky is a kid. Without this assumption, the argument will make no sense.

3. Statement- Assumption

Questions with statements and assumptions are common in the logical reasoning section of entrance examinations such as, CAT, IIFT, XAT, MAT and NMAT. Most questions on Statement and Assumptions include a statement followed by further statements, which have to be tested for whether they are implied in the given statement or not. For instance:

Statement- A big retail store was attacked by vegetable vendors in Amritsar.

Assumptions - i. The store has affected the livelihood of local vegetable vendors.

ii. The store is built in thickly populated areas.

Consider the statement and decide which of the given assumption is implicit.

The answer to this will be the first assumption, because the store is affecting the vendors, which causes the attack. Assumption ii is irrelevant because nothing is mentioned regarding the location of the store.

- b. Statement - "Please switch off the mobile phones while you are in the theatre", a notice outside a theatre.

Assumption - i. Every viewer who enters the theatre keeps mobile phones.

ii. Switched on mobile phones might distract the performers.

In this, assumption ii is implied by the given statement.

Statement and assumptions are crucial concepts to understand thoroughly, for doing well in the logical reasoning section.



Rules

- Assumption is always Indefinite & Positive
- Some, to large extent, many, much, exist in the assumption
- Some words like only, each, any, every, all, question indicating word (why, these, what), Answer indicating words (therefore), Definitely, But, Certainly exist in the assumption that assumption will always be explicit (False).
- Some words like some, to large extent, many, much, exist in the assumption that assumption will always be implicit (True).
- Any assumption that is conveying the message of advertisement, notice, appeal that assumption will always be implicit (True).
- Any assumption that is talking about the social welfare (positive), govt. policies that assumption will always be implicit (True).
- If any assumption is talking about past & future that assumption will always be explicit (False).
- If any assumption showing the word like suggestion, order, request that will always be implicit (True). Restatement is never implicit.

- Comparison always wrong.

Example:

#1 Statement:

Everybody loves reading adventure stories

Assumption:

Adventures stories are the only reading material.

Nobody loves Reading any other material.

#2

Statement: "If you want to study account join institute Y",A advice to B.

Assumption:

Institute Y provides good account education.

B listen to A advice.

#3

Statement: The college administration has instructed all the students to stop using cell phone within the college premises.

Assumption:

The student may stop using cell phone in the college premises

The student may continue to use cell phone in the college premises.

#4

Statement: Read the Notice before entering the club

Assumption:

People are literate.

Club is not for blind person.

#5

Statement: ABC is the only magazine that provides good notes on Reasoning & Mathematics.

Assumption:

It will have some effect on those who read.

People always wait for latest Notes on reasoning & Mathematics.

#6

Statement: If you are a classical singer we have challenging job for you.

Assumption:

We need a classical singer

You are a classical singer.

#7

Statement: Like a mad man I decided to follow him.

Assumption:

I am a mad man.

I am not a mad man.

#8

Statement: All the workers are here by instructed to reach the factory by 8:30 am.

Assumption:

Some of the worker will not arrived at the factory in time.

Worker will follow the strict warning in the notice.

#9

Statement: You can't solve syllogism question without constructing a diagram (Venn). Difficult question of syllogism need Venn diagram solving, A teacher tells his students.

Assumption:

The students are not intelligent.

Problem cannot be solved.

Sample Questions

Directions to Solve

In each question below is given a statement followed by two assumptions numbered I and II. You have to consider the statement and the following assumptions and decide which of the assumptions is implicit in the statement.

Give answer

- (A) If only assumption I is implicit
- (B) If only assumption II is implicit
- (C) If either I or II is implicit
- (D) If neither I nor II is implicit
- (E) If both I and II are implicit.

1. *Statement* : "You are hereby appointed as a programmer with a probation period of one year and your performance will be reviewed at the end of the period for confirmation." - A line in an appointment letter.

Assumptions

The performance of an individual generally is not known at the time of appointment offer.

Generally an individual tries to prove his worth in the probation period.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option E

Explanation

The performance of the individual has to be tested over a span of time as the statement mentions. So, I is implicit. The statement mentions that the individual's worth shall be reviewed (during probation period) before confirmation. So, II is also implicit.

2. *Statement*

It is desirable to put the child in school at the age of 5 or so.

Assumptions

At that age the child reaches appropriate level of development and is ready to learn.

The schools do not admit children after six years of age.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer: Option A

Explanation

Since the statement talks of putting the child in school at the age of 5, it means that the child is mentally prepared for the same at this age. So, I is implicit. But nothing about admission after 6 years of age is mentioned in the statement. So, II is not implicit.

3. *Statement* : "In order to bring punctuality in our office, we must provide conveyance allowance to our employees." - In charge of a company tells Personnel Manager.

Assumptions

Conveyance allowance will not help in bringing punctuality.

Discipline and reward should always go hand in hand.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer: Option B

Explanation

Assumption I goes against the statement. So, it is not implicit. The allowance will serve as a reward to the employees and shall provoke them to come on time. So, II is implicit.

4. *Statement* : Unemployment allowance should be given to all unemployed Indian youth above 18 years of age.

Assumptions

There are unemployed youth in India who needs monetary support.

The government has sufficient funds to provide allowance to all unemployed youth.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit

E. Both I and II are implicit

Answer : Option A

Explanation

I directly follow from the statement, so is implicit. Also, the statement is a suggestion and does not tell about a government policy or its position of funds. So, II is not implicit.

5. *Statement* : "If you trouble me, I will slap you." - A mother warns her child.

Assumptions

With the warning, the child may stop troubling her.

All children are basically naughty.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation :

The mother warns her child with the expectation that he would stop troubling her. So, I is implicit. The general nature of children cannot be derived from the statement. So, II is not implicit.

6. *Statement* : The State government has decided to appoint four thousand primary school teachers during the next financial year.

Assumptions

There are enough schools in the state to accommodate four thousand additional primary school teachers.

The eligible candidates may not be interested to apply as the government may not finally appoint such a large number of primary school teachers.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation

Such decisions as given in the statement are taken only after taking the existing vacancies into consideration. So, I implicit while II isn't.

7. *Statement* : A warning in a train compartment - "To stop train, pull chain. Penalty for improper use Rs. 500."

Assumptions

Some people misuse the alarm chain.

On certain occasions, people may want to stop a running train.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option E

Explanation

Clearly, the penalty is imposed to prevent people from misusing the alarm chain. This means that some people misuse it. So, I is implicit. The alarm chain is provided to stop the running train in times of urgency. So, II is also implicit.

8. *Statement* : If it is easy to become an engineer, I don't want to be an engineer.

Assumptions

An individual aspires to be professional.

One desires to achieve a thing which is hard earned.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option B

Explanation

Clearly, nothing is mentioned about the professional nature of the job. So, I is not implicit. The statement hints that one rejects a thing that is easy to achieve. So, II is implicit.

9. *Statement* : The concession in rail fares for the journey to hill stations has been cancelled because it is not needed for people who can spend their holidays there.

Assumptions

Railways should give concession only to needy persons.

Railways should not encourage people to spend their holidays at hill stations.

- A. Only assumption I is implicit

- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option A

Explanation

The statement mentions that concessions should not be given to people who can afford to spend holidays in hill stations. This means they should be given only to needy persons. So, I is implicit. But, II does not follow from the statement and is not implicit.

10. *Statement* : "The bridge was built at the cost of Rs. 128 crore and even civil bus service is not utilizing it, what a pity to see it grossly underutilized." - A citizen's view on a new flyover linking east and west sides of a suburb.

Assumptions

The building of such bridges does not serve any public objective.

There has to be some accountability and utility of money spent on public projects.

- A. Only assumption I is implicit
- B. Only assumption II is implicit
- C. Either I or II is implicit
- D. Neither I nor II is implicit
- E. Both I and II are implicit

Answer : Option B

Explanation

Clearly, the statement expresses grave concern over a newly-built flyover not being utilized by public. This implies that such projects need to be taken up only after working out their utility and that the huge expenditure incurred on building such structures is worthwhile only if they prove useful for the public. Thus, only II is implicit.

Foot Notes

1. Doyle Alison (2019), 'The Importance of Logical Thinking in the Workplace', The Balance Career. available at: <https://www.thebalancecareers.com/logical-thinking-definition-with-examples-2059690>
2. See, <https://philosophyterms.com/logical-reasoning/>
3. Source: https://www.philosophybasics.com/branch_logic.html
4. Source: https://www.philosophybasics.com/branch_logic.html

Lesson 7

**VERBAL
REASONING**

Introduction

Reasoning means the action of thinking about something in a logical and sensible way. In our day to day work, we apply the reasoning and try to work with logical sense. The general mental ability of a person can be well tested with the approach of Verbal and Non-verbal reasoning developed in the mind. In short the mental ability is depicted through this technique.

We begin with the word "Analogy". As per New Concise Oxford Dictionary, "Analogy" means agreement, or similarity. Analogue is the process of reasoning from parallel cases. In simple way, we can say that, analogy means correspondence or relationships.

Following are to be noticed:

1. Measurements and Instruments :

When we say Temperature, we immediately think of Thermometer. When it comes to Blood Pressure, we think of BP measuring machine.

2. Quantity and unit:

If mass is to be measured, we say Kilograms.

However, if time is to be measured, we say minutes or seconds or hours etc. depends on the nature of counting the time.

3. Selection of Groups for individuals:

When we say "Man" it gets associated with "Crowd"

When we say "Singer" it can get associated with "Chorus"

4. Male and Female:

We can have a logical flow as Gentleman-Lady or Son-Daughter etc.

5. Worker and working place:

For example we may say Doctor-Hospital or Clinic, and Manager-Bank, Teacher-School or college etc.

6. Product and Raw material:

For example, the Book-Paper, Jewelry-Gold, Shoes-Leather are some of the examples of the link of product and Raw Materials.

Illustrative Examples:

- Q1. Mumbai: Maharashtra:: Ahmedabad:

a. Maharashtra b. Gujrat c. Uttar Pradesh d. Canada

Here the correct answer is 'b' Gujrat as Ahmedabad is capital city of Gujrat.

- Q2. Doctor: Nurse::Follower:

a. Worker b. Employer c. Leader d. Union.

Here, the correct answer is 'c' Leader as the nurse follows the instructions of the doctor, then, the follower also follows the instructions of the leader.

Questions based on Directions

In the following types of questions, there are certain directions which one can understand; it is expected to choose the correct alternatives:

Q3. Moon: Satellite: : Earth: ?

- a. Solar system b. Sun c. Planet d. Asteroid

The correct answer should be c. Planet in the above case.

Q4. Clock: Time : Thermometer: ?

- a. Temperature b. Energy c. Heat d. radiation.

The correct answer should be 'a' temperature as the Thermometer gives the direction of temperature.

Questions Based on Relationship

Each of the following questions consists of two words that have a certain relationships to each other, followed by four letter head pairs of words. Select that letterhead pair that has same relationship as the original letterhead pair.

Q5. Sound: Muffled::

- a. Moisture: Humid b. Colour: faded c. Despair : Anger d. Odour: Pungent

The correct answer is 'b' because the second is the process of the gradual disappearance of the first.

Q6. Knowledge: Ignorance: :

- a. Cure: Health b. Conceal : Hide c. Breath : Suffocation d. Construction : war

The correct answer is 'c' as the words in each pair are antonyms of each other.

Logical order:

Sometimes there can be logical order of the words or the given things. We understand more from the following questions:

Q7. Arrange the following words in the logical order: 1.Elbow 2.Wrist 3.Shoulder 4. Palm 5. Finger

- a. 2,4,5,3,1, b. 5,4,2,1,3, c. 3,4,5,2,1, d. 3,1,4,2,5

The correct answer is 'b' as the logic of the arrangement matches in that order.

Q8. The mobile manufacturing companies have increased the the prices of smartphones. The government has recently increased the duty on the smartphones.

- a. The statement II is the cause and statement I is the effect.
 b. Statement I is cause and statement II is the effect.
 c. Both statement I and II are independent causes
 d. Both statement I and II are effects of independent causes.

The correct answer is 'a' as the statement II is cause and statement I is an effect.

Q9. Choose the some relationship of the given words: Bald Eagle: America:: Wolf : ?

- a. Australia b. Spain c. Italy d. France

Answer is 'c' Italy as the Bald Eagle is national bird of America and Wolf is national animal of Italy.

Q10. Appointment: Abiligy

- a. Transfer : Punishment b. Business : Money c. Promotion : Merit d. Examination: Success

The correct answer is 'c' as the first is the result of the second thing.

Q11. Pulp: Paper

- a. Rope : Hamp b. Rayon : Cellulose c. Thread : needle d. Yarn : fabric

Here the correct answer is 'd' as the first is used to make the second.

Q12. Liquor : Drink

- a. Bread: Butter b. Tea : Bevarage c. Snuff: Inhale d. Water : Sip

The correct answer is 'b' as the second denotes the class to which the first belongs.

Series Completion:

In this types of questions, the series of numbers are given and we have to choose that which is most logically fitting to the same.

Q13. Completing the given series: Which number would replace the question mark in the series 7,12,19,?, 39

- a. 29 b. 28 c. 26 d. 24

One can easily understand that $7+5=12$ and $12+7=19$ so, the numbers are added by 5,7 and so on. Therefore, $19+9=28$. Hence the answer is 28. So the answer is 'b'

The Alphabet series: In this type of questions, we have to have logical flow of understanding the alphabets to get to the answer.

Q14. What will be the next term in BDF, CFI, DHL,?

- a. CJM b. EIM c. EJO d. EMI

Clearly, the first, the second and the third letters of each term are respectively moved one, two and three steps forward to obtain the corresponding letters of the next term. So the missing term is EJO and hence the correct answer is 'c'.

The Letter Series

This type of questions consists of the series of small letters which follow a certain pattern. However, some letters are missing from the series. These missing letters are given a proper sequence as one of the alternatives. The candidate should choose proper alternative answer.

For example : aab__aaa__bba__?

- a. baa b. abb c. bab d. aab

Answer: We proceed step by step as below:

1. The first blank space should be filled by 'b' so that we have two 'a' s followed by two 'b' s
2. The second blank space should be filled in either by 'a' so that we have four 'a' s followed by two 'b' s or by 'b' s or by 'b' so that we have three 'a' s followed by three 'b' s
3. The last space must be filled in by 'a'
4. Thus we have two possible answers 'baa' and 'bba' but only 'baa' appears in the alternatives. So the correct answer is 'a' above.

Number coding

In these type of questions, either the numerical codes are assigned to the word or alphabetical codes are assigned to the numbers. The candidate should analyses the code with direction:

For example : If in a certain language, A is coded as 1, B is coded as 2, and so on, how is BIDDIC coded in that code?

- a. 294493 b. 284563 c. 375582 d. 394492

As the given letters are coded as A B C D E F G H I

1 2 3 4 5 6 7 8 9

So, in BIDDIC, code B is coded as 2, I as 9, D as 4 and C as 3. Thus BIDDIC is coded as 294493 hence the correct answer is 'a'.

Relations Puzzles

In this type, the mutual blood relations or other informations of more than two persons are mentioned and information about two is mentioned.

Example : A and B are brothers. C and D are sisters. A's son is D's brother. How is B related to C?

- a. Father b. brother c. Grandfather d. Uncle e. none of these.

In this example, clearly B is brother of A; A's son is D's brother. This means D is the daughter of A. Since C and D are sisters, C is also a daughter of A. So, B is the uncle of C. Hence the correct answer is 'd'.

Alphabet Test

This is also called Alphabetical Order. Generally, there is not tough to understand and solve these types of questions. With enough practice, everyone can ace these questions. Like there may be questions to find the English letters between two English alphabets given in the question. You will also be asked to find out the place of English letter to the right or to the left of the one given in the question.

Questions may vary on the arrangement of alphabets. Like in some questions it may be backward, second half backward or multiple letter segments which are in changed order, etc. In some questions, one may be asked to find the letters that do not change with the change in their alphabetic arrangement and in some questions you will be asked to find the middle letter of the two given English letters in the question.

It is important to note that while solving the questions of alphabetical order you need to keep in mind the forward and backward position of all the alphabets along with its number.

Questions Asked in Alphabetical Order

There is not one single type of question of alphabetical order that is asked in exams. But rather there are many types of these questions which can be asked in the competitive exams. They are

1. Series of alphabets
2. Problems related to letter gap
3. Problems related to word formation
4. Words in the alphabetical order

For better understanding, we will provide you with the solved example of each and every type of question that can come under the Alphabetical Order section of Reasoning Ability.

Series of alphabets

This type of questions does not follow any rule and thus we would advise you to get enough practice. So that you can quickly solve these type of questions.

Q. Which of the following options is fifth to the left of the 11th letter from the left in a forward series of the alphabet?

1. H
2. G
3. I
4. E

In this type of question first we need to find the eleventh letter from the left in the forward series which is as follows:

A B C D E F G H I J K. Here K is the eleventh letter in the series, now from the eleventh letter we need to go five letters to the left again which will be: K J I H G. Hence G is the correct answer which is number 2 in the option.

Problems related to the Letter Gap

This question is purely based on your logic and how quickly you remember the alphabets.

Q. In the word 'CHAIRS', how many pairs of the letters have the same number of letters between them in the word as in alphabet?

1. 1
2. 3
3. 4
4. 2

Here in between C and A, there is one letter H and in general alphabets also there is one letter between them which is B. While in R and S there are no letters in between which is the same as in the alphabets. So the correct answer to this question is option - 4.

Problems related to word formation

These questions require more practice than any other type of questions. It is also important to have a good set of vocabulary.

Q. If the name of a game is formed by rearranging the letters of the word MODBANTIN, than what will be the first and the last letter of the name?

1. A,T
2. N,D
3. B,N
4. B,T

Here the name of the game that will be formed is Badminton. And its first and last letters are B and N. Thus option (3) is the correct answer.

Words in the alphabetical order

In these types of questions, you need to find which word will come first based on their alphabetical order

Q. Arrange the question based on the initial letter of the word given in the alphabetical order.

1. Fame 2. Shame 3. Name 4. Came

'Came' comes first in the alphabetical order. 'Fame' comes second in the alphabetical order.

'Name' comes third in the alphabetical order. 'Shame' comes forth in the alphabetical order.

Practice Questions

1. How many meaning words can be formed using the first, fourth, seventh, and eighth letter of the word 'SUPERFLUOUS'?

- A. 1 B. 2 C. 3 D. 4

Answer : Option A

2. How many letters are there in between the 7th letter from the left and 8th from right in the English Alphabets?

- A. 8 B. 9 C. 10 D. 11

Answer : Option D

3. Which is the 11th letter to the left of the 4th letter from the right when you write the English alphabets in backward order?

- A. P B. Q C. O D. N

Answer : Option C

Alpha Numeric Sequence Puzzle

In Alpha numeric sequence puzzle, a mix up sentence consisting of some letters, numbers and symbols are given followed by some certain questions based on it.

Based on following types, questions are categorized:

- Satisfying certain conditions in the given sequence, it is required to find elements (letters, numbers or symbols).
- At a certain given relative position in the sequence, it is need to determine the element.
- By converting the hidden part in relation to the position of the elements in the sequence, it is required to complete a series consisting of terms formed by a combination of the elements of the sequence.
- By finding the common property which other combinations share as per their positions in the given sequence, It is required to find the odd combination from among a given set of combinations of elements.
- To determine the analogical relationship between a given pair of combination of elements, later find a combination which carry same relationship with another given combination.

Alphanumeric sequence is a sequence which consists of both alphabets and numbers. In this sequence, we can also add some symbols along with alphabets and numbers.

For example we can make an alphanumeric sequence as follows -

A \$ E R 9 * T 5 F 6 @ D 8

In the above sequence, we can see that there are numbers, alphabets, and symbols. These types of sequences are called Alphanumeric Sequence. We can make many sequences like this and can deduce questions based on the sequences.

Important Points to Remember

Let's have an alphanumeric sequence -

A \$ E R 9 * T 5 F 6 @ D 8

Questions regarding this chapter can come in this way -

- a. Which element is nth from the left of the sequence?
- b. Which element is nth from the right of the sequence?
- c. Which element is mth to the right of nth from the left of the sequence?
- d. Which element is mth to the left of nth from the left of the sequence?
- e. Which element is mth to the right of nth from the right of the sequence?
- f. Which element is mth to the left of nth from the right of the sequence?
- g. A precedes B
- h. B is preceded by A
- i. B follows A
- j. A is followed by B

To solve questions like this, we have to watch the sequence thoroughly and answer accordingly.

- a. Which element is nth from the left of the sequence?

To get the answer of the above question, we have to look at the sequence from the left side and have to count the exact number that is asked in the question.

- b. Which element is nth from the right of the sequence?

To get the answer of the above question, we have to look at the sequence from the right side and have to count the exact number that is asked in the question.

- c. Which element is mth to the right of nth from the left of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the left side of the sequence and then find out the mth element to the right of that particular element.

- d. Which element is mth to the left of nth from the left of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the left side of the sequence and then find out the mth element to the left of that particular element.

- e. Which element is mth to the right of nth from the right of the sequence?

To get the answer for such type of questions, we have to find out the nth element from the right

- side of the sequence and then find out the m th element to the right of that particular element.
- f. Which element is m th to the left of n th from the right of the sequence?
To get the answer for such type of questions, we have to find out the n th element from the right side of the sequence and then find out the m th element to the left of that particular element.
 - g. If it is written that A precedes B then it means A is placed before B.
 - h. Similarly if it is written that B is preceded by A then it means A is placed before B.
 - i. If it is written that B follows A then it means B is placed after A.
 - j. If it is written that A is followed by B then B is placed after A.

These ten type of questions are normally asked in this chapter. Whether it is of a type or b type or c type or j type we have to read the question carefully and see the sequence and finally we can get the answer according to the question.

Sample Questions

Study the following arrangement carefully and answer the question given below -

6 R 0 T 4 A 8 % B F 1 E # W @ 9 H I \$ M N * 3 2 V \$ 5 G P 7 Q

- How many such consonants are there in the above arrangement, each of which is immediately preceded by a consonant and immediately followed by a number?
 - None
 - One
 - Two
 - Three

Answer - C

Explanation

According to question –

Consonant – Consonant - Number

B-F-1

G-P-7

- How many such vowels are there in the above arrangement, each of which is immediately preceded by a letter but immediately not followed by a symbol?
 - None
 - One
 - Two
 - Three

Answer – B

Explanation

According to question

Letter-Vowels-Letter/Number

R - O - T

- Which of the following is the fourth to left of the twelfth from the left end?

A 8 B B C 2 D %

Answer - D

Explanation

According to question.

$$L - L = L$$

$$12 - 4 = 8TH$$

So the required element is %.

4. Three of the following four are alike in a certain way based on their position in the above arrangement and so form a group. Which is the one that does not belong to that group?
- A 406 B F%A C @#1 D \$H9

Answer - D

Explanation

According to question.

$$\begin{array}{ccc}
 & -2 & -2 \\
 4 & \text{---} & O \text{---} & 6 \\
 & -2 & -2 \\
 F & \text{---} & \% & \text{---} & A \\
 & -2 & -2 \\
 @ & \text{---} & \# & \text{---} & 1 \\
 & -2 & -1 \\
 \$ & \text{---} & H & \text{---} & 9
 \end{array}$$

5. If all the symbols are eliminated from the above arrangement, then which of the following will be the 5th to the right of 10th element from the right end?
- A 4 B 5 C V D A

Answer - B

Explanation

According to question.

$$R - R = R$$

$$10 - 5 = 5th \text{ from right end after deleting all the symbols is } 5.$$

This question is based on the following letter /symbol/number sequence. Study it carefully and answer the question.

M3R#AP49@KD1UH5\$2N\$WEQ6TV7*8BX

6. Which of the following elements is the fourth to the right of 12th from right end?
- A 9 B 6 C 5 D \$

Answer - B*Explanation*Remember, $R12 - R4 = R = 6$

7. How many such numbers are there in the above arrangement which are immediately preceded by a symbol?

A 2 B 1 C None D 3

Answer - A*Explanation*

The numbers which are preceded by a symbol are \$2,*8.

8. If started from M, M is interchanged with 3 and R is interchanged with # and so on than which element will be twelfth from left?

A 1 B \$ C N D D

Answer - D*Explanation*

As, M 3 R # A P 4 9 @ K D 1

So it will be D

9. What will come next in the following sequence - MRP,9KU,52W?

A QT7 B 6V8 C QT* D QV7

Answer - C*Explanation*

As, M_R__P_9_K__U,

_5_2__W_Q_T__*.

10. Three of the following four are alike in a certain way based on their position in the above arrangement. Which of the following does not belong to the group?

A M3X B R#8 C P4V D KDE

Answer - D*Explanation*

M 3 R # A P 4 9 @ K D I U H 5 \$ 2 N \$ W E Q 6 T V 7 * 8 B X

It should be Q in place of E.

Analogy

Analogy means similarity. In this type of questions, two objects related in some way are given and third object is also given with four or five alternatives. You have to find out which one of the alternatives bears the same relation with the third objects as first and second objects are related.

Example 1:

Curd : Milk :: Shoe : ?

(A) Leather (B) Cloth (C) Jute (D) Silver

Answer : Option A

As curd is made from milk similarly shoe is made from leather.

Example 2:

Calf : Piglet :: Shed : ?

(A) Prison (B) Nest (C) Pigsty (D) Den

Answer : Option C

Calf is young one of the cow and piglet is the young of Pig. Shed is the dwelling place of cow. Similarly Pigsty is the dwelling place of pig.

Example 3:

Malaria : Mosquito :: ? : ?

(A) Poison : Death (B) Cholera : Water (C) Rat : Plague (D) Medicine : Disease

Answer : Option B

As malaria is caused due to mosquito similarly cholera is cause due to water.

Example 4:

ABC : ZYX :: CBA : ?

(A) XYZ (B) BCA (C) YZX (D) ZXY

Answer : Option A

CBA is the reverse of ABC similarly XYZ is the reverse of ZYX.

Example 5:

4 : 18 :: 6 : ?

(A) 32 (B) 38 (C) 11 (D) 37

Answer : Option B

As, $(4)^2 + 2 = 18$

Similarly, $(6)^2 + 2 = 38$.

Assertion and Reason

This type of reasoning questions consists of two statements; an assertion (statement of fact) and a reason (explanation for the assertion). You have to determine whether each statement is correct. If both the statements are correct, you have to determine whether the reason supports the assertion. There will be four answer choices for the possible outcomes and you have to select the correct one.

(1) Assertion (A) : James Watt invented the steam engine.

Reason (R) : It was invented to pump out the water from the flooded mines.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer : A

Explanation

The need of self-working engine to pump out the water from the flooded mines led James Watt to invent the steam engine.

- (2) *Assertion (A)* : Increased levels of carbon dioxide in the atmosphere would melt the polar ice.

Reason (R) : Increased levels of carbon dioxide would increase the temperature.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer : A

Explanation

The carbon dioxide traps the heat in the atmosphere. If its level rises, more heat will be trapped. It would increase the temperature and eventually the polar ice would melt.

- (3) *Assertion (A)* : Uranium can undergo a nuclear fusion reaction.

Reason (R) : Uranium has a big unstable nucleus.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer : D

Explanation

Uranium does not undergo a fusion reaction. It undergoes fission reaction due to the presence of a heavy unstable nucleus.

(4) Assertion (A) : Baking soda helps reduce stomach acidity.

Reason (R) : It is a powerful natural cleaner.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.
- F. Hide Answer Workspace

Answer : B

Explanation

Baking soda is alkaline in nature, so it helps reduce stomach acidity. It is also used as a cleaning agent.

(5) Assertion (A) : Plants have green leaves.

Reason (R) : Plants contain phycoerythrin, the green pigment.

- A. Both A and R are true and R is the correct explanation of A.
- B. Both A and R are true, but R is not the correct explanation of A.
- C. A is true, but R is false.
- D. A is false, but R is true.
- E. Both A and R are false.

Answer: C

Explanation

Plants have green leaves due to the presence of a green pigment called chlorophyll. Phycoerythrin is a red pigment.

Blood Relations

The questions which are asked in this section depend upon Relation. You should have a sound knowledge of the blood relation in order to solve the questions.

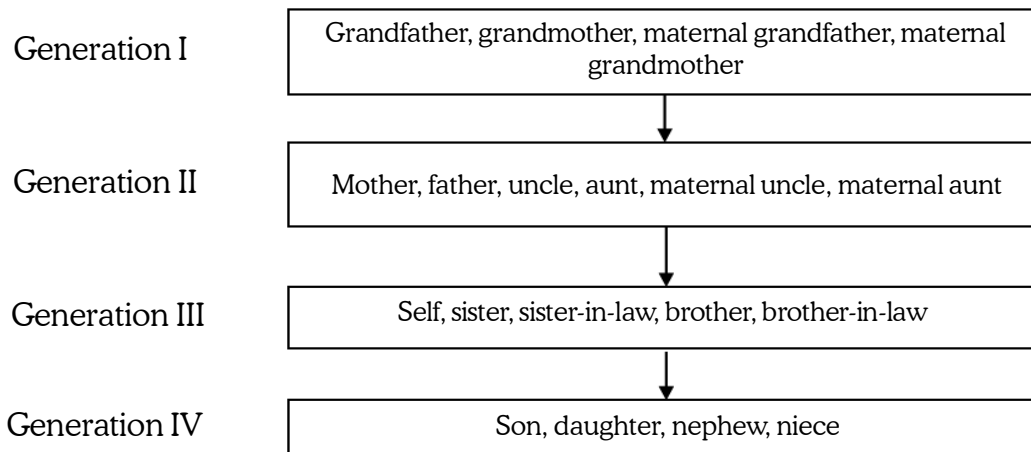
To remember easily the relations may be divided into two sides as given below:

1. Relations of Paternal side:
 1. Father's father ? Grandfather
 2. Father's mother ? Grandmother
 3. Father's brother ? Uncle
 4. Father's sister ? Aunt

5. Children of uncle ? Cousin
 6. Wife of uncle ? Aunt
 7. Children of aunt ? Cousin
 8. Husband of aunt ? Uncle
2. *Relations of Maternal side:*
1. Mother's father ? Maternal grandfather
 2. Mother's mother ? Maternal grandmother
 3. Mother's brother Maternal uncle
 4. Mother's sister ? Aunt
 5. Children of maternal uncle ? Cousin
 6. Wife of maternal uncle ? Maternal aunt

Relations from one generation to next

1. A man pointing to a photograph says, "The lady in the photograph is my nephew's maternal grandmother." How is the lady in the photograph related to the man's sister who has no other sister?
 - A. Mother
 - B. Cousin
 - C. Mother-in-law
 - D. Sister-in-law



Answer : A

Explanation

Clearly, the lady is the grandmother of man's sister's son.

i.e. the mother of the mother of man's sister's son.

i.e. the mother of man's sister.

So, the lady is man's mother.

2. A woman introduces a man as the son of the brother of her mother. How is the man related to the woman?
A. Son B. Nephew C. Grandson D. Uncle

Answer : D

Explanation

Brother of mother – Uncle;

Uncle's son – Cousin.

3. Prasanna said, "This girl is the wife of the grandson of my mother." Who is Prasanna to the girl?
A. Husband B. Father C. Father-in-law D. Grandfather

Answer : C

Explanation

Mother's grandson – Son;

Son's wife – Daughter-in-law.

4. If Arun says, "Vimal's mother is the only daughter of my mother", how is Arun related to Vimal?
A. Father B. Brother C. Grandfather D. None of these

Answer : D.

Explanation

Only daughter of Arun's mother –Arun's sister.

So, Vimal's mother is Arun's sister (or)

Arun is the brother of Vimal's mother i.e . Vimal's maternal uncle.

5. Pointing to a man in a photograph. Asha said. "His mother's only daughter is my mother". How is Asha related to that man?
A. Wife B. Sister C. Niece D. Nephew

Answer : C

Explanation

Asha's mother's mother is man's mother i.e.,

Asha's mother is man's sister (or)

Asha is man's niece.

6. A woman going with a boy is asked by another woman about the relationship between them. The women replied, "My maternal uncle and the uncle of his maternal uncle is the same." How is the lady related with that boy?

- A. Mother and Son B. Aunt and Nephew C. Grandmother and Grandson
D. None of these

Answer : B

Explanation

Clearly, the brother of woman's mother is the same as the brother of the father of boy's maternal uncle.

So, the woman and boy's mother are cousins.

Thus, the woman is boy's aunt.

7. A man said to a lady, "Your mother's husband's sister is my aunt." How is the lady related to the man?
- A. Grand daughter B. Mother C. Daughter D. Sister

Answer : D

Explanation

Lady's mother husband – Lady's father;

Lady's father's sister – Lady's aunt.

So, lady's aunt is man's aunt and therefore lady is man's sister.

8. If X is the brother of the son of Y's son, how is X related to Y?
- A. Son B. Cousin C. Grandson D. Brother

Answer : C

Explanation

Son of Y's son – Grandson;

Brother of Y's grandson – Y's grandson.

So X is Y's grandson.

Decision Making

Decision Making is the process in which an outcome is derived by evaluating and analyzing the given information. The objective of Decision making is to reach a specific conclusion from the given data or a given set of conditions.

Sample Questions

DIRECTIONS for questions 1 to 4 : Krishnapuram's town council has exactly three members: Arjun, Karn, and Bhim. During one week, the council members vote on exactly three bills: a recreation bill, a school bill, and a tax bill. Each council member votes either for or against each bill. The following is known:

- Each member of the council votes for at least one of the bills and against at least one of the bills.
 - Exactly two members of the council vote for the recreation bill.
 - Exactly one member of the council votes for the school bill.
 - Exactly one member of the council votes for the tax bill.
 - Arjun votes for the recreation bill and against the school bill.
 - Karn votes against the recreation bill.
 - Bhim votes against the tax bill.
1. If the set of members of the council who vote against the school bill are the only ones who also vote against the tax bill, then which one of the following statements must be true?
- A. Arjun votes for the tax bill.
 - B. Karn votes for the recreation bill.
 - C. Karn votes against the school bill.
 - D. Bhim votes against the recreation bill.
 - E. Bhim votes against the school bill.

Answer : E

2. If Karn votes for the tax bill, then which one of the following statements could be true?:
- A. Arjun and Karn each vote for exactly one bill.**
 - B. Karn and Bhim each vote for exactly one bill.
 - C. Arjun votes for exactly two bills.
 - D. Karn votes for the recreation bill.
 - E. Bhim votes against the recreation bill.

Answer : A

3. Karn votes for exactly two of the three bills, which one of the following statements must be true?
- A. Arjun votes for the tax bill.
 - B. Karn votes for the recreation bill.
 - C. Karn votes for the school bill.**
 - D. Karn votes against the tax bill.
 - E. Bhim votes for the school bill.

Answer : C

4. If one of the members of the council votes against exactly the same bills as does another member of the council, then which one of the following statements must be true?
- A. Arjun votes for the tax bill
 - B. Kam votes for the recreation bill.
 - C. Kam votes against the school bill.
 - D. Kam votes for exactly one bill.

E. Bhim votes for exactly one bill.

Answer : E

Sample Questions

DIRECTIONS for the question 5 : The year 2004 was a great year for Top-Cloth cotton mill. Manufacturing towels for the export market employing more than 2000 workers, the company had an impressive growth in sales and profits. The Chairman felt that employees were entitled to a share in the profits and it was proposed that the employee mess be air-conditioned. The proposal was discussed in a meeting that was attended by, among other senior officials, the marketing director, the personnel director and the finance director. The proposal was based on the fact that the shop floor of the mill often had temperatures in excess of 40°C with a relative humidity of 99%. The air-conditioned mess would represent management's appreciation of the employee's hard work.

At the end of 2005, management reviewed the mill's performance. Profits were higher, and employee attrition was negligible. Chairman decided that employees deserved additional recognition for their fine work. Since the mess had already been air-conditioned, the chairman wanted to know if the employees appreciated this sort of action. In the course of discussion, the chairman asked the personnel director to send a questionnaire to a sample of fifty employees and obtain their reaction to the air-conditioned mess. The management agreed to decide only after obtaining the feedback from the employees.

The personnel director mailed a simple form to fifty employees asked them for the following information: "Please state your reaction to the air-conditioned mess."

Of the fifty forms mailed, forty-six were returned. The answers received were as follows:

<i>Reaction</i>	<i>Frequency</i>
"I did not know it was air-conditioned."	16
"I never eat there."	8
"If management can spend money like that, they should pay us more"	6
"I wish the entire mill was air-conditioned."	8
"The mess is for management employees."	4
"It is ok."	2
Miscellaneous comments	2

5. This decision-making situation best highlights

A. Managerial short-sightedness in decision making

- B. Managerial benevolence in sharing profits among the workers
- C. Managerial incompetence in handling a negative feedback in employee survey
- D. Inefficient infrastructure management
- E. None of the above

Answer : A

DIRECTIONS for questions 6 to 7 : For each question, an answer (A) and a reason (R) has been given. Base your analysis on the information presented in the passage. Mark

The Society for Education in India (in short SEI) had been engaged in running primary schools in different parts of the country since 1950s. While attending a conference on employee selection, Mr. J Mehta, a senior member of the society learned that a leading school had recently employed a psychologist to perform employment functions, i.e. recruitment and selection of teachers. Within two months of his return, Mr. J Mehta contacted a reputed university and employed a graduating psychologist, Mr. Bibek Gupta. Mr. Bibek Gupta was employed by SEI with the single directive that he was to contribute to the selection of teachers. This task had previously been the prerogative of principals of each school. Mr. Gupta immediately notified each principal that in the future he was to be notified of the personnel needs and in return he would recruit, screen and select the teachers.

At the end of his first year with SEI, Mr. Gupta realized that his efforts had resulted in failure. During his first few months he encountered much opposition from several principals who had been managing schools for ten or more years. They did not believe in newer psychological techniques and preferred selecting people based on their own assessment. Other principals frequently refused to accept the teachers selected by Mr. Gupta. Finally, Mr. Gupta began to notice fewer and fewer principals notifying him of vacancies in their schools. Realizing that he was not making any effective contribution, Mr. Gupta submitted the suggestion to the society members that support and co-operation of the school principals should be a matter of executive order, or else his resignation should be considered.

6. What was the flaw in the decision of selecting a psychologist for selecting teachers that led to the final situation?

A: Mr. Mehta's decision was predominantly driven by the information about another school that had enlisted the services of a psychologist for recruitment and selection.

R: Both the administration of the school and managing teachers have been primary responsibilities of the principal of the school.

A. If both A and R are based on information given in the passage and R is the correct explanation of A.

B. If both A and R are based on information given in the passage but R is not the correct explanation of A.

C. If A is based on information given in the passage but R is not based on the facts given.

D. If A is not based on information given in the passage but R is based on the information given in the passage.

E. If both A and R are not based on information given in the passage.

Answer : B

7. What responsibilities were shouldered by Mr. Bibek in his first year of employment?
- A: Mr. Bibek had the responsibility of contributing his expertise to recruitment and selection of teachers.
- R: The board members wanted to systematize the recruitment and selection of the entire organization.
- A. if both A and R are based on information given in the passage and R is the correct explanation of A.
- B. if both A and R are based on information given in the passage but R is not the correct explanation of A.
- C. if A is based on information given in the passage but R is not based on the facts given.**
- D. if A is not based on information given in the passage but R is based on the information given in the passage.
- E. if both A and R are not based on information given in the passage.

Answer : C

DIRECTIONS for questions 8 to 11: A famous retail electronics showroom chain has six new mobile phone models - T, V, W, X, Y, and Z – each equipped with at least one of the following three options: digital camera, music player, and office document viewer. No mobile has any other option. The following conditions apply:

- A. V features both a digital camera and an office document viewer.
- B. W has digital camera and music player
- C. W and Y have no options in common.
- D. X has more options as compared to W
- E. V and Z have exactly one option in common
- F. T has fewer options as compared to Z.
8. For exactly how many of the six mobile phones is it possible to determine exactly which option each one has?
- A. Two B. Three **C. Four** D. Five E. Six

Answer : C

9. Which one of the following must be false?
- A. Exactly five mobile phones feature a music player.**
- B. Exactly five mobile phones feature a document viewer.
- C. Exactly four mobile phones feature a music player.
- D. Exactly four mobile phones feature a digital camera.
- E. Exactly four mobile phones feature a document viewer.

Answer : A

10. If Z has no option in common with T but has at least one option in common with every other mobile phone, then which one of the following must be false?
- A. T has digital camera
 - B. Z has document viewer
 - C. Exactly four of the six mobile phones have digital camera.
 - D. Exactly four of the six mobile phones have document viewer.

E. Exactly four of the six mobile phones have music player.

Answer : E

11. Suppose no two mobile phone models have exactly the same options as one another. In that case each of the following could be true EXCEPT:
- A. Exactly three of the six mobile phones have digital camera.
 - B. Exactly four of the six mobile phones have digital camera.
 - C. **Exactly three of the six mobile phones have document viewer.**
 - D. Exactly four of the six mobile phones have document viewer.
 - E. Exactly four of the six mobile phones have music player.

Answer : C

Answers & Explanation of Questions related to Decision Making

Decision Making 1-4

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn/ Bhim	Arjun and Either Karn or Bhim
Tax Bill	Karn/ Arjun	Bhim and Either Karn or Arjun

1. We can modify the above table based on the additional information given in the question. Accordingly, Arjun and Bhim are the members who voted against the School Bill and Tax bill.

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn	Arjun, Bhim
Tax Bill	Karn	Bhim, Arjun

By visual observation, it can be checked that Bhim votes against the school bill, thus option E is correct.

2. We can modify the above table based on the additional information given in the question as follows:

Bill	For	Against
------	-----	---------

Recreation Bill	Arjun, Bhim	Karn
School Bill	Bhim	Arjun, Karn
Tax Bill	Karn	Bhim, Arjun

Thus, it can be verified that Arjun and Karn each vote for exactly one bill. The other answer choices do not follow from the above table. Hence, option A is correct.

3. We can modify the above table based on the additional information given in the question as follows:

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn	Arjun, Bhim
Tax Bill	Karn	Bhim, Arjun

Thus, it can be observed that Karn votes for the school bill.

4. We can modify the above table based on the additional information given in the question as follows:

Bill	For	Against
Recreation Bill	Arjun, Bhim	Karn
School Bill	Karn	Arjun, Bhim
Tax Bill	Karn	Arjun, Bhim

Thus, Bhim votes for exactly one bill and hence option E is correct.

5. The situation highlights the management's short-sightedness.
 6. Both A and R are mentioned in the passage, but R is not the correct reason for A.
 7. A is mentioned in the passage while R is not.

- 8-11. Mobile Phone Digital Camera Music Player Office Document Viewer

T			
V	✓	X	✓
W	✓	✓	
X	✓	✓	✓
Y	X	X	✓
Z		✓	

T may have any of three options.

Z may have Music Player and either Digital Camera or Office Document Viewer.

- 8.** It is clear from the table that it is possible to determine the option(s) of phones V, W, X and Y.
- 9.** Three or four mobile phones feature a music player.
- 10.** Z must have the music player and the office document viewer while T must have the digital camera. So only 3 models have the music player and option 5 is false.
- 11.** After assigning different features to the mobiles, it is seen that exactly four of the six mobiles have a document viewer. The best answer is option 3.

Sample Questions

Logical Sequence Test

In this type of question, some words are given. You have to arrange these words in a meaningful order. The order may be according to age, size and need etc.

Example 1:

Arrange the following words in a meaningful order.

1. Death 2. Marriage 3. Education 4. Birth 5. Funeral

- A. 5, 1, 2, 3, 4 B. 4, 2, 3, 1, 5 C. 4, 3, 2, 5, 1 D. 4, 3, 2, 1, 5

Answer is Option D

Explanation : First of all a man is born then he takes education; after this he is married. Then after sometimes he dies. After death the order is of Funeral. So the correct order is 4, 3, 2, 1 and 5.

Example 2:

Arrange the following words in a logical sequence.

1. Grass 2. Curd 3. Milk 4. Cow 5. Butter

- A. 1, 2, 3, 4, 5
 B. 2, 3, 4, 5, 1
 C. 4, 1, 3, 2, 5
 D. 5, 4, 3, 2, 1

Answer is Option C

Explanation : We know that cow eats grass and then gives milk. With the milk, curd is made and then from curd, butter is made. Hence logical sequence is Cow, Grass, Milk, Curd, Butter.

1. Arrange the words given below in a meaningful sequence.

1. Key 2. Door 3. Lock 4. Room 5. Switch on

- A. 5, 1, 2, 4, 3 B. 4, 2, 1, 5, 3 C. 1, 3, 2, 4, 5 D. 1, 2, 3, 5, 4

Answer : Option C

Explanation : The correct order is : Key Lock Door Room Switch on

2. Arrange the words given below in a meaningful sequence.

1. Word 2. Paragraph 3. Sentence 4. Letters 5. Phrase

- A. 4, 1, 5, 2, 3 B. 4, 1, 3, 5, 2 C. 4, 2, 5, 1, 3 D. 4, 1, 5, 3, 2

Answer : Option D

Explanation : The correct order is : Letters Word Phrase Sentence Paragraph

3. Arrange the words given below in a meaningful sequence.

1. Police 2. Punishment 3. Crime 4. Judge 5. Judgement

A. 3, 1, 2, 4, 5 B. 1, 2, 4, 3, 5 C. 5, 4, 3, 2, 1 D. 3, 1, 4, 5, 2

Answer : Option D

Explanation : The correct order is : Crime Police Judge Judgement Punishment

4. Arrange the words given below in a meaningful sequence.

1. Family 2. Community 3. Member 4. Locality 5. Country

A. 3, 1, 2, 4, 5 B. 3, 1, 2, 5, 4 C. 3, 1, 4, 2, 5 D. 3, 1, 4, 5, 2

Answer : Option A

Explanation : The correct order is : Member Family Community Locality Country

5. Arrange the words given below in a meaningful sequence.

1. Poverty 2. Population 3. Death 4. Unemployment 5. Disease

A. 2, 3, 4, 5, 1 B. 3, 4, 2, 5, 1 C. 2, 4, 1, 5, 3 D. 1, 2, 3, 4, 5

Answer : Option C

Explanation : The correct order is : Population Unemployment Poverty Disease Death

Sample Questions

Number, Ranking and Time Sequence Test

In this type of questions, generally, one is given a long series of numbers. The candidate is required to find out how many times a number satisfying the conditions, specified in the question, occurs. This includes the following category of sequences:

- Date-Time Sequence
- Number Sequence
- Ranking Sequence

Number Test

In this type of questions, generally a set, group or series of numerals is given and the candidate is asked to trace out numerals following certain given conditions or lying at specifically mentioned positions after shuffling according to a certain given pattern.

Example

How many such 5s are there in the following number sequence each of which is immediately preceded by 3 or 4 but not immediately followed by 8 or 9?

3 5 9 5 4 5 5 3 5 8 4 5 6 7 3 5 7 5 5 4 5 2 3 5 1 0

- (A) One (B) Three (C) Four (D) Five (E) None of these

Solution

As you know, a number which comes after a given number is said to follow it while the one which comes before the given number precedes it.

Thus, the number satisfying the given conditions may be marked as follows:

3 5 9 5 4 5 3 5 8 4 6 7 3 7 5 5 4 2 3 1 0

Clearly, there are five such 5s. Hence, the answer is (d).

Ranking Test

In this type of questions, generally the ranks of a person both from the top and from the bottom are mentioned and the total number of persons is asked. However, sometimes this question is put in the form of a puzzle of interchanging seats by two persons.

Example

Rohan ranks seventh from the top and twenty-sixth from the bottom in a class. How many students are there in the class?

- (A) 31 (B) 32 (C) 33 (D) 34

Solution

Clearly, the whole class consists of:

- (i) 6 student who have ranks higher than Rohan;
- (ii) Rohan; and
- (iii) 25 students who have ranks lower than Rohan, i.e., $(6 + 1 + 25) = 32$ students. Hence, the answer is (b).

Time Sequence Test*Example*

Satish remembers that his brother's birthday is after fifteenth but before eighteenth of February whereas his sister Kajal remembers that her brother's birthday is after sixteenth but below nineteenth of February. On which day in February is Satish's brother's birthday?

- (A) 16th (B) 17th (C) 18th (D) 19th (E) None of these

Solution

According to Satish, the brother's birthday is on one of the days among 16th and 17th February. According to Kajal, the brother's birthday is on one of the days among 17th and 18th February. Clearly, Satish's brother's birthday is on the day common to both the above groups, i.e., 17th February.

Syllogism

Syllogism is a form of deductive reasoning where you arrive at a specific conclusion by examining two other premises or ideas. Syllogism derives from the Greek word syllogismos, meaning conclusion or inference.

Some syllogisms contain three components:

- Major Premise
- Minor Premise
- Conclusion

For Example : All roses are flowers (major premise). This is a rose (minor premise). Therefore, I am holding a flower (conclusion).

Types of Syllogism

The type of syllogism that typically contains these three components is categorical syllogism. However, there are two other major kinds of syllogism. We'll discuss each one here, plus enthymemes and syllogistic fallacy.

Categorical Syllogism

As we know, our first example about roses was a categorical syllogism. Categorical syllogisms follow an "If A is part of C, then B is part of C" logic.

Let's look at some more examples.

All cars have wheels. I drive a car. Therefore, my car has wheels.

- Major Premise : All cars have wheels.

- Minor Premise : I drive a car.
- Conclusion : My car has wheels.

All insects frighten me. That is an insect. Therefore, I am frightened.

- Major Premise: All insects frighten me.
- Minor Premise: That is an insect.
- Conclusion: I am frightened.

Conditional Syllogism

Conditional syllogisms follow an "If A is true, then B is true" pattern of logic. They're often referred to as hypothetical syllogisms because the arguments aren't always valid. Sometimes they're merely an accepted truth.

If Katie is smart, then her parents must be smart.

- Major premise : Katie is smart.
- Conclusion : Katie's parents are smart.

If Richard likes Germany, then he must drive an Audi.

- Major premise : Richard likes Germany.
- Conclusion : He must like all things German, including their cars.

Disjunctive Syllogism

Disjunctive syllogisms follow a "Since A is true, B must be false" premise. They don't state if a major or minor premise is correct. But it's understood that one of them is correct.

- Major Premise : This cake is either red velvet or chocolate.
- Minor Premise : It's not chocolate.
- Conclusion : This cake is red velvet.
- Major Premise : On the TV show Outlander, Claire's husband is either dead or alive.
- Minor Premise: He's not alive.
- Conclusion: Claire's husband is dead.

Enthymemes

An enthymeme is not one of the major types of syllogism but is what's known as rhetorical syllogism. These are often used in persuasive speeches and arguments.

Generally, the speaker will omit a major or minor premise, assuming it's already accepted by the audience.

He couldn't have stolen the jewelry. I know him.

- Major Premise: He couldn't have stolen the jewelry.
- Minor Premise: I know his character.

Her new purse can't be ugly. It's a Louis Vuitton.

- Major Premise: Her new accessory can't be ugly.

- Minor Premise: It's made by famous designer Louis Vuitton.

In an enthymeme, one premise remains implied. In the examples above, being familiar with someone or something implies an understanding of them.

Syllogistic Fallacy

Some syllogisms contain false presumptions. When you start assuming one of the major or minor premises to be true, even though they're not based in fact - as with disjunctive syllogisms and enthymemes - you run the risk of making a false presumption.

All crows are black. The bird in my cage is black. Therefore, this bird is a crow.

- Major Premise: All crows are black.
- Minor Premise: The bird in my cage is black.
- Conclusion: This bird is a crow.

The scenery in Ireland is beautiful. I'm in Ireland. Therefore, the scenery must be beautiful.

- Major Premise: The scenery in Ireland is beautiful.
- Minor Premise: I'm in Ireland.
- Conclusion: The scenery is beautiful.

Of course, not every black bird is a crow and not all of Ireland is beautiful. When preparing a speech or writing a paper, we must always make sure we're not making any sweeping generalizations that will cause people to make false presumptions.

Rules of Syllogism

There are six known rules of syllogism. However, they mainly apply to categorical syllogism, since that is the only category that requires three components: major premise, minor premise, and conclusion. Here are six rules that will ensure you're making a strong and accurate argument.

1. Rule One: There must be three terms: the major premise, the minor premise, and the conclusion - no more, no less.
2. Rule Two: The minor premise must be distributed in at least one other premise.
3. Rule Three: Any terms distributed in the conclusion must be distributed in the relevant premise.
4. Rule Four: Do not use two negative premises.
5. Rule Five: If one of the two premises are negative, the conclusion must be negative.
6. Rule Six: From two universal premises, no conclusion may be drawn.

Sample Questions

In each of the following questions two statements are given and these statements are followed by two conclusions numbered (1) and (2). You have to take the given two statements to be true even if they seem to be at variance from commonly known facts. Read the conclusions and then decide which of the given conclusions logically follows from the two given statements, disregarding commonly known facts.

Give answer:

- (A) If only (1) conclusion follows
- (B) If only (2) conclusion follows
- (C) If either (1) or (2) follows
- (D) If neither (1) nor (2) follows and
- (E) If both (1) and (2) follow.

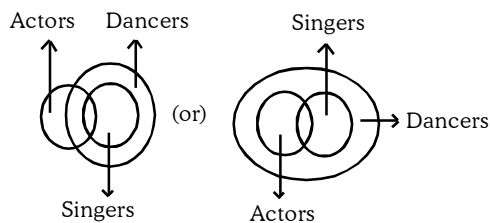
1. Statements : Some actors are singers. All the singers are dancers.

Conclusions:

1. Some actors are dancers.
 2. No singer is actor.
- A. Only (1) conclusion follows
 B. Only (2) conclusion follows
 C. Either (1) or (2) follows
 D. Neither (1) nor (2) follows
 E. Both (1) and (2) follow

Answer : Option A

Explanation



Only (1) follows.

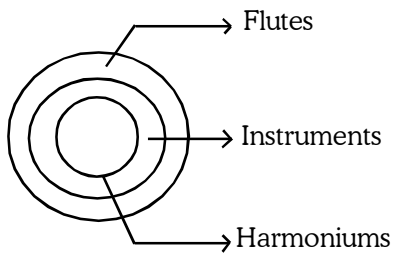
2. Statements : All the harmoniums are instruments. All the instruments are flutes.

Conclusions:

1. All the flutes are instruments.
 2. All the harmoniums are flutes.
- A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option B

Explanation:



Only (2) follows.

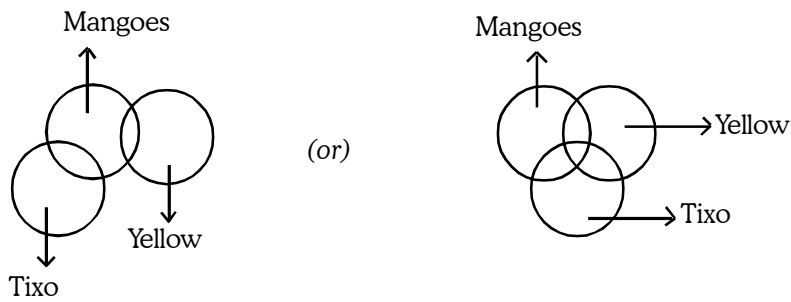
3. Statements : Some mangoes are yellow. Some tixo are mangoes.

Conclusions:

1. Some mangoes are green.
 2. Tixo is a yellow.
- A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option D

Explanation :



None of the two follows

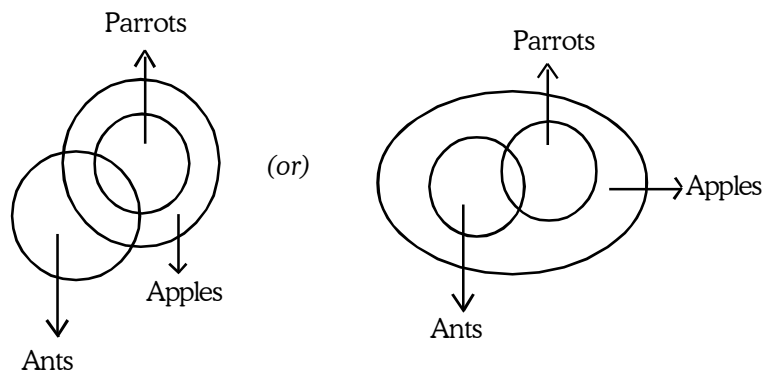
4. Statements : Some ants are parrots. All the parrots are apples.

Conclusions :

1. All the apples are parrots.
 2. Some ants are apples.
- A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option B

Explanation:



Only (2) follow.

5. Statements : Some papers are pens. All the pencils are pens.

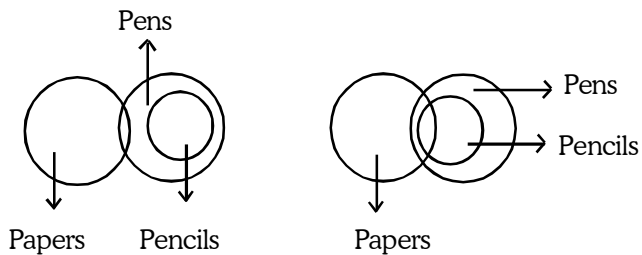
Conclusions :

1. Some pens are pencils.
 2. Some pens are papers.
- A. Only (1) conclusion follows
 - B. Only (2) conclusion follows
 - C. Either (1) or (2) follows
 - D. Neither (1) nor (2) follows
 - E. Both (1) and (2) follow

Answer : Option E

Explanation

Truth Tellers and Liars*



Both (1) and (2) follow.

These problems will illustrate some of the logical concepts we've looked at, as well as illustrating some proof techniques that we'll look at in more detail later. These proofs are written entirely in words, so for the moment we don't need to worry about the presentation details associated with mathematical symbols.

The general setup : You're on an island where each inhabitant is a **truth-teller** or a **liar**. Truth-tellers always tell the truth; liars always lie. You're given some information about some people, usually in the form of statements they make. You're asked to determine whether each person is a truth-teller or a liar. In some cases, it may be impossible to determine what everyone is, or the situation may be impossible.

Example. You're on an island where each inhabitant is a truth-teller or a liar. Truth-tellers always tell the truth; liars always lie. Calvin and Phoebe are on the island.

Phoebe says: "If 34 is odd, then I am a truth-teller."

Calvin says: "Phoebe is a liar."

Determine whether each person is a truth-teller or a liar.

1. See, Raymond Smullyan, What is the name of this book. New York: Dover Publications, 2011.

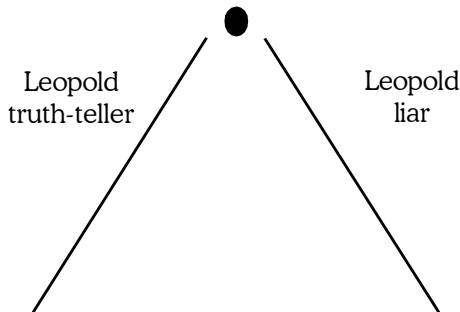
(In this problem, I notice that I can determine the truth or falsity of the statement "34 is odd" without knowing anything about Phoebe or Calvin. So I'll start with it and see what follows from it.)

Since "34 is odd" is false, the "if" part of Phoebe's statement is false. Hence, Phoebe's statement is true. Therefore, Phoebe must be a truth-teller.

Now Calvin says "Phoebe is a liar", and that is false, since I just showed that Phoebe is a truth-teller. Therefore, Calvin is a liar.

Thus, Phoebe is a truth-teller and Calvin is a liar.

Here are some **general ideas** about how you might approach a problem like this. Pick a character in the problem --- let's say you pick "Leopold". Consider the two cases: "Leopold is a truth-teller" or "Leopold is a liar". You can picture the reasoning process as a tree:

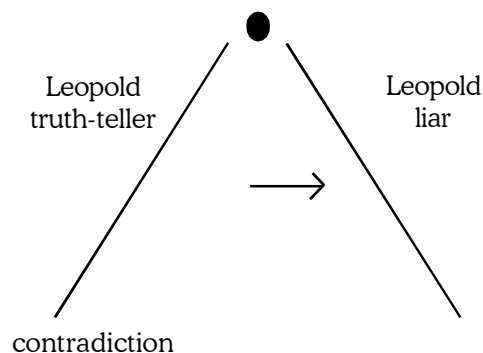


You can start with either case --- let's suppose you start with "Leopold is a truth-teller". (Note that this means anything he said is **true**.) Reason from this until you get a **contradiction**, a solution (that is, you know what all the characters are), or no **conclusion**.

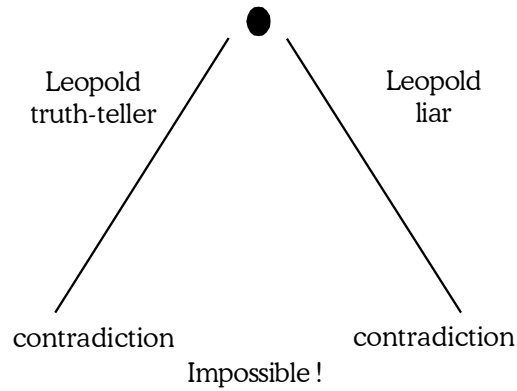
I'll consider the first of these three cases in more detail, but similar ideas hold for the other two cases.

Thus, suppose "Leopold is a truth-teller" gives a contradiction. Then he can't be a truth-teller, so he must be a liar. The "Leopold is a truth-teller" branch of the tree is finished: Switch to the "Leopold is a liar" branch and start reasoning there.

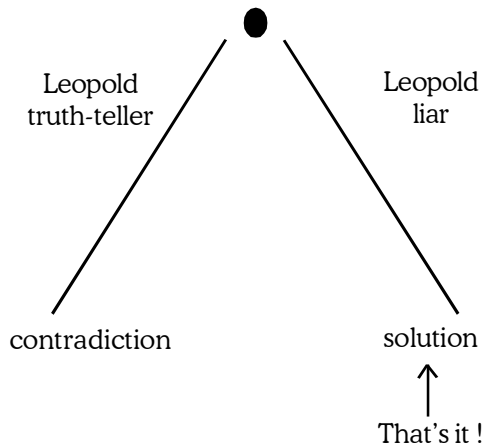
- (a) If "Leopold is a liar" gives a contradiction, then both cases have given a contradiction and the original problem is impossible.



(b) If "Leopold is a liar" gives a solution, then that's the answer to the original problem.



(c) If "Leopold is a liar" gives no conclusion, then you need to take cases on another character. Let's say Molly is another character. Then we have the cases "Molly is a truth-teller" and "Molly is a liar", and they are sub-cases of "Leopold is a liar".



Now you have to continue reasoning with the two branches "Molly is a truth-teller" and "Molly is a liar".

If at some point all the branches end in contradictions, then the problem is impossible. If all the branches end in contradictions but one ends in a solution, then the solution is the answer to the problem. If more than one b

ranch ends in a solution, the problem has multiple answers. If any of the branches ends in no conclusion, and you have no more characters with which to take cases, then again the problem has multiple answers.

Similar things would happen if our original choice ("Leopold is a truth-teller") gave a solution, or no conclusion.

It may also be that you should have started reasoning with another character --- so in the example I just went through, maybe you should have started by taking cases on Molly instead of Leopold. As with a lot of problem-solving and proof-writing, you should become accustomed to working on scratch paper and possibly throwing away early attempts in favor of later ones.

Example. You're on an island where each inhabitant is a **truth-teller** or a **liar**. Truth-tellers always tell the truth; liars always lie. Calvin and Phoebe are on the island.

Calvin says: "One or both of us is a liar."

Determine whether each person is a truth-teller or a liar.

- Suppose Calvin is a liar. Then the statement "One or both of us is a liar" is true, contradicting the fact that Calvin is a liar.
- Hence, Calvin is a truth-teller. Therefore, his statement is true, and at least one of them is a liar. Since it isn't Calvin, it must be Phoebe.
- Thus, Calvin is a truth-teller and Phoebe is a liar.

Here are other ideas for these kinds of problems.

1. If there are statements whose truth value you know (like "34 is odd"), begin with that information and see what you can conclude. For example, if Phoebe says "34 is odd", then (since the statement is false) I know Phoebe is a liar.
2. You must take cases in pairs, e.g. "Calvin is a liar" and "Calvin is a truth teller". And once you take cases, you must consider both.
3. Don't take cases unless you have to --- that is, unless you can't go any further with the information you know.
4. Observe that these solutions are written entirely in words: We aren't using truth tables here. You should avoid using symbols unless they are necessary. Mathematics does not necessarily require the use of symbols!

It's okay to use pictures to clarify your reasoning, but a picture is not a substitute for a verbal proof.

Example. You're on an island where each inhabitant is a **truth-teller** or a **liar**. Truth-tellers always tell the truth; liars always lie. Calvin and Phoebe are on the island.

Calvin says: "If I am a liar, then Phoebe is a liar."

Phoebe says: "Calvin is a truth-teller."

Determine whether each person is a truth-teller or a liar.

Suppose Calvin is a liar. Then his statement is false. Since it's an if-then statement, the if-part must be true and the then-part must be false. The if-part is "I am a liar", which is indeed true (by assumption). Then then-part must be false, so "Phoebe is a liar" is false, and hence Phoebe is a truth-teller. This means Phoebe's statement "Calvin is a truth-teller" is true, which contradicts our assumption that Calvin is a liar.

Since "Calvin is a liar" led to a contradiction, Calvin must be a truth-teller. Now Phoebe says "Calvin is a truth-teller", so she is telling the truth, and she is a truth-teller. Calvin's statement is "If I am a liar, then Phoebe is a liar". Both parts ("I am a liar" and "Phoebe is a liar") are false, so the if-then statement is true, consistent with Calvin being a truth-teller.

Since "Calvin is a liar" led to a contradiction and "Calvin is a truth-teller" led to a solution (consistent with both characters' statements), we find that Calvin is a truth-teller and Phoebe is a truth-teller.

It is noted that it's possible that a problem like this can't be solved, for either of the following reasons:

- (a) There isn't enough information to determine what all the characters are.
- (b) The given situation is impossible: All the cases lead to contradictions.

Lesson 8

**NON-VERBAL
REASONING**

Analytical Reasoning

Analytical Reasoning is Qualitative and Quantitative reasoning in nature. People use analytical reasoning to scrutinise speech, documents, diagrams, charts and graphs, and gather the most relevant information. Those with strong analytical skills will consider how key elements within that information relate to one another, and are more likely to notice crucial patterns and details.

Analytical reasoning measure a candidate's critical thinking and problem-solving skills.

- Data may be presented in the form of written passages, graphs, tables or shapes.
- Where questions are based on a series of images, they have much in common with inductive reasoning and non-verbal reasoning tests.
- Written analytical reasoning questions assess many of the same skills as verbal reasoning tests.

Analytical reasoning evaluate Inductive and Deductive reasoning

Inductive reasoning involves obtaining specific information relating to a topic/subject in order to make predictions based on such information.

Example of Inductive Reasoning

1. Every quiz has been easy. Therefore the test will be easy.
2. The teacher used power point in the last few classes. Therefore, the teacher will use power point tomorrow.
3. Every fall there have been huricanes in the tropics this coming fall.

Deductive reasoning is the process of reaching a logical conclusion based on one or more given statements, or premises.

Example of deductive Reasoning

All Students eat pizza. Raman is a students at KKM. Therefore, Raman eats Pizza

All athletes work out in the gym. Karan is an athlete. Therefore, Karan works out in the gym.

Study the given information carefully and answer the questions that follow:

Analytical Reasoning Conditional Based

A team of five is to be selected from amongst five boys A, B, C, D and E and four girls P, Q, R and S. Some criteria for selection are:

- (a) A and S have to be together.
- (b) P cannot be put with R.
- (c) D and Q cannot go together.
- (d) C and E have to be together.
- (e) R cannot be put with B.

Unless otherwise stated, these criteria are applicable to all the questions below

1. If two of the members have to be boys, the team will consist of:
 - (a) A, B, S, P, Q (b) A, D, S, Q, R (c) B, D, S, R, Q (d) C, E, S, P,

Solution : Here we have, If A is selected, S has to be selected. If B is selected, R cannot be selected.

If D is selected, Q cannot be selected. Hence A, D, S, Q, R and B, D, S, R, Q are wrong. C, E, S, P, Q is not possible because A and S should be together. So answer is option 1.

2. If R be one of the members, the other members of the team are;

(a) P, S, A, D (b) Q, S, A, D (c) P, S, C, E (d) S, A, C, E

Solution : If R is selected, P cannot be selected. So, P, S, A, D is wrong.

D and Q cannot be together. So, Q, S, A, D is wrong.

S and A have to be together. So, P, S, C, E is wrong. The option (d) satisfies all the conditions. Hence it is the answer.

3. If two of the members are girls and D is one of the members, the members of the team other than D are:

(a) P, Q, B, C (b) P, Q, C, E (c) P, S, A, B (d) P, S, C, E

Solution : If D is selected, Q cannot be selected. So P, Q, B, C and P, Q, C, E are incorrect. S and A have to be together. So, P, S, C, E is also wrong. The third option P, S, A, B satisfies all the conditions, hence it is the answer.

Classification

Classification means to 'assort the items of a given group on the basis of a certain common quality they possess and spot the odd one out.

In these types of questions we will be provided with a group of 5 items out of which 4 would be similar to one another in a certain relationship among themselves and 1 would differ from them

Example 1: Choose the odd one

- (a) Horse
- (b) lion
- (c) giraffe
- (d) cheetah
- (e) Panda

Solution : option(A) Except Horse all are wild animals

Example 2 : Choose the odd one

- (a) 1728
- (b) 64
- (c) 1331
- (d) 343
- (e) 441

Solution : option(e) except 441 all are perfect cube

Example 3 : Choose the odd one

- (a) Iron
- (b) mercury
- (c) Copper
- (d) zinc
- (e) aluminum

Solution : (b) mercury

Explanation

Among all of the above only mercury is in liquid state at room temperature

1. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group?

- (A) Badminton
- (B) Table Tennis
- (C) Lawn Tennis
- (D) Hockey
- (E) Rugby

Solution : (E) Rugby

Explanation

Only sport Rugby contains a single thing Rugby, all other contain 2 things: racket and ball, stick and ball, etc

*Rugby is not a ball

2. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group?

- (A) Morarji Desai
- (B) Lal Bahadur Shastri
- (C) R. Vekataraman
- (D) Rajiv Gandhi
- (E) P. V. Narasimha Rao

Solution : (C) R. Vekataraman

Explanation

Venkataraman had been the President, all others PMs

3. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group?

(A) Lima
(B) Wellington
(C) Cairo
(D) Cuba
(E) Kingston

Solution : (D) Cuba

Explanation

Cuba is a country and all other are capitals

4. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) Groundnut
(2) Cumin
(3) Cinnamon
(4) Pepper
(5) Clove

Solution : (1) Groundnut

Explanation : Remaining all are spice

5. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) 1936
(2) 2916
(3) 2304
(4) 3364
(5) 2744

Solution : (5) 2744 (14^3)

Explanation : Remaining all the numbers are Square number

6. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) Butterfly
(2) Crow
(3) Pigeon

(4) Parrot

(5) Peacock

Solution : (1) Butterfly (Insect)

Explanation : Remaining all are birds

7. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) Pelvis

(2) Fibula

(3) Vertebra

(4) Skull

(5) Appendix

Solution : (5) Appendix (Organ)

Explanation : Remaining all are bones

8. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) Ginger

(2) Onion

(3) Beetroot

(4) Coriander

(5) Potato

Solution : (4) Coriander

Explanation : Coriander – modified stem

9. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) Snake

(2) Frog

(3) Rat

(4) Mongoose

(5) Tortoise

Solution : (1) Snake

Explanation : Snake is only poisonous animal

10. Four of the following five are alike in a certain way and so form a group. Which is the one that does not belong to that group ?

(1) Italy

(2) Europe

(3) Greece

(4) Poland

(5) Spain

Solution : (2) Europe

Explanation : It is a continent rest all are countries.

Numeric and Alphabet Series

This chapter covers the following types of questions:

(I) Coding—Decoding

(II) Series

Coding—Decoding

Group of letters consists of alphabet and the English alphabet consists of 26 letters.

You have to remember the position of all the letters from left to right and vice-versa.

A B C D E F G H I J K L M

1 2 3 4 5 6 7 8 9 10 11 12 13

N O P Q R S T U V W X Y Z

14 15 16 17 18 19 20 21 22 23 24 25 26.

Trick to remember:

With the help of this trick, you can easily locate the position of letters.

From Left to Right—**Ejoty**

E J O T Y

5 10 15 20 25

From Right to Left—**bglqv**

B G L Q V

25 20 15 10 5

Type 1 : Letter Coding

In these questions, the real letters in a word are replaced by certain other letters according to a specific rule to form the code. The candidate is required to detect the common rule and answer the questions accordingly.

Examples

1. If in a certain language MYSTIFY is coded as NZTUJGZ, how is NEMESIS coded in that language?
 - (a) MDLHRDR
 - (b) OFNFTJT

- (c) ODNHTDR
 (d) PGOKUGU.

Solution

Each letter in MYSTIFY is moved one step forward to obtain the corresponding letter of the code.

M Y S T I F Y

+1 ↓

N Z T U J G Z

So, in NEMESIS, N will be coded as O, E as F, M as N and so on. Thus, code becomes OFNFTJT. Hence, answer is (b).

2. If TAP is coded as SZO, then how is FREEZE coded?
 (a) EQDFYG
 (b) ESDFYF
 (c) GQFDYF
 (d) EQDDYD.

Solution

Each letter in the word TAP is moved one step backward to obtain the corresponding letter of the code.

S Z O

-1 ↑

T A P

Thus, in freeze, F will be coded as E, R as Q, E as D and Z as Y. So the code becomes

EQDDYD.

Hence, the answer is (d).

3. In a certain code SIKKIM is written as THLJLL. How is TRAINING written in that code?
 (a) SQBHOHOH
 (b) UQBHOHOF
 (c) UQBJOHHO
 (d) UQBJOHOH.

Solution

The letters in the word SIKKIM are moved alternately one step forward and one step backward to obtain the letters of the code.

-1

H -1 J -1 L

↑ ↑ ↑

SIKKIM

+1↓ -1↓ -1↓

TLJ

In TRAINING, T will be coded as U, R as Q, A as B, I as H and so on. Thus, the code becomes UQBHOHOF.

Hence, answer is (b)

4. In a certain code, MENTION is written as LNEITNO. How is PATTERN written in that code?
- (a) APTTREM
 (b) PTAETNR
 (c) OTAETNR
 (d) OTAETRN.

Solution

To obtain the code, the first letter of the word MENTION is removed one step backward and the remaining letters are reversed in order, taking two at a time,

M E N T I O N

-1↓

L

Thus, PATTERN becomes OTAETNR.

Hence, answer is (c).

5. In a certain code FORGE is written as FPTJI. How is CULPRIT written in that code?
- (a) CSJNPGR
 (b) CVMQSTU
 (c) CVNSVNZ
 (d) CXOSULN.

Solution

The first letter in FORGE remains as it is and the second, third, fourth and fifth letters are respectively moved one, two, three and four steps forward to obtain the corresponding letters of the code.

Thus, the code for CULPRIT becomes CVNSVNZ.

Hence, answer is (c).

Sample Questions

Exercise 1

Likewise, HEARTEN would be coded as BFIQOFU.

- In a certain code, TRIPPLE is written as SQHOOKD. How is DISPOSE written in that code?
 - CPNCBX
 - CPNCBZ
 - CPOCBZ
 - None of these.
- If in a certain code, COULD is written as BNTKC and MARGIN is written as LZQFHM, how will MOULDING be written in that code?
 - CHMFINTK
 - LNKTCHMF
 - LNTKCHMF
 - NITKHCMF.
- In a certain code, MONKEY is written as XDJMNL. How is TIGER written in that code?
 - QDFHS
 - SDFHS
 - SHFDQ
 - UJHFS.
- If VICTORY is coded as YLFWRUB, how can SUCCESS be coded?
 - VXEEIVV
 - VXFFHVV
 - VYEEHVV
 - VYEFIVV.
- In a certain code TOGETHER is written as RQEGRJCT. In the same code PAROLE will be written as
 - NCPQJG
 - NCQPJG
 - RCPQJK
 - RCTQNG.

6. If in a certain code COUNSEL is written as BITIRAK, how will GUIDANCE be written in that code?
 - (a) EOHYZKBB
 - (b) FOHYZJBB
 - (c) FPHZZKAB
 - (d) HOHYBJBA.
7. In a code, CORNER is written as GSVRIV. How will CENTRAL be written in that code?
 - (a) DFOUSBM
 - (b) GIRXVEP
 - (c) GJRYVEP
 - (d) GNFJKER.
8. If BEAUTY is coded as "DHEZZF", then how will "FLOWER" be written in that language?
 - (a) HSOBYK
 - (b) HBOSKY
 - (c) HOSBKY
 - (d) SBKYOH.
9. According to a code CERTAIN is written as XVIGZRM, how will MUNDANE be coded?
 - (a) MFHXZMV
 - (b) NFMWZMV
 - (c) NFMWZMX
 - (d) VMZWMFN.
10. If CIGARETTE is coded as GICERAETT, then DIRECTION will be coded as
 - (a) RIDTCENOI
 - (b) NORTECDII
 - (c) NOIETCRID
 - (d) IRDCTIONE.
11. In a certain code language the word DIPLOMA is written as FERHQIC. How will the word FOREIGN be written in that code?
 - (a) HJTAKCP
 - (b) HKTALCP
 - (c) HKTAKCP
 - (d) HKTAKBP.

12. In a certain code language CREATIVE is written as BDSBFUJS. How is TRIANGLE written in that code?
- (a) BSHSFHKM
 - (b) BHSSMHFF
 - (c) BSSHFMKH
 - (d) BHSSFKHM
13. In a certain code language POETRY is written as QONDSQX and OVER is written as PNUDQ. How is MORE written in that code?
- (a) NNNQD
 - (b) NLPQD
 - (c) NLNQD
 - (d) LNNQD.
14. In certain code ELECTION is written as GLGCVIQN, then VOTER will be coded as
- (a) XOVET
 - (b) VOXET
 - (c) WPUFU
 - (d) VQTGR.
15. If BEAUTY is coded as "DHEZZF", then how will "FLOWER" be written in that language?
- (a) HSOBYK
 - (b) HBOSKY
 - (c) HOSBKY
 - (d) SBKYOH

Type 2 : Number Coding

In these questions, either numerical code values are assigned to a word or alphabetical code letters are assigned to a number. The candidate is required to analyse the code as per the directions.

Examples:

1. If PAINT is coded as 74128 and EXCEL is coded as 93596, then how would you code ACCEPT?
- (a) 455978
 - (b) 547978
 - (c) 554978
 - (d) 735961.

Solution

In the given code, the letters are coded as follows.

P A I N T E X C L

7 4 1 2 8 9 3 5 6

So in ACCEPT, A is coded as 4, C as 5, E as 9 and so on.

Therefore answer is (a).

2. If D = 4 and COVER = 63, then BASIS = ?

(a) 49

(b) 50

(c) 54

(d) 55

Solution

D = 4

COVER = 3 + 15 + 22 + 5 + 18 = 63

BASIS = 2 + 1 + 19 + 9 + 19 = 50

Therefore, the answer is (b).

Sample Questions

Exercise 2

1. If in a certain code, BEAUTIFUL is coded as 573041208, BUTTER as 504479, how is FUTURE coded in that code?
 - (a) 201497
 - (b) 204097
 - (c) 704092
 - (d) 204079.
2. In a certain code, 5 is coded as Z, 7 as E, 2 as S, 9 as T, and 4 as W. How is 977452 coded in that code?
 - (a) SEEWZT
 - (b) TEEWZS
 - (c) ZEEWST
 - (d) WEEZST.
3. In a certain language, if A is coded as 1, B is coded as 2, and so on, how is STAR coded in that language?
 - (a) 1810291
 - (b) 9120118
 - (c) 1920118
 - (d) 1920811.
4. In a certain code, if SCHOOL is coded as 123445, TEAM as 6078, how is HOTEL coded in that code?
 - (a) 34605
 - (b) 43605
 - (c) 60734
 - (d) 34785.
5. In a certain code, if BOX is coded as 213, BITTER as 207749, how is BOXER coded in that code?
 - (a) 21359
 - (b) 23159
 - (c) 23149
 - (d) 21349.

6. If ROSE is coded as 6821, CHAIR is coded as 73456 and PREACH is coded as 961473, what will be the code for SEARCH?
- (a) 246173
(b) 214673
(c) 214763
(d) 216473.
7. In a certain code language, QUEUE is written as Q 22, and CHURCH is written as 1UR 1. Which of the following would be most appropriate code for BANANA in that language?
- (a) B5A5
(b) 5N5A
(c) B55A
(d) BA5A5A.
8. If PERFECT is coded as "116" then how will COMPACT be written in that code?
- (a) 85
(b) 111
(c) 98
(d) 118.
9. If ACNE is coded as 3, 7, 29, 11, then BOIL will be coded as
- (a) 5, 31, 21, 25
(b) 5, 31, 19, 25
(c) 5, 29, 19, 25
(d) 5, 29, 19, 27.
10. If FLARE is coded as 21, 15, 26, 9, 22, how will BREIF be coded in the same language?
- (a) 25, 9, 22, 21, 18
(b) 5, 37, 11, 19, 13
(c) 13, 19, 11, 37, 5
(d) 25, 9, 22, 18, 21.

Series

This deals with the questions in which series of numbers or alphabetical letters are given, which are generally called terms of the series. These terms follow a certain pattern throughout.

The candidate is required to recognize this pattern and either complete the given series with the most suitable alternative or find the wrong term in the series.

Type 1: Number Series

Important Patterns:

- (1) $a, a \pm d, a \pm 2d, a \pm 3d, \dots$
(2) a, ak, ak^2, ak^3, \dots

- (3) $a, a/k, a/k^2, a/k^3, \dots$
- (4) $(a)n, (a \pm d)n, (a \pm 2d)n, (a \pm 3d)n, \dots$
- (5) $an + k, (a + k)n + k, [(a + k)]n + k, \dots$
- (6) $an + k, (a + 1)n + k, (a + 2)n + k, \dots$
- (7) $1n, 1n + 2n, 1n + 2n + 3n, 1n + 2n + 3n + 4n, \dots$
- (8) Series of prime numbers i.e. 2, 3, 5, 7, 11, 13, 17, 19, 23, etc.

Example

1. Which number would replace question mark in the series 7, 12, 19, ?, 39.
- (a) 29
- (b) 28
- (c) 26
- (d) 24

Solution

The given sequence follows the pattern:

$$+ 5, + 7, + 9, \dots \text{ i.e. } 7 + 5 = 12$$

$$12 + 7 = 19, \dots$$

$$\therefore \text{Missing number} = 19 + 9 = 28$$

Hence, answer is (b).

2. Find out the missing number in the following sequence:
- 1, 3, 3, 6, 7, 9, ?, 12, 21
- (a) 10
- (b) 11
- (c) 12
- (d) 13.

Solution:

The given sequence is a combination of two series

I. 1, 3, 7, ?, 21 and

II. 3, 6, 9, 12

The pattern followed in I is $+ 2, + 4, \dots$; and the pattern followed in II is $+ 3$.

Thus, missing number = $7 + 6 = 13$.

Hence, the answer is (d).

Sample Questions

Exercise 3

Directions: (Qs. 1-22) Find the missing number in the series.

1. 3, 4, 12, 48,, 27648
 - (a) 488
 - (b) 576
 - (c) 492
 - (d) 528.
2. 19, 2, 38, 3, 114, 4,,
 - (a) 228
 - (b) 256
 - (c) 352
 - (d) 456.
3. 95, 115.5, 138,, 189
 - (a) 154.5
 - (b) 162.5
 - (c) 164.5
 - (d) 166.5.
4. 11, 22, 35, 50,, 86
 - (a) 80
 - (b) 67
 - (c) 68
 - (d) 70.
5. 1, 4, 9, 16, 25,,
 - (a) 35
 - (b) 36
 - (c) 48
 - (d) 49.

6. 20, 19, 17,, 10, 5
(a) 12
(b) 13
(c) 14
(d) 15.
7. 2, 3, 5, 7, 11,, 17
(a) 12
(b) 13
(c) 14
(d) 15.
8. 1, 5, 15, 19, 57,,
(a) 65
(b) 59
(c) 63
(d) 61.
9. 2, 5, 9, 19, 37,,
(a) 76
(b) 75
(c) 74
(d) 72.
10. 345, 534, 264, 804,,
(a) 552
(b) 662
(c) 442
(d) 384.
11. 363, 275, 484, 891,,
(a) 393
(b) 582
(c) 211
(d) 286.

12. 5, 17, 37, 65,, 145
 (a) 95
 (b) 97
 (c) 99
 (d) 101.
13. 9, 11, 20, 31,, 82
 (a) 41
 (b) 51
 (c) 60
 (d) 71.
14. 3, 10, 101,
 (a) 10101
 (b) 10201
 (c) 10202
 (d) 11012.
15. 1, 2, 8, 24,, 864
 (a) 96
 (b) 120
 (c) 206
 (d) 21

Answers

Exercise 1

1. (d); TRIPPLE
 SQHOOKD
 -1 -1 -1 -1 -1 -1 -1

Each letter in TRIPPLE is moved one step backward to obtain the corresponding letter of the code.

DISPOSE
 -1 -1 -1 -1 -1 -1 -1
 CHRONRD

Similarly moving each letter of DISPOSE one step backward, the coded word is CHRONRD, which is not among the options. Hence (d)

2. (c); COULDMARGIN

BNTKCLZQFHM

-1 -1 -1 -1 -1 -1 -1 -1 -1 -1

Moving letters of MOULDING one step backward, we get LNTKCHMF. Hence (c).

3. (a); Each letter of word MONKEY is written in reverse order i.e. YEKNOM and then each letter is moved one step backward to get XDJMNL. Writing TIGER in reverse order, we get REGIT. Moving one step backward we get QDFHS.
4. (b); Each letter in the word VICTORY is moved two steps forward i.e. V becomes Y, I becomes L, C becomes F and so on. Similarly, Success becomes VXFFHVV.
5. (a); TOGETHER

RQEGRJCT

-2 +2 -2 +2 -2 +2 -2 +2

Each letter in TOGETHER is alternatively moved two steps backward and two steps forward. In the same code PAROLE will be written as NCPQJG.

6. (b); The word COUNSEL is divided into two separate parts. Each alternate letter starting with C is moved one step backward and remaining letters are respectively moved five, four and three steps backward.

Thus

CB, OI, UT, NI, SR, EA and CK

In the same manner GF, UO, IH and so on.

7. (b); Each letter in the word CORNER is moved four steps forward to get GSVRIV. Moving each letter of CENTRAL four steps forward, we get GIRXVEP.
8. (c); Each letter in JOSEPH is moved four steps backward. Similarly GEORGE is coded as CAKNCA.
9. (b); In the English alphabet, C is third letter from the left and X is the third letter from the right. Similarly E and V are the fifth letters from left and right respectively.
10. (a); The word CIGARETTE is divided into 3 groups of 3 letters each.

CIG – ARE – TTE. In each group, the first and third letters are interchanged. So the code becomes GICERAETT. Similarly working for DIR – ECT – ION, we get RIDTCENOI. Hence (a).

11. (c); The letters in DIPLOMA are alternatively moved two steps forward and four steps backward.

Alphabets and Series 33

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12. (d); Step 1: The word Creative is divided into two parts CREA and Tive.

Step 2: In each sub-word, the first letter is replaced with fourth and second with third. So, we get AERC and EVIT.

Steps 3: Each letter is now moved one step forward and one step backward to get BDSBFUJS. Similarly working for TRIANGLE we get BHSSFKHM.

13. (c); In both the words POETRY and OVER, each letter is moved one step backward to get ONDSQX and NUDQ respectively. Then the first letter of the original word is moved one step forward and added on the left to get QONDSQX and PNUDQ.

14. (a); The letters in the word ELECTION are alternatively moved two steps forward and left unchanged. Thus E G, L remains unchanged, E G, C C, T V, I I, O Q, N N.

In VOTER.

VX, O O, T V, E E, R T.

15. (c); BEAUTY

+2 +3 +4 +5 +6 +7

DHEZZF

Similarly

FLOWER

+2 +3 +4 +5 +6 +7

HOSBKY

Exercise 2

1. (b); As given the letter are coded as:

BEAUTIFUL

5 7 3 0 4 1 2 0 8

So in FUTURE, F is coded as 2, U as 0, T as 4, R as 9 and E as 7. Therefore, FUTURE is coded as 204097.

Hence, the answer is (b).

As F = 2, (c) is eliminated. Again as the second digit of the other three choices is same, then check for the third, fourth and fifth digit which gives (b) as the answer.

2. (b); 977452 is coded as TEEWZS. Hence, the answer is (b).

3. (c); S 19 T 20 A 1 R 18. Hence, code is 1920118.

4. (a); SCHOOLTEAM

1 2 3 4 4 5 6 0 7 8

Hence HOTEL 34605

5. (d); BOXBITTER

2 1 3 2 0 7 7 4 9

Hence BOXER 21349

6. (b); From the coding pattern, it is clear that codes for S, E, A, R, C and H are 2, 1, 4, 6, 7 and 3, respectively as letters of the word are directly substituted.
7. (c); Similar pairs of letters have been given the same numeric in each word. As a result pair UE in word QUEUE has been coded 2, pair CH has been coded 1 and likewise the pair An has been coded 5. Hence, the word BANANA would be coded as B55A.
8. (d); In the given code $A = 26$, $B = 25$, $C = 24$ and so on.
So PERFECT $11 + 22 + 9 + 21 + 22 + 24 + 7 = 116$
Similarly
COMPACT $24 + 12 + 14 + 11 + 26 + 24 + 7 = 118$
i.e., opposite value concept.
9. (b); $(2n+1)$ is the coding pattern used, where $n =$ position of the alphabet in the alphabetical order.
10. (d); Numbers in the coding show the positions of the respective letters from the end of the alphabetical series.

Exercise 3

1. (b); $3 \times 4 = 12$
 $4 \times 12 = 48$
Similarly $12 \times 48 = 576$
Also $576 \times 48 = 27648$
2. (d); The sequence is a combination of two series:
I. 19, 38, 114, and II. 2, 3, 4
The pattern followed in I is $\times 2, \times 3, \dots$
 \therefore The missing no. = $114 \times 4 = 456$
3. (b); The pattern is $+ 20.5, + 22.5, \dots$
 \therefore Missing term = $138 + 24.5 = 162.5$
4. (b); The given sequence follows the pattern:
 $+ 11, + 13, + 15 \dots$ i.e. $11 + 11 = 22, 22 + 13 = 35$
 $35 + 15 = 50$
 \therefore Missing number = $50 + 17 = 67$
Hence, the answer is (b).
5. (b); The numbers are 12, 22, 32, 42, 52.
 \therefore Missing number = $62 = 36$.

6. (c); The pattern is -1, -2,

$$\therefore \text{Missing number} = 17 - 3 = 14.$$

7. (b); Clearly, the given series consists of prime numbers starting from 2. The prime number after 11 is 13. So, 13 is the missing number.

8. (d); The pattern is

$$1 + 4 = 5$$

$$5 \times 3 = 15$$

$$15 + 4 = 19$$

$$19 \times 3 = 57$$

Hence the next number in the series should be $57 + 4 = 61$.

9. (b); The pattern is $x^2 + 1, x^2 - 1, x^2 + 1, x^2 - 1, \dots$

$$\therefore \text{Missing number} = 37 \times 2 + 1 = 75.$$

10. (a); $3 + 4 + 5 = 12$

$$5 + 3 + 4 = 12$$

$$2 + 6 + 4 = 12$$

$$8 + 0 + 4 = 12$$

$$\text{So, } 5 + 5 + 2 = 12.$$

11. (d); Adding of two corner numbers is equal to the middle number:

$$3 \ 6 \ 3$$

+

$$2 \ 7 \ 5, \text{ and so on.}$$

+

$$\text{Similarly, } 2 \ 8 \ 6$$

+

12. (d); The numbers are $22 + 1, 42 + 1, 62 + 1, 82 + 1, \dots, 122 + 1$.

$$\therefore \text{Missing number} = 102 + 1 = 101.$$

13. (b); Each term in the series is the sum of the preceding two terms.

$$\therefore \text{Missing number} = 20 + 31 = 51.$$

14. (c); Each term in the series is obtained by adding 1 to the square of the preceding term.

So, missing term

$$= (101)^2 + 1 = 10202$$

15. (d); The series is $x^2; x^2 \cdot x^3; x^3 \cdot x^4; x^4 \cdot x^5$

So correct answer would be $(24 \times 32) = 216$

**ECONOMIC
&
BUSINESS
ENVIRONMENT**

Lesson

- | | |
|---|------------|
| 1. Basics of Demand and Supply and Forms of Market Competition | 445 |
| 2. National Income Accounting and Related Concepts | 462 |
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SYLLABUS

<i>S.No.</i>	<i>Lesson</i>	<i>Topics Covered</i>
1	Basics of Demand and Supply and Forms of Market Competition	<ul style="list-style-type: none"> • Theory of Demand and Supply • Elasticity of Demand • Factors affecting Price Elasticity of Demand • Income Elasticity of Demand • Cross Elasticity of Demand • Increase and Decrease in Demand and Expansion and Contraction of Demand • Forms of Market Competition • Elasticity of Supply • Factors influencing Elasticity of Supply
2	National Income Accounting and Related Concepts	<ul style="list-style-type: none"> • Introduction • Methods to measure National Income • Key Concepts of National Income- <ul style="list-style-type: none"> - Gross Domestic Product (GDP) - GDP at Factor Cost - GDP Deflator - Gross National Product (GNP) - GNP at Market Prices - GNP at Factor Cost - Net National Product (NNP) - NNP at Market Prices - NNP at Factor Cost • Domestic Income • Private Income • Personal Income • Disposable Income • Real Income • Per Capita Income

3 Indian Union Budget

- Overview of Indian Union Budget
- Steps involved in the preparation of Union Budget
- Key Terminologies / Heads covered under the budget
- Revenue, Capital and Expenditure Budgets
- Fiscal Deficit
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4 Indian Financial Markets

- Introduction
- Types of Financial Markets
- Overview of Indian Financial Ecosystem
- Noteworthy Developments in Indian Financial Ecosystem
- Key Facets and Growth of Financial Institutions in India
- Monetary Policy Instruments
- Public and Private Sector Banks
- Industrial Finance Corporation of India and Small Industries Development Bank of India
- Regional Rural Banks (RRBs)
- Cooperative Banks
- Non-Banking Finance Companies (NBFCs)
- Basics of Capital Market: Types of Shares and Debentures
- Types of Shares
- Debentures
- Financial Assistance Scenario for Small and Medium Enterprises of India

5 Indian Economy

- Financial Assistance for Start-Ups
- Primary (Agriculture and Allied Activities)
- Major Government Initiatives
- Secondary (Manufacturing)
- Tertiary (Services)
- Market of Services Sector
- Major Government Initiatives

- Further Initiatives
 - Agricultural and Industrial Policies of India
 - Latest Developments-Union Budget 2022
 - Drawbacks of Agricultural Planning in India
 - Agricultural Policies
 - Industrial Policies
 - Balance of Payments
 - Favourable and Unfavourable Balance of Trade
 - Foreign Investments in India - Types and Flows
 - Government Initiatives to Foster Entrepreneurship
 - Make in India
 - Stand-Up India
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- 6 Entrepreneurship Scenario**
- Overview of Business Environment
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 - Ease of Doing Business Index by World Bank for India
 - Ease of Doing Business Index by Department for Promotion of Industry and Internal Trade (DPIIT) for States
- 7 Business Environment**
- NITI Aayog
 - Ministry of Corporate Affairs
 - Securities and Exchange Board of India (SEBI)
 - Reserve Bank of India (RBI)
 - Insolvency and Bankruptcy Board of India (IBBI)
 - National Company Law Tribunal (NCLT)
 - National Company Law Appellate Tribunal (NCLAT)
- 8 Key Government Institutions**
-

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Lesson 1

**BASICS OF DEMAND
AND
SUPPLY
AND FORMS
OF
MARKET
COMPETITION**

THEORY OF DEMAND AND SUPPLY

Meaning of Demand

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.

Law of Demand

According to the law of demand, other things being equal, if price of a commodity falls, the quantity demanded of it will rise, and if price of the commodity rises, its quantity demanded will decline. It implies that there is an inverse relationship between the price and quantity demanded of a commodity. In other words, other things being equal, quantity demanded will be more at a lower price than at a higher price.

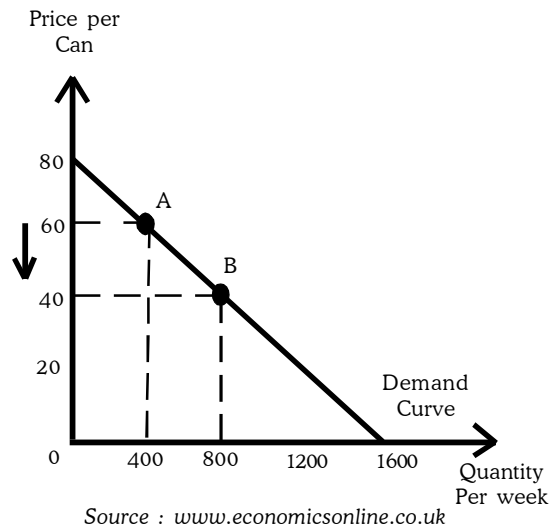
The law of demand describes the functional relationship between price and quantity demanded. Among various factors affecting demand, price for a commodity is the most critical factor. Thus, demand of a commodity is mainly determined by the price of commodity.

$$D_x = f(P_x).$$

The law of demand may be understood from the following example:

PRICE PER CAN (INR)	QUANTITY DEMANDED
80	0
70	200
60	400
50	600
40	800
30	1000
20	1200
10	1400
0	1600

Source: Economics Online



Thus, it may be observed that with the rise in price per can, the demand for the cans is reducing.

Assumptions of the law of demand

The above stated law of demand is conditional. It is based on certain conditions as given. It is therefore, always stated with the 'other things being equal'. It relates to the change in price variable only, assuming other determinants of demand to be constant. The law of demand is thus, based on the following ceteris paribus assumptions:

1. No Change in Consumer's Income
2. No Change in Consumer's Preferences
3. No Change in the Fashion
4. No Change in the Price of Related Goods
5. No Expectation of Future Price Changes or Shortages
6. No Change in Size, Age Composition and Sex Ratio of the Population
7. No Change in the Range of Goods Available to the Consumers
8. No Change in the Distribution of Income and Wealth of the Community
9. No Change in Government Policy
10. No Change in Weather Conditions.

EXCEPTIONS TO THE LAW OF DEMAND

There are few exceptional cases where the law of demand is not applicable, which may be categorised as follows:

Giffen Goods : In the case of certain inferior goods called Giffen goods (named after Sir Robert Giffen), when the prices fall, quite often less quantity will be purchased than before because of the negative income effect and people's increasing preference for a superior commodity with the rise in their real income. Examples of Giffen goods can include bread, rice, and wheat.

Articles of Snob Appeal : Sometimes, certain commodities are demanded just because they happen to be expensive or prestige goods, and have a 'snob appeal'. They satisfy the aristocratic desire to preserve exclusiveness for unique goods.

Speculation : When people speculate about changes in the price of a commodity in the future, they may not act according to the law of demand at the present price, say, when people are convinced that the price of a particular commodity will rise still further, they will not contract their demand with the given price rise: on the contrary, they may purchase more for the purpose of hoarding.

Consumer's Psychological Bias or Illusion : When the consumer is wrongly biased against the quality of the commodity with the price change, he may contract this demand with a fall in price.

Law of Supply

Supply represents how much the market can offer. The quantity supplied refers to the amount of a good producers are willing to supply when receiving a certain price. The supply of a good or service refers to the quantities of that good or service that producers are prepared to offer for sale at a set of prices over a period of time. Supply means a schedule of possible prices and amounts that would be sold at each price. The supply is not the same concept as the stock of something in existence, for example, the stock of commodity X in Delhi means the total quantity of Commodity X in existence at a point of time; whereas, the supply of commodity X in Delhi means the quantity actually being offered for sale, in the market, over a specified period of time.

The law of supply states that a firm will produce and offer to sell greater quantities of a product or service as the price of that product or service rises, other things being equal. There is a direct relationship between price and quantity supplied. In this statement, change in price is the cause and change in supply is the effect. Thus, the price rise leads to an increase in supply and not otherwise. It may be noted that at higher prices, there is a greater incentive to the producers or firms to produce and sell more. Other things including the cost of production, change of technology, prices of inputs, level of competition, size of the industry, government policy and non-economic factors.

Thus 'Ceteris Paribus'

- (a) With an increase in the price of a good, the producer is willing to offer more quantity in the market for sale.
- (b) The quantity supplied is related to the specified time interval over which it is offered.

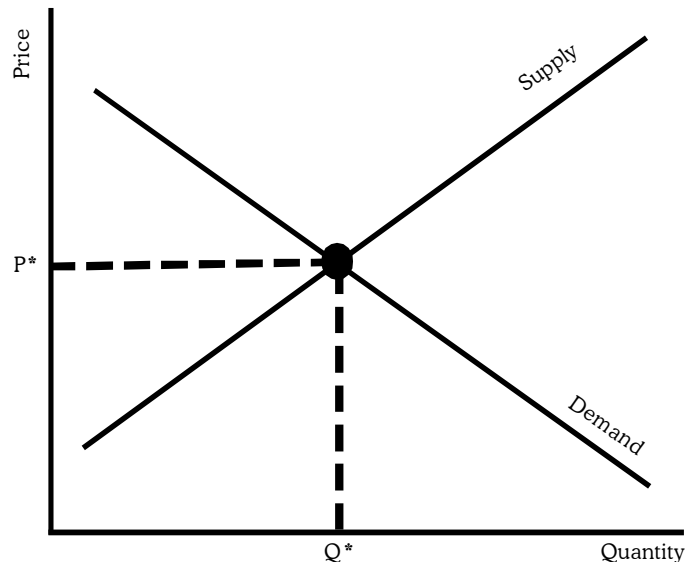
The law of supply is the microeconomic law that states that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa. The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale.

Assumptions of Law of Supply

The term "other things remaining the same" refers to the following assumptions in the law of supply:

1. No change in the state of technology.
2. No change in the price of factors of production.
3. No change in the number of firms in the market.
4. No change in the goals of the firm.
5. No change in the seller's expectations regarding future prices.
6. No change in the tax and subsidy policy of the products.
7. No change in the price of other goods.

The equilibrium price is the market price where the quantity of goods supplied is equal to the quantity of goods demanded. This is the point at which the demand and supply curves in the market intersect.



Source: Study.com

At equilibrium, there is no shortage or surplus unless a determinant of demand or a determinant of supply changes. If a change in the price of a good or service creates a shortage, it means that consumers want to buy a higher quantity than the one offered by producers. In this case, demand exceeds supply and consumers are not satisfied. In contrast, if a change in the price of a product or a service creates a surplus, it means that consumers want to buy less quantity than the one offered by producers. In this case, supply exceeds demand and producers need to lower the price of the product or the service to avoid excessive inventory.

Let us take an example to understand the concept.

Price (\$)	Quantity Demanded (Kg)	Quantity Supplied (Kg)	Surplus (kg)	Shortage (kg)
100	5	50	45	
90	12	41	29	
80	18	35	17	
70	22	28	6	
60	25	25	0	0
50	34	22		12
40	41	18		23
30	47	14		33
20	50	9		41
10	55	5		50

Source : My Accounting Course

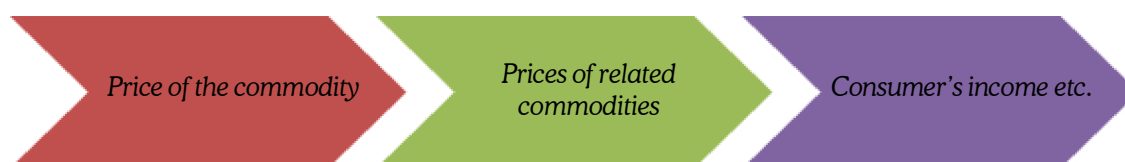
In the table above, the quantity demanded is equal to the quantity supplied at the price level of \$60. Therefore, the price of \$60 is the equilibrium price. At any other price level, there is either surplus or shortage. Specifically, for any price that is lower than \$60, the quantity supplied is greater than the quantity demanded, thereby creating a surplus. For any price that is higher than \$60, the quantity demanded is greater than the quantity supplied, thereby creating a shortage.

ELASTICITY OF DEMAND

In economics, the demand elasticity (elasticity of demand) refers to how sensitive the demand for a good is to changes in other economic variables, such as prices and consumer income.

Demand elasticity is calculated as the percent change in the quantity demanded divided by a percent change in another economic variable. A higher demand elasticity for an economic variable means that consumers are more responsive to changes in this variable.

“Elasticity of demand is the responsiveness of the quantity demanded of a commodity to changes in one of the variables on which demand depends. In other words, it is the percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends.” The variables on which demand can depend are:



There are major three types of elasticity of demand, i.e. Price elasticity; Income elasticity and Cross elasticity. However, this lesson focuses only on price elasticity of demand.

Price Elasticity of Demand

The price elasticity of demand is the response of the quantity demanded to change in the price of a commodity. It is assumed that the consumer's income, tastes, and prices of all other goods are steady. It is measured as a percentage change in the quantity demanded divided by the percentage change in price. Therefore, price elasticity of demand is:

$$E_p = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

$$\text{Or, } E_p = \frac{\text{Change in Quantity}}{\text{Original Quantity}} \times \frac{\text{Original Price}}{\text{Change in Price}}$$

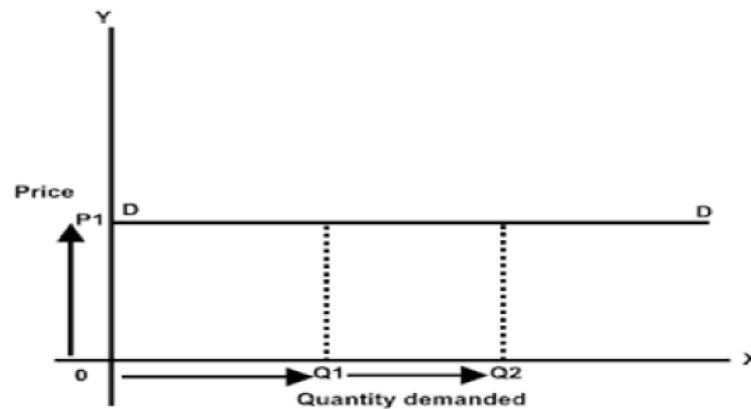
Types of Price Elasticity of Demand

The extent of responsiveness of demand with change in the price is not always the same. The demand for a product can be elastic or inelastic, depending on the rate of change in the demand with respect to change in price of a product.

Elastic demand is the one when the response of demand is greater with a small proportionate change in the price. On the other hand, inelastic demand is the one when there is relatively less change in the demand with a greater change in the price.

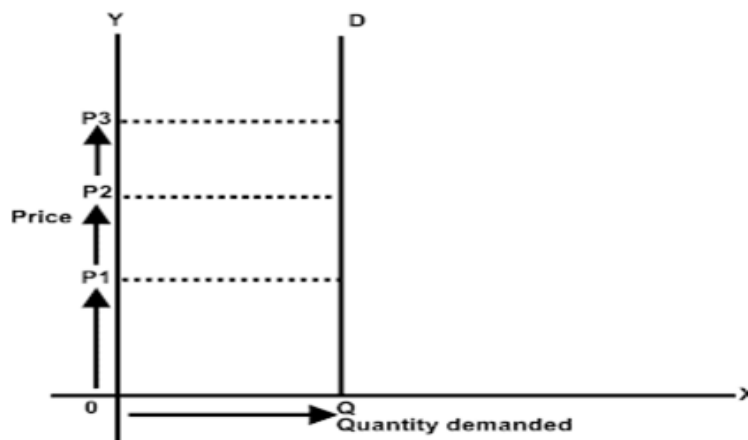
The various forms of price elasticity of demand are as under:

1. *Perfectly Elastic Demand* : When a small change in the price of a product causes a major change in its demand, it is said to be perfectly elastic demand. In perfectly elastic demand, a small rise in price results in a fall in demand to zero, while a small fall in price causes an increase in demand to infinity. In such a case, the demand is perfectly elastic or $e_p = \infty$.



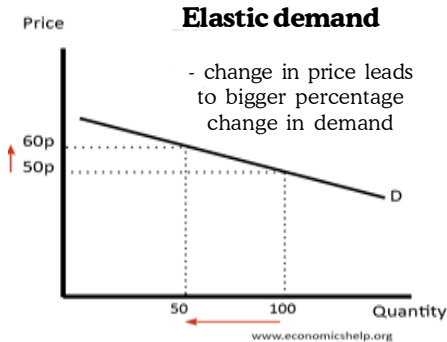
Source: Economics basics

2. *Perfectly Inelastic Demand* : A perfectly inelastic demand is one when there is no change produced in the demand of a product with a change in its price. The numerical value for perfectly inelastic demand is zero ($e_p = 0$).



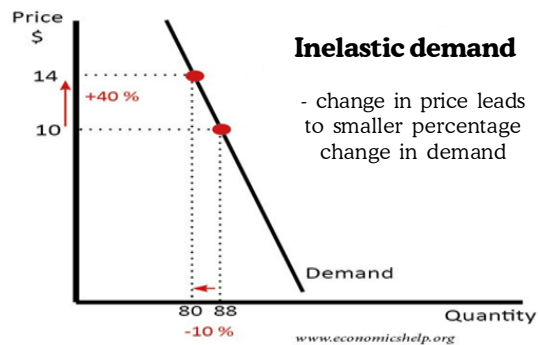
Source: Economics basics

3. *Relatively Elastic Demand* : Relatively elastic demand refers to the demand when the proportionate change produced in demand is greater than the proportionate change in price of a product. The numerical value of relatively elastic demand ranges between one to infinity ($e_p > 1$).



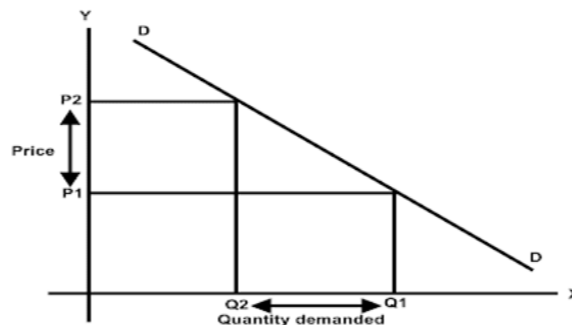
Source: Economics help

4. **Relatively Inelastic Demand:** Relatively inelastic demand is one when the percentage change produced in demand is less than the percentage change in the price of a product. For example, if the price of a product increases by 30% and the demand for the product decreases only by 10%, then the demand would be called relatively inelastic. The numerical value of relatively elastic demand ranges from zero to one ($e_p < 1$).



Source: Economics help

5. **Unitary Elastic Demand :** When the proportionate change in demand produces the same change in the price of the product, the demand is referred as unitary elastic demand. The numerical value for unitary elastic demand is equal to one ($e_p = 1$).



Source: Economics basics

A quick recap

Perfectly Elastic Demand ($E_p = \infty$)

Perfectly Inelastic Demand ($E_p = 0$)

Relatively Elastic Demand ($E_p > 1$)

Relatively Inelastic Demand ($E_p < 1$)

Unitary Elastic Demand ($E_p = 1$)

Factors affecting Price Elasticity of Demand

1. *Price Level* : The demand is generally elastic for moderately priced goods but, the demand for very costly and very cheap goods is inelastic. The rich do not bother about the prices of the goods that they buy. Very costly goods are demanded by the rich people and hence their demand is not affected much by the change in prices. For example, on increase in the price of Toyota car from Rs. 5,00,000 to Rs. 5,20,000 will not make any noticeable difference in its demand. Similarly, the change in the price of very cheap goods (such as salt) will not have any effect on their demand, for their consumption which is very small and fixed.
2. *Availability of Substitutes* : If a good has close substitutes, the price elasticity of demand for a commodity will be very elastic as some other commodities can be used for it. A small rise in the price of such a commodity will induce consumers to switch their consumption to its substitutes. For example gas, kerosene oil, coal etc. will be used more as fuel if the price of wood increases. On the other hand, the demand of such commodities which have no close substitutes is inelastic, such as salt.
3. *Necessities* : If a good is a necessity, then the demand tends to be inelastic. For example, if the price for drinking water rises, then there is unlikely to be a huge drop in the quantity demanded since drinking water is a necessity.
4. *Time Period* : Over time, a good tends to become more elastic because consumers and businesses have more time to find alternatives or substitutes. For example, if the price of gasoline goes up, over time people will adjust for the change, i.e., they may drive less or use public transportation or form carpools.
5. *Habits* : The demand for addictive or habitual products is usually inelastic. This is because the consumer has no choice but to pay whatever the producer is demanding. For example, if the price for a pack of cigarettes goes up, it will likely not have any effect on demand.
6. *Nature of the Commodities* : The demand for necessities is inelastic and that for comforts and luxuries is elastic. This is so because certain goods which are essential will be demanded at any price, whereas goods meant for luxuries and comforts can be dispensed with easily if they appear to become costlier.
7. *Various Uses* : A commodity which has several uses will have an elastic demand such as milk, wood etc. On the other hand, a commodity having only one or fewer uses will have inelastic demand. The consumer finds it easier to adjust the quantity demanded of a good when it is to be used for satisfying several wants than if it is confined to a single or few uses. For this reason, a multiple-use good tends to have more elastic demand.

8. *Postponing Consumption* : Usually the demand for commodities, the consumption of which can be postponed, is elastic as the prices rise and are expected to fall again. For example, the demand for mp3 is elastic because its use can be postponed for some time if its price goes up, but the demand for rice and wheat is inelastic because their use cannot be postponed when their prices increase.

Income Elasticity of Demand

Income elasticity of demand is the degree of responsiveness of demand to the change in income. Prof. Watson defines it as : "Income elasticity of demand is the rate of change of quantity with respect to changes in the income, other determinants remaining constant." The income elasticity of demand can be measured by the following formula :

$$E_y = \text{Percentage change in quantity demanded} / \text{Percentage change in income}$$

$$\text{Percentage change in quantity demanded} = \frac{\text{New quantity demanded } (\Delta Q)}{\text{Original quantity demanded } (Q)}$$

$$\text{Percentage change in income} = \frac{\text{New income } (\Delta Y)}{\text{original income } (Y)}$$

Symbolically,

$$E_y = \Delta Q/Q \times \Delta Y/Y$$

Income elasticity of demand, thus explains the responsiveness of demand to a change in income. Ordinarily, demand for most goods increases with an increase in household's level of income. Demand for inferior goods, however, shows a negative relation to change in income.

Types of Income Elasticity of Demand

Income elasticity of demand can be of five different types : These are tabulated with description below:

S.No.	Numerical Measure of Income elasticity of demand	Verbal description
1.	Negative Demand for a commodity falls as income rises.	The trend is visible in case of inferior goods.
2.	Zero Demand for a commodity does not change as income changes.	This is true in the case of essential goods.
3.	Greater than zero but less than one.	Demand for commodity rises in proportion to a rise in income.
4.	Unity	Demand for commodity rises in the same proportion as rise in income.
5.	Greater than the unity	Demand for commodity rises more than in proportion to rise in income.

Cross Elasticity of Demand

The responsiveness of demand to changes in prices of related commodities is called cross elasticity of demand. Prof. Watson defines it as, "Cross elasticity of demand is the rate of change in quantity associated with a change in the price of related goods." Thus cross elasticity of demand is the responsiveness of demand for commodity X to change in price of commodity Y and is represented as follows :

Symbolically :

Cross Elasticity of Demand E_c

% increase in quantity demanded of A

% increase in price of product B

The relationship between X and Y commodities may be substitutive as in case of tea and coffee or complementary as in the case of ball pens and refills. Main measures of cross elasticity with description are as follows :

1. Cross elasticity = Infinity (Commodity X is nearly a perfect substitute for commodity Y)
2. Cross elasticity = Zero (Commodity X and Y are not related)
3. Cross elasticity = Negative (Commodities X and Y are complementary)

Thus, if E_c approaches infinity, it means that commodity X is nearly a perfect substitute for commodity Y. On the other hand, if E_c approaches Zero it would mean that the two commodities in question are not related at all. E_c shall be negative when commodity Y is complementary to commodity X.

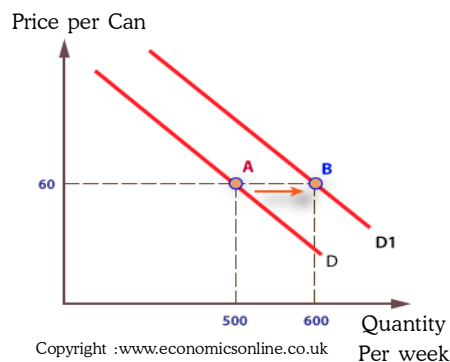
INCREASE AND DECREASE IN DEMAND AND EXPANSION AND CONTRACTION OF DEMAND

Increase in Demand and Decrease in Demand

Changes in demand include an increase or decrease in demand. Due to the change in the price of related goods, the income of consumers, and the preferences of consumers, etc. the demand for a product or service changes.

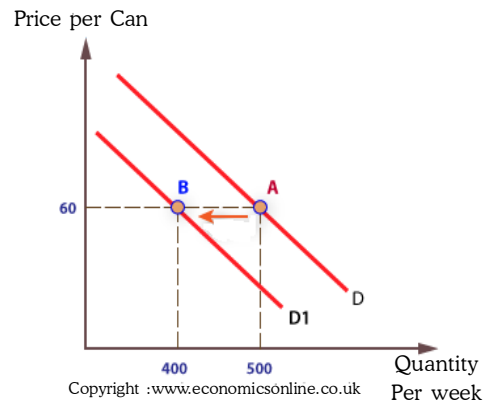
- (a) *Increase in Demand* : When demand changes not because of price but because of changes in other determinants of demand, it is a case of either increase or decrease in demand. "Increase in demand means more demand at same price".

Increases in demand are shown by a shift to the right in the demand curve. This could be caused by a number of factors, including a rise in income, a rise in the price of a substitute or a fall in the price of a complement.



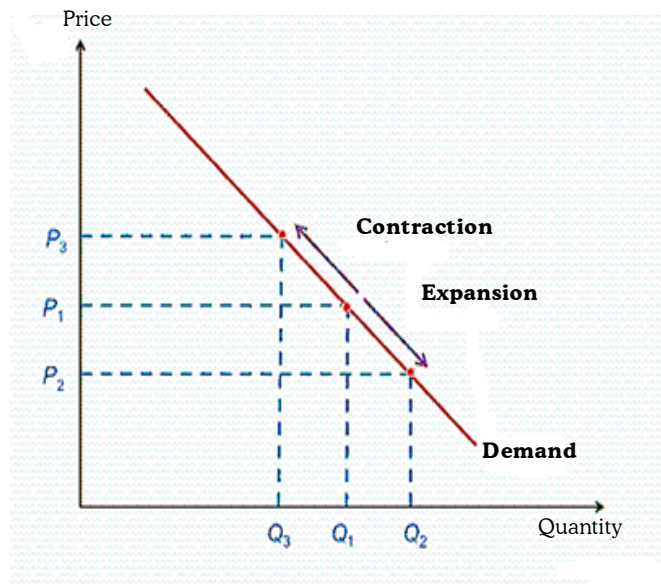
- (b) *Decrease in Demand*: Decrease in demand means, "Less demand at same price". Demand can decrease and cause a shift to the left of the demand curve for a number of reasons, including a fall

in income, assuming a good is a normal good, a fall in the price of a substitute and a rise in the price of a complement.



Expansion and Contraction of Demand

When the quantity demanded of a commodity increases as a result of the fall in the price, it is called extension (or expansion) in demand and when the quantity demanded decreases as a result of an increase in the price of the commodity, it is called contraction in demand. The following is the diagrammatical presentation of expansion and contraction of demand:



Source: knowledgiate.com

FORMS OF MARKET COMPETITION

A variety of market structures will characterize an economy. Such market structures essentially refer to the degree of competition in a market.

There are other determinants of market structures such as the nature of the goods and products, the number of sellers, number of consumers, the nature of the product or service, economies of scale etc. We will discuss the five basic types of market structures in any economy.

(1) *Perfect Competition*

In a perfect competition market structure, there are a large number of buyers and sellers. All the sellers in the market are small sellers in competition with each other. There is no one big seller with any significant influence on the market. So, all the firms in such a market are price takers.

There are certain assumptions when discussing the perfect competition. This is the reason a perfect competition market is pretty much a theoretical concept. These assumptions are as follows,

- The products on the market are homogeneous, i.e. they are completely identical
- All firms only have the motive of profit maximization
- There is free entry and exit from the market, i.e. there are no barriers
- And there is no concept of consumer preference

(2) *Monopolistic Competition*

This is a more realistic scenario that actually occurs in the real world. In monopolistic competition, there are still a large number of buyers as well as sellers. But they all do not sell homogeneous products. The products are similar but all sellers sell slightly differentiated products.

Now consumers have the preference of choosing one product over another. The sellers can also charge a marginally higher price since they may enjoy some market power. So, the sellers become the price setters to a certain extent.

For example, the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours. Another such example is toothpaste.

(3) *Oligopoly*

In an oligopoly, there are only a few firms in the market. While there is no clarity about the number of firms, 3-5 dominant firms are considered the norm. So, in the case of an oligopoly, the buyers are far greater than the sellers.

The firms in this case either compete with another to collaborate together, They use their market influence to set the prices and in turn maximize their profits. So, the consumers become the price takers. In an oligopoly, there are various barriers to entry into the market, and new firms find it difficult to establish themselves.

(4) *Monopoly*

In a monopoly type of market structure, there is only one seller, so a single firm will control the entire market. It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller. Monopolies are extremely undesirable. Here the consumers lose all their power and market forces become irrelevant. However, a pure monopoly is very rare in reality.

(5) *Duopoly*

A duopoly is a kind of oligopoly: a market dominated by a small number of firms. In the case of a duopoly, a particular market or industry is dominated by just two firms (this is in contrast to the more widely-known case of a monopoly when just one company dominates).

In very rare cases, this means they are the only two firms in the entire market (this almost never occurs); in practice, it usually means the two duopolistic firms have a great deal of influence, and their actions, as well as their relationship to each other, powerfully shape their industry. Duopolistic markets are imperfectly competitive, so entry barriers are typically significant for those attempting to enter the market, but there are usually still other, smaller businesses persisting alongside the two dominant firms.

ELASTICITY OF SUPPLY

The elasticity of supply establishes a quantitative relationship between the supply of a commodity and its price. Hence, we can express the numeral change in supply with the change in the price of a commodity using the concept of elasticity. Note that elasticity can also be calculated with respect to the other determinants of supply.

However, the major factor controlling the supply of a commodity is its price. Therefore, we generally talk about the price elasticity of supply. The price elasticity of supply is the ratio of the percentage change in the price to the percentage change in quantity supplied of a commodity.

$$E_s = [\Delta q/q] \times 100 \div [(\Delta p/p) \times 100] = (\Delta q/q) \div (\Delta p/p)$$

Δq = The change in quantity supplied

q = The quantity supplied

Δp = The change in price

p = The price

Types of Price Elasticity of Supply

1. *Perfectly Inelastic Supply* : A service or commodity has a perfectly inelastic supply if a given quantity of it can be supplied whatever might be the price. The elasticity of supply for such a service or commodity is zero. A perfectly inelastic supply curve is a straight line parallel to the Y-axis. This is representative of the fact that the supply remains the same irrespective of the price.

The supply of exclusive items, like the painting of Mona Lisa, falls into this category. Whatever might be the price on offer, there is no way we can increase its supply.

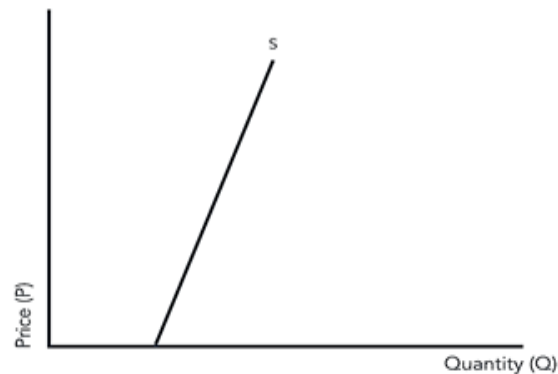
(PES = 0), The Quantity Supplied doesn't change as the price changes.



Source: *Intelligent Economist*

2. *Relatively Less-Elastic Supply* : When the change in supply is relatively less when compared to the change in price, we say that the commodity has a relatively-less elastic supply. In such a case, the price elasticity of supply assumes a value less than 1.

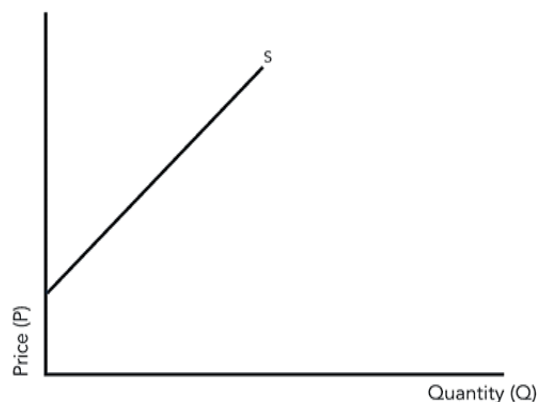
($0 < PES < 1$), Quantity Supplied changes by a lower percentage than a percentage change in price.



Source: *Intelligent Economist*

3. *Relatively Greater-Elastic Supply* : When the change in supply is relatively more when compared to the change in price, we say that the commodity has a relatively greater-elastic supply. In such a case, the price elasticity of supply assumes a value greater than 1.

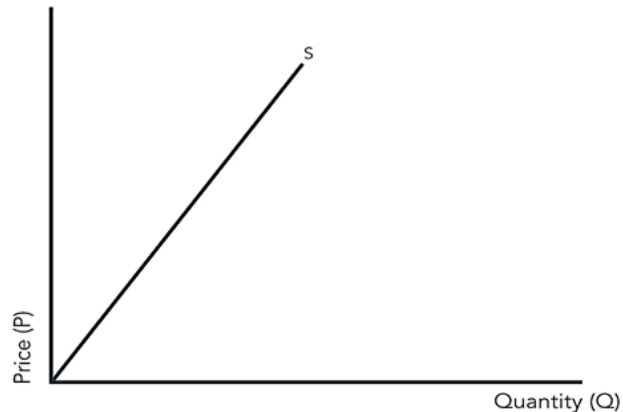
($PES > 1$), The Quantity Supplied changes by a larger percentage than the percentage change in price.



Source: *Intelligent Economist*

4. *Unitary Elastic Supply* : For a commodity with a unit elasticity of supply, the change in quantity supplied of a commodity is exactly equal to the change in its price. In other words, the change in both price and supply of the commodity is proportionately equal to each other. To point out, the elasticity of supply in such a case is equal to one. Further, a unitary elastic supply curve passes through the origin.

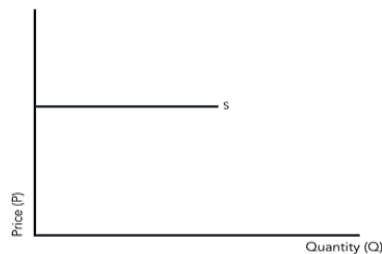
($PES = 1$), Quantity Supplied changes by the same percentage as the change in price.



Source: *Intelligent Economist*

5. *Perfectly Elastic supply* : A commodity with a perfectly elastic supply has an infinite elasticity. In such a case the supply becomes zero with even a slight fall in the price and becomes infinite with a slight rise in price. This is indicative of the fact that the suppliers of such a commodity are willing to supply any quantity of the commodity at a higher price. A perfectly elastic supply curve is a straight line parallel to the X-axis.

($PES = \infty$), Suppliers will be willing and able to supply any amount at a given price but none at a different price.



Source: *Intelligent Economist*

Factors influencing the elasticity of supply

1. *Price of the Good* : The supply and elasticity of supply of a good depend upon the price of the good. If the price of a good increases or decreases, the quantity supplied of it will also increase or decrease, respectively. This is the law of supply. Also, the coefficient of price-elasticity of supply (ES) will depend on the price of the good. ES may be greater than, less than, or equal to one, depending on the price.
2. *Probability that the Price would Change in Future* : If the sellers think that the price of the good will increase (or decrease) in near future, then, at any particular price at present, they would want to decrease (or increase) their supply. In this case, the supply curve for the good would shift to the left (or to the right).

3. *Conditions regarding Cost of Production* : If the cost of production of good increases (or decreases), i.e., if its cost curve shifts upwards (or downwards), then the quantity supplied of the good would decrease (or increase) at any particular price, i.e., the supply curve would shift to the left (or to the right).
4. *Nature of the Good* : The supply of a good depends upon the nature of the good, e.g., on the perishability and lumpiness of the good. The more the perishability or lumpiness of the good, the more would be its market localised, and, in a localised market, the supply of a good at any particular price would be relatively small.
5. *Length of Time* : If the price of good rises, then by how much would supply rise, or, how large will be the price-elasticity of supply, would depend on the length of time available for the necessary adjustments (e.g., in the quantities of the factor inputs used) to complete. That is why; the elasticity of supply in the long-period market would be larger than that in the short-period market.

Lesson 2

**NATIONAL INCOME
ACCOUNTING
AND
RELATED CONCEPTS**

INTRODUCTION

National income is an uncertain term which is used interchangeably with national dividend, national output and national expenditure. On this basis, national income has been defined in a number of ways. In common parlance, national income means the total value of goods and services produced annually in a country.

In other words, the total amount of income accruing to a country from economic activities in a year's time is known as national income. It includes payments made to all resources in the form of wages, interest, rent and profits.

National Income or Net National Income is Gross National Income or Gross National Product less depreciation. It is to be noted that National Income includes Net Factor Income Earned from Abroad also. While computing National Income only finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies.

METHODS TO MEASURE NATIONAL INCOME

There are three methods of measuring the national income of a country. They yield the same result. These methods are:

- (1) The Product Method or Value Added Method.
- (2) The Income Method.
- (3) The Expenditure Method

(1) The Product Method : The Product method measures the contribution of each producing enterprise in the domestic territory of the country. This method involves the following steps:

- (a) Identifying the producing enterprise and classifying them into individual sectors according to their activities.
- (b) Estimating net value added by each producing enterprise as well as each industrial sector and adding up the net value added by all the sectors.

Goods and services are counted in gross domestic product (GDP) at their market values. The product approach defines a nation's gross product as that market value of goods and services currently produced within a nation during a one year period of time.

The product approach measuring national income involves adding up the value of all the final goods and services produced in the country during the year. Here we focus on various sectors of the economy and add up all their production during the year. The main sectors whose production value is added up are:

- (i) agriculture (ii) manufacturing (iii) construction (iv) transport and communication (v) banking (vi) administration and defence and (vii) distribution of income.

Precautions for Product Method or Value Added Method

- (i) *Problem of double counting* : When we add up the value of output of various sectors, we should be careful to avoid double counting. This pitfall can be avoided by either counting the final value of the output or by including the extra value that each firm adds to an item.
- (ii) *Value addition in particular year* : While calculating national income, the values of goods added in the particular year in question are added up. The values which had previously been added to the stocks of raw material and goods have to be ignored. GDP thus includes only those goods, and services that are newly produced within the current period.

- (iii) *Stock appreciation* : Stock appreciation, if any, must be deducted from value added. This is necessary as there is no real increase in output.
- (iv) *Production for self consumption* : The production of goods for self consumption should be counted while measuring national income. In this method, the production of goods for self consumption should be valued at the prevailing market prices.

(2) Expenditure Method : The expenditure approach measures national income as total spending on final goods and services produced within the nation during a year. The expenditure approach to measuring national income is to add up all expenditures made for final goods and services at current market prices by households, firms and government during a year. Total aggregate final expenditure on final output thus is the sum of four broad categories of expenditures:

- (i) Consumption (ii) Investment (iii) Government and (iv) Net export.
- (i) *Consumption expenditure (C)* : Consumption expenditure is the largest component of national income. It includes expenditure on all goods and services produced and sold to the final consumer during the year.
- (ii) *Investment expenditure (I)* : Investment is the use of today's resources to expand tomorrow's production or consumption. Investment expenditure is expenditure incurred by business firms on (a) new plants, (b) adding to the stock of inventories and (c) on newly constructed houses.
- (iii) *Government expenditure (G)* : It is the second largest component of national income. It includes all government expenditure on currently produced goods and services but excludes transfer payments while computing national income.
- (iv) *Net exports (X - M)* : Net exports are defined as total exports minus total imports. National income calculated from the expenditure side is the sum of final consumption expenditure, expenditure by a business on plants, government spending and net exports.

Precautions for Expenditure Method

- (i) The expenditure on second hand goods should not be included as they do not contribute to the current year's production of goods.
- (ii) Similarly, expenditure on purchase of old shares and bonds is not included as these also do not represent expenditure on currently produced goods and services.
- (iii) Expenditure on transfer payments by government such as unemployment benefit, old age pensions, interest on public debt should also not be included because no productive service is rendered in exchange by recipients of these payments.

(3) Income Method : Income approach is another alternative way of computing national income, This method seeks to measure national income at the phase of distribution. In the production process of an economy, the factors of production are engaged by the enterprises. They are paid money incomes for their participation in the production. The payments received by the factors and paid by the enterprises are wages, rent, interest and profit. National income thus may be defined as the sum of wages, rent, interest and profit received or occurred to the factors of production in lieu of their services in the production of goods. Briefly, national income is the sum of all income, wages, rents, interest and profit paid to the four factors of production. The four categories of payments are briefly described below:

- (i) *Wages* : It is the largest component of national income. It consists of wages and salaries along with fringe benefits and unemployment insurance.

- (ii) *Rents* : Rents are the income from property received by households.
- (iii) *Interest* : Interest is the income private businesses pay to households who have lent the business money.
- (iv) *Profits*: Profits are normally divided into two categories (a) profits of incorporated businesses and (b) profits of unincorporated businesses (sole proprietorship, partnerships and producers cooperatives).

Precautions for Income Method

While estimating national income through income method, the following precautions should be undertaken.

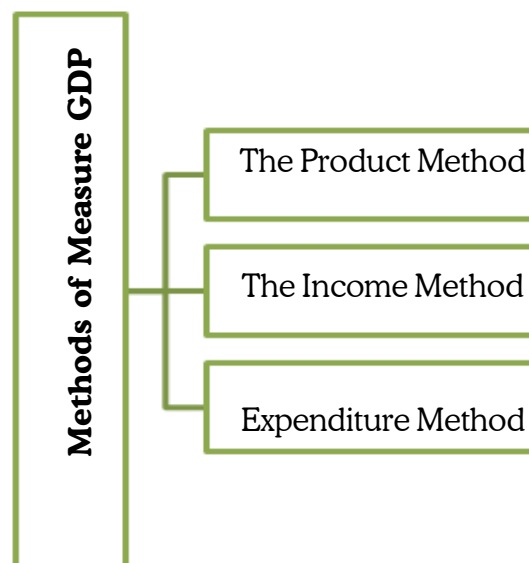
- (i) Transfer payments such as gifts, donations, scholarships, indirect taxes should not be included in the estimation of national income.
- (ii) Illegal money earned through smuggling and gambling should not be included.
- (iii) Windfall gains such as prizes won, lotteries etc. are not to be included in the estimation of national income.
- (iv) Receipts from the sale of financial assets such as shares, bonds should not be included in measuring national income as they are not related to the generation of income in the current year's production of goods.

KEY CONCEPTS OF NATIONAL INCOME

Gross Domestic Product (GDP)

GDP is the total value of goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. Dernberg defines GDP at market price as "the market value of the output of final goods and services produced in the domestic territory of a country during an accounting year."

There are three different ways to measure GDP:



- (a) *The Product Method* : In this method, the value of all goods and services produced in different industries during the year is added up. This is also known as the value added method to GDP or GDP at factor cost by industry of origin. The following items are included in India in this: agriculture and allied services; mining; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estates and ownership of dwellings and business services; and public administration and defence and other services (or government services). In other words, it is the sum of gross value added.
- (b) *The Income Method* : The people of a country who produce GDP during a year receive income from their work. Thus GDP by income method is the sum of all factor incomes: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.
- (c) *Expenditure Method* : This method focuses on goods and services produced within the country during one year. GDP by expenditure method includes:
1. Consumer expenditure on services and durable and non-durable goods (C).
 2. Investment in fixed capital such as residential and non-residential building, machinery, and inventories (I).
 3. Government expenditure on final goods and services (G).
 4. Export of goods and services produced by the people of the country (X).
 5. Less imports (M). That part of consumption, investment and government expenditure which is spent on imports is subtracted from GDP. Similarly, any imported component, such as raw materials, which are used in the manufacture of export goods, is also excluded.

Thus GDP by expenditure method at market prices = $C + I + G + (X - M)$, where $(X - M)$ is net export which can be positive or negative.

GDP at Factor Cost

GDP at factor cost is the sum of the net value added by all producers within the country. Since the net value added gets distributed as income to the owners of factors of production, GDP is the sum of domestic factor incomes and fixed capital consumption (or depreciation).

Thus GDP at Factor Cost = Net value added + Depreciation.

GDP at factor cost includes:

- (a) Compensation of employees i.e., wages, salaries, etc.
- (b) Operating surplus which is the business profit of both incorporated and unincorporated firms [Operating Surplus = Gross Value Added at Factor Cost—Compensation of Employees—Depreciation].
- (c) Mixed Income of Self-employed.

Conceptually, GDP at factor cost and GDP at market price must be identical/This is because the factor cost (payments to factors) of producing goods must equal the final value of goods and services at market prices. However, the market value of goods and services is different from the earnings of the factors of production.

In GDP at market price, indirect taxes are included and subsidies by the government are excluded.

Therefore, in order to arrive at GDP at factor cost, indirect taxes are subtracted and subsidies are added to GDP at market price.

Thus, GDP at Factor Cost = GDP at Market Price – Indirect Taxes + Subsidies.

- (i) *Net Domestic Product (NDP)* : NDP is the value of the net output of the economy during the year. Some of the country's capital equipment wears out or becomes obsolete each year during the production process. The value of this capital consumption is some percentage of gross investment which is deducted from GDP. Thus Net Domestic Product = GDP at Factor Cost – Depreciation.
- (ii) *Nominal and Real GDP* : When GDP is measured on the basis of current price, it is called GDP at current prices or nominal GDP. On the other hand, when GDP is calculated on the basis of fixed prices in some year, it is called GDP at constant prices or real GDP.

Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of a rise in prices (or inflation).

On the contrary, GDP may increase as a result of a fall in prices in a year but actually it may be less as compared to the last year. In both 5 cases, GDP does not show the real state of the economy. To rectify the underestimation and overestimation of GDP, we need a measure that adjusts for rising and falling prices.

This can be done by measuring GDP at constant prices which is called real GDP. To find out the real GDP, a base year is chosen when the general price level is normal, i.e., it is neither too high nor too low. The prices are set to 100 (or 1) in the base year.

Now the general price level of the year for which real GDP is to be calculated is related to the base year on the basis of the following formula which is called the deflator index:

$$\text{Real GDP} = \text{GDP for the Current Year} \times \frac{\text{Base Year (100)}}{\text{Current Year Index}}$$

GDP Deflator

GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100. Thus,

$$\text{GDP Deflator} = \frac{\text{Nominal (or Current Prices) GDP}}{\text{Real (or Constant Prices) GDP}} \times 100$$

Gross National Product (GNP)

GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

GNP includes four types of final goods and services:

1. Consumers' goods and services to satisfy the immediate wants of the people;
2. Gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods;
3. Goods and services produced by the government; and

4. Net exports of goods and services, i.e., the difference between the value of exports and imports of goods and services, known as net income from abroad.

In this concept of GNP, there are certain factors that have to be taken into consideration:

First, GNP is the measure of money, in which all kinds of goods and services produced in a country during one year are measured in terms of money at current prices and then added together.

Second, in estimating GNP of the economy, the market price of only the final products should be taken into account. Many of the products pass through a number of stages before they are ultimately purchased by consumers.

If those products were counted at every stage, they would be included many a time in the national product. Consequently, the GNP would increase too much. To avoid double-counting, therefore, only the final products and not the intermediary goods should be taken into account.

Third, goods and services rendered free of charge are not included in the GNP, because it is not possible to have a correct estimate of their market price. For example, the bringing up of a child by the mother, imparting instructions to his son by a teacher, recitals to his friends by a musician, etc.

Fourth, the transactions which do not arise from the produce of current year or which do not contribute in any way to production are not included in the GNP. The sale and purchase of old goods, and of shares, bonds and assets of existing companies are not included in GNP because these do not make any addition to the national product, and the goods are simply transferred.

Fifth, the payments received under social security, e.g., unemployment insurance allowance, old age pension, and interest on public loans are also not included in GNP, because the recipients do not provide any service in lieu of them. But the depreciation of machines, plants and other capital goods is not deducted from GNP.

Sixth, the profits earned or losses incurred on account of changes in capital assets as a result of fluctuations in market prices are not included in the GNP if they are not responsible for the current production or economic activity.

For example, if the price of a house or a piece of land increases due to inflation, the profit earned by selling it will not be a part of GNP. But if, during the current year, a portion of a house is constructed anew, the increase in the value of the house (after subtracting the cost of the newly constructed portion) will be included in the GNP. Similarly, variations in the value of assets, that can be ascertained beforehand and are insured against flood or fire, are not included in the GNP.

Last, the income earned through illegal activities is not included in the GNP. Although the goods sold in the black market are priced and fulfil the needs of the people, but as they are not useful from the social point of view, the income received from their sale and purchase is always excluded from the GNP.

There are two main reasons for this. One, it is not known whether these things were produced during the current year or the preceding years. Two, many of these goods are foreign made and smuggled and hence not included in the GNP.

Three Approaches to GNP

After having discussed the basic constituents of GNP, it is essential to know how it is estimated. Three approaches are employed for this purpose. One, the income method to GNP; two, the expenditure method to GNP and three, the value added method to GNP. Since gross income equals gross expenditure, GNP estimated by all these methods would be the same with appropriate adjustments.

- 1. Income Method to GNP** : The income method to GNP consists of the remuneration paid in terms of money to the factors of production annually in a country.

Thus GNP is the sum total of the following items:

- (a) *Wages and salaries* : Under this head are included all forms of wages and salaries earned through productive activities by workers and entrepreneurs. It includes all sums received or deposited during a year by way of all types of contributions like overtime, commission, provident fund, insurance, etc.
- (b) *Rents* : Total rent includes the rents of land, shop, house, factory, etc. and the estimated rents of all such assets as are used by the owners themselves.
- (c) *Interest* : Under interest comes the income by way of interest received by the individual of a country from different sources. To this is added, the estimated interest on that private capital which is invested and not borrowed by the businessman in his personal business. But the interest received on governmental loans has to be excluded, because it is a mere transfer of national income.
- (d) *Dividends* : Dividends earned by the shareholders from companies are included in the GNP.
- (e) *Undistributed corporate profits* : Profits which are not distributed by companies and are retained by them are included in the GNP.
- (f) *Mixed incomes* : These include profits of an unincorporated business, self-employed persons and partnerships. They form part of GNP.
- (g) *Direct taxes* : Taxes levied on individuals, corporations and other businesses are included in the GNP.
- (h) *Indirect taxes* : The government levies a number of indirect taxes, like excise duties and sales tax. These taxes are included in the price of commodities. But revenue from these goes to the government treasury and not to the factors of production. Therefore, the income due to such taxes is added to the GNP.
- (i) *Depreciation* : Every corporation makes allowance for expenditure on wearing out and depreciation of machines, plants and other capital equipment. Since this sum also is not a part of the income received by the factors of production, it is, therefore, also included in the GNP.
- (j) *Net income earned from abroad* : This is the difference between the value of exports of goods and services and the value of imports of goods and services. If this difference is positive, it is added to the GNP and if it is negative, it is deducted from the GNP.

GNP according to the Income Method = Wages and Salaries + Rents + Interest + Dividends + Undistributed Corporate Profits + Mixed Income + Direct Taxes + Indirect Taxes + Depreciation + Net Income from abroad.

- 2. Expenditure Method to GNP** : From the expenditure viewpoint, GNP is the sum total of expenditure incurred on goods and services during one year in a country.

It includes the following items:

- (a) *Private consumption expenditure* : It includes all types of expenditure on personal consumption by the individuals of a country. It comprises expenses on durable goods like watch, bicycle,

radio, etc., expenditure on single-used consumers' goods like milk, bread, ghee, clothes, etc., as also the expenditure incurred on services of all kinds like fees for school, doctor, lawyer and transport. All these are taken as final goods.

- (b) *Gross domestic private investment* : Under this the expenditure incurred by private enterprise on new investment and on replacement of old capital. It includes expenditure on house construction, factory- buildings, and all types of machinery, plants and capital equipment.

In particular, the increase or decrease in inventory is added to or subtracted from it. The inventory includes produced but unsold manufactured and semi-manufactured goods during the year and the stocks of raw materials, which have to be accounted for in GNP. It does not take into account the financial exchange of shares and stocks because their sale and purchase is not real investment. But depreciation is added.

- (c) *Net foreign investment* : It means the difference between exports and imports or export surplus. Every country exports to or imports from certain foreign countries. The imported goods are not produced within the country and hence cannot be included in the national income, but the exported goods are manufactured within the country. Therefore, the difference in value between exports (X) and imports (M), whether positive or negative, is included in the GNP.
- (d) *Government expenditure on goods and services* : The expenditure incurred by the government on goods and services is a part of the GNP. Central, state or local governments spend a lot on their employees, police and army. To run the offices, the governments have also to spend on contingencies which include paper, pen, pencil and various types of stationery, cloth, furniture, cars, etc.

It also includes the expenditure on government enterprises. But expenditure on transfer payments is not added, because these payments are not made in exchange for goods and services produced during the current year.

Thus GNP according to the Expenditure Method = Private Consumption Expenditure (C) + Gross Domestic Private Investment (I) + Net Foreign Investment (X-M) + Government Expenditure on Goods and Services (G) = C + I + (X-M) + G.

- 3. Value Added Method to GNP** : Another method of measuring GNP is by value added. In calculating GNP, the money value of final goods and services produced at current prices during a year is taken into account. This is one of the ways to avoid double counting. But it is difficult to distinguish properly between a final product and an intermediate product.

For instance, raw materials, semi-finished products, fuels and services, etc. are sold as inputs by one industry to the other. They may be final goods for one industry and intermediate for others. So, to avoid duplication, the value of intermediate products used in manufacturing final products must be subtracted from the value of total output of each industry in the economy.

Thus, the difference between the value of material outputs and inputs at each stage of production is called the value added. If all such differences are added up for all industries in the economy, we arrive at the GNP by value added. GNP by value added = Gross value added + net income from abroad.

GNP at Market Prices

When we multiply the total output produced in one year by the market prices prevalent during that year in a country, we get the Gross National Product at market prices. Thus GNP at market prices means the gross value of final goods and services produced annually in a country plus net income from abroad.

GNP at Market Prices = GDP at Market Prices + Net Income from Abroad.

GNP at Factor Cost

GNP at factor cost is the sum of the money value of the income produced by and accruing to the various factors of production in one year in a country. It includes all items mentioned above under income method to GNP less indirect taxes.

GNP at market prices always includes indirect taxes levied by the government on goods which raise their prices. But GNP at factor cost is the income that the factors of production receive in return for their services alone. It is the cost of production.

Thus GNP at market prices is always higher than GNP at factor cost. Therefore, in order to arrive at GNP at factor cost, we deduct indirect taxes from GNP at market prices. Again, it often happens that the cost of production of a commodity to the producer is higher than a price of a similar commodity in the market.

In order to protect such producers, the government helps them by granting monetary help in the form of a subsidy equal to the difference between the market price and the cost of production of the commodity. As a result, the price of the commodity to the producer is reduced and equals the market price of a similar commodity.

For example, if the market price of rice is Rs. 3 per kg but it costs the producers in certain areas Rs. 3.50. The government gives a subsidy of 50 paise per kg to them in order to meet their cost of production. Thus in order to arrive at GNP at factor cost, subsidies are added to GNP at market prices.

GNP at Factor Cost = GNP at Market Prices – Indirect Taxes + Subsidies.

Net National Product (NNP)

NNP includes the value of the total output of consumption goods and investment goods. But the process of production uses up a certain amount of fixed capital. Some fixed equipment wears out, its other components are damaged or destroyed, and still others are rendered obsolete through technological changes.

All this process is termed depreciation or capital consumption allowance. In order to arrive at NNP, we deduct depreciation from GNP. The word 'net' refers to the exclusion of that part of total output which represents depreciation. So $NNP = GNP - \text{Depreciation}$.

NNP at Market Prices

Net National Product at market prices is the net value of final goods and services evaluated at market prices in the course of one year in a country. If we deduct depreciation from GNP at market prices, we get NNP at market prices.

NNP at Market Prices = GNP at Market Prices - Depreciation.

NNP at Factor Cost

Net National Product at factor cost is the net output evaluated at factor prices. It includes income earned by factors of production through participation in the production process such as wages and salaries, rents, profits, etc. It is also called National Income. This measure differs from NNP at market prices in that indirect taxes are deducted and subsidies are added to NNP at market prices in order to arrive at NNP at factor cost. Thus,

NNP at Factor Cost = NNP at Market Prices – Indirect taxes + Subsidies
= GNP at Market Prices – Depreciation – Indirect taxes + Subsidies.
= National Income.

Normally, NNP at market prices is higher than NNP at factor cost because indirect taxes exceed government subsidies. However, NNP at market prices can be less than NNP at factor cost when government subsidies exceed indirect taxes.

Domestic Income

Income generated (or earned) by factors of production within the country from its own resources is called domestic income or domestic product.

Domestic income includes:

- (i) Wages and salaries, (ii) rents, including imputed house rents, (iii) interest, (iv) dividends, (v) undistributed corporate profits, including surpluses of public undertakings, (vi) mixed incomes consisting of profits of unincorporated firms, self-employed persons, partnerships, etc., and (vii) direct taxes.

Since domestic income does not include income earned from abroad, it can also be shown as: Domestic Income = National Income - Net income earned from abroad. Thus the difference between domestic income and national income is the net income earned from abroad. If we add net income from abroad to domestic income, we get national income, i.e., National Income = Domestic Income + Net income earned from abroad.

But the net national income earned from abroad may be positive or negative. If exports exceed imports, net income earned from abroad is positive. In this case, national income is greater than domestic income. On the other hand, when imports exceed exports, net income earned from abroad is negative and domestic income is greater than national income.

Private Income

Private income is income obtained by private individuals from any source, productive or otherwise, and the retained income of corporations. It can be arrived at from NNP at Factor Cost by making certain additions and deductions.

The additions include transfer payments such as pensions, unemployment allowances, sickness and other social security benefits, gifts and remittances from abroad, windfall gains from lotteries or from horse racing, and interest on public debt. The deductions include income from government departments as well as surpluses from public undertakings, and employees' contribution to social security schemes like provident funds, life insurance, etc.

Private Income = National Income (or NNP at Factor Cost) + Transfer Payments + Interest on Public Debt — Social Security — Profits and Surpluses of Public Undertakings.

Personal Income

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in one year. Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

Personal income is derived from national income by deducting undistributed corporate profits, profit taxes, and employees' contributions to social security schemes. These three components are excluded from national income because they do not reach individuals.

But business and government transfer payments, and transfer payments from abroad in the form of gifts and remittances, windfall gains, and interest on public debt which are a source of income for individuals are added to national income.

$$\text{Personal Income} = \text{National Income} - \text{Undistributed Corporate Profits} - \text{Profit Taxes} - \text{Social Security Contribution} + \text{Transfer Payments} + \text{Interest on Public Debt.}$$

Personal income differs from private income in that it is less than the latter because it excludes undistributed corporate profits.

$$\text{Personal Income} = \text{Private Income} - \text{Undistributed Corporate Profits} - \text{Profit Taxes}$$

Disposable Income

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain disposable income, direct taxes are deducted from personal income. Thus, Disposable Income = Personal Income – Direct Taxes.

But the whole of disposable income is not spent on consumption and a part of it is saved. Therefore, disposable income is divided into consumption expenditure and savings. Thus Disposable Income = Consumption Expenditure + Savings.

If disposable income is to be deduced from national income, we deduct indirect taxes plus subsidies, direct taxes on personal and on business, social security payments, undistributed corporate profits or business savings from it and add transfer payments and net income from abroad to it.

$$\text{Disposable Income} = \text{National Income} - \text{Business Savings} - \text{Indirect Taxes} + \text{Subsidies} - \text{Direct Taxes on Persons} - \text{Direct Taxes on Business} - \text{Social Security Payments} + \text{Transfer Payments} + \text{Net Income from abroad.}$$

Real Income

Real income is national income expressed in terms of a general level of prices of a particular year taken as a base. National income is the value of goods and services produced as expressed in terms of money at current prices. But it does not indicate the real state of the economy.

It is possible that the net national product of goods and services this year might have been less than that of the last year, but owing to an increase in prices, NNP might be higher this year. On the contrary, it is also possible that NNP might have increased but the price level might have fallen, as a result, national income would appear to be less than that of the last year. In both situations, the national income does not depict the real state of the country. To rectify such a mistake, the concept of real income has been evolved.

In order to find out the real income of a country, a particular year is taken as the base year when the general price level is neither too high nor too low and the price level for that year is assumed to be 100. Now the general level of prices of the given year for which the national income (real) is to be determined is assessed in accordance with the prices of the base year. For this purpose, the following formula is employed.

$$\text{Real NNP} = \text{NNP for the Current Year} \times \text{Base Year Index} (= 100) / \text{Current Year Index}$$

Per Capita Income

The average income of the people of a country in a particular year is called Per Capita Income for that year. This concept also refers to the measurement of income at current prices and at constant prices. For instance, in order to find out the per capita income for 2018, at current prices, the national income of a country is divided by the population of the country in that year.

$$\text{Per Capita Income for 2018} = \frac{\text{National Income for 2018}}{\text{Population of 2018}}$$

Similarly, for the purpose of arriving at the Real Per Capita Income, this very formula is used.

$$\text{Real Per Capita Income for 2018} = \frac{\text{Real National Income for 2018}}{\text{Population of 2018}}$$

This concept enables us to know the average income and the standard of living of the people. But it is not very reliable, because in every country due to unequal distribution of national income, a major portion of it goes to the richer sections of the society and thus income received by the common man is lower than the per capita income.

Lesson 3

**INDIAN UNION
BUDGET**

OVERVIEW OF INDIAN UNION BUDGET

- The first Indian Budget was presented by Mr James Wilson on February 18, 1869 after Indian Budget was introduced on April 7, 1860 by the East India Company.
- The first Budget of Independent India was presented by the then Finance Minister, Mr RK Shanmukham Chetty on November 26, 1947.
- Till 1955, Budget was only printed in English language. However, from 1955-56, budget started getting printed in both languages, Hindi and English.
- In the British Era, the Budget used to be presented at 5 PM. This practice was discontinued in the year 2001 by presenting the Budget at 11 AM.
- Until 2017, the ritual was to present the Budget on the last working day of February. But now Budget is presented on the first day of the February.
- Mr KC Neogy and Mr HN Bahuguna were the only two Finance Ministers who did not present any Indian Budget.
- The record of presenting the maximum number of Budgets is held by Shri Morarji Desai for presenting 10 Budgets.
- For the first time in 92 years, Union Budget of 2017 merged the Union Budget with the Rail Budget, which was usually presented separately.

Steps involved in the preparation of Union Budget

1. *Circulars, forms and details* : The initial processes in the Budget-making starts in August-September i.e. around six months prior to the Budget presentation. The Finance Ministry sends Budget circulars containing skeleton forms and necessary guidelines to concerned ministries and departments.

These circulars are further distributed amongst disbursing and field officers who are tasked to provide details about financial expenditures and receipts of their respective departments during the current and past financial year, and their financial requirements for the ensuing fiscal year.

2. *Data accumulation* : Data is extremely important when it comes to Budget making. The data and estimates provided by ground-level officials are scrutinized by top officials of their departments. After approval (or revision, if necessary), the data and estimates are sent to the concerned ministries where they are scrutinized again. After proper examination, finally, the data and estimates are sent to the Finance Ministry.

The ministry scrutinizes these once again and then correlates the estimates with the current economic state and the available resources in order to determine their feasibility. This step is extremely important as it impacts how the Ministry allocates revenue and thinks of welfare schemes.

3. *Budget composition* : After analyzing every aspect carefully, the ministry goes on to allocate revenues to various administrative ministries. The ministry also devises new public welfare schemes. Sometimes, it happens that there are disputes between ministries over the allocation of resources. In such scenarios, the Finance Ministry consults the Union Cabinet or the Prime Minister for further course of action.

Their decision is deemed final in such cases. After completing the allocation of resources for future expenditures, the Finance Ministry in association with Central Board of Direct Taxes (CBDT)

and Central Board of Excise and Customs (CBIC) prepares a report of the estimated revenues to be generated in the ensuing financial year. Before the printing begins, the reports are consolidated to generate the final Union Budget. During this process, various departments of the Ministry consult stakeholders in the public domain to gather more insights and prepare an efficient budget.

4. *Budget paper printing* : The printing process of the Union Budget papers is marked by the customer 'Halwa Ceremony' held at North Block in Delhi. This ceremony is performed as a part of the Indian tradition of having something sweet before starting an important work. The Finance Minister presides over this ceremony.

The FM along with other officials and staff involved in the Budget making process eat halwa and post completion of the ceremony, they descend into the North Block basement. The officials involved in the process remain confined and isolated there. This is done to ensure secrecy as they have the knowledge of what has gone into the Budget, days before it is tabled in Parliament. They come out just as Finance Minister starts the Budget presentation in Parliament.

5. *Budget presentation* : The last step is the Budget presentation. The Union Budget is presented in the Parliament by the Finance Minister. For the past few years, the Union Budget is presented on a scheduled date, February 1. In an election year, an Interim Budget is prepared and presented before the election. Once the election is over and the new government comes to power, Budget is presented again which means in an election year Budget is prepared and presented twice.

A vote on account or interim budget is an estimate of expenditures and receipts of the next two-four months. After the election, the final Budget for the rest of the fiscal year is presented by the new government. This year the Union Budget is set to go digital. Rather than handing printed copies of Budget and economic survey, soft copies will be provided to everyone amid the ongoing pandemic.

KEY TERMINOLOGIES / HEADS COVERED UNDER THE BUDGET

1. Annual Financial Statement

Article 112 of the Constitution requires the government to present to Parliament a statement of estimated receipts and expenditure in respect of every financial year - April 1 to March 31. This statement is the annual financial statement.

The annual financial statement is usually a white 10-page document. It is divided into three parts, consolidated fund, contingency fund and public account. For each of these funds, the government has to present a statement of receipts and expenditure.

2. Consolidated Fund

This is the most important of all government funds. All revenues raised by the government, money borrowed and receipts from loans given by the government flow into the consolidated fund of India. All government expenditure is made from this fund, except for exceptional items met from the Contingency Fund or the Public Account. Importantly, no money can be withdrawn from this fund without the Parliament's approval.

3. Demand For Grants

Demand for Grants is the form in which estimates of expenditure from the Consolidated Fund, included in the annual financial statement and required to be voted upon in the Lok Sabha, are submitted in pursuance of Article 113 of the Constitution.

The demand for grants includes provisions with respect to revenue expenditure, capital

expenditure, grants to State and Union Territory governments together with loans and advances. Generally, one demand for a grant is presented in respect of each ministry or department. However, for large ministries and departments, more than one demand is presented.

4. Appropriation Bill

Appropriation Bill gives power to the government to withdraw funds from the Consolidated Fund of India for meeting the expenditure during the financial year. Post the discussions on Budget proposals and the Voting on Demand for Grants, the government introduces the Appropriation Bill in the Lok Sabha. It is intended to give authority to the government to withdraw from the Consolidated Fund, the amounts so voted for meeting the expenditure during the financial year.

5. Finance Bill

A Finance Bill is a Money Bill as defined in Article 110 of the Constitution. The proposals of the government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through this bill.

The Finance Bill is accompanied by a Memorandum containing explanations of the provisions included in it. The Finance Bill can be introduced only in Lok Sabha. However, the Rajya Sabha can recommend amendments in the Bill. The bill has to be passed by the Parliament within 75 days of its introduction.

6. Contingency Fund

As the name suggests, any urgent or unforeseen expenditure is met from this fund. The Rs 500-crore fund is at the disposal of the President. Any expenditure incurred from this fund requires a subsequent approval from Parliament and the amount withdrawn is returned to the fund from the consolidated fund.

7. Public Account

This fund is to account for flows for those transactions where the government is merely acting as a banker. For instance, provident funds, small savings and so on. These funds do not belong to the government. They have to be paid back at some time to their rightful owners. Because of this nature of the fund, expenditure from it is not required to be approved by the Parliament.

For each of these funds, the government has to present a statement of receipts and expenditure. It is important to note that all money flowing into these funds is called receipts, the funds received, and not revenue. Revenue in budget context has a specific meaning.

The Constitution requires that the budget has to distinguish between receipts and expenditure on revenue account from other expenditure. So all receipts in, say consolidated fund, are split into Revenue Budget (revenue account) and Capital Budget (capital account), which includes non-revenue receipts and expenditure. For understanding these budgets - Revenue and Capital - it is important to understand revenue receipts, revenue expenditure, capital receipts and capital expenditure.

8. Revenue receipt/Expenditure

All receipts and expenditure that in general do not entail sale or creation of assets are included under the revenue account. On the receipts side, taxes would be the most important revenue receipt. On the expenditure side, anything that does not result in creation of assets is treated as revenue expenditure. Salaries, subsidies and interest payments are good examples of revenue expenditure.

9. Capital receipt/Expenditure

All receipts and expenditure that liquidate or create an asset would in general be under capital account. For instance, if the government sells shares (disinvests) in public sector companies, like it did in the case of Maruti, it is in effect selling an asset. The receipts from the sale would go under capital account. On the other hand, if the government gives someone a loan from which it expects to receive interest, that expenditure would go under capital account. On the other hand, if the government gives someone a loan from which it expects to receive interest, that expenditure would go under the capital account.

In respect of all the funds, the government has to prepare a revenue budget (detailing revenue receipts and revenue expenditure) and a capital budget (capital receipts and capital expenditure). Contingency fund is clearly not that important. Public account is important in that it gives a view of select savings and how they are being used, but not that relevant from a budget perspective. The consolidated fund is the key to the budget.

As mentioned in the first part, the government has to present a revenue budget (revenue account) and capital budget (capital account) for all three funds. The revenue account of the consolidated fund is split into two parts, receipts and disbursements - simply, income and expenditure. Receipts are broadly tax revenue, non-tax revenue and grants-in-aid and contributions.

Preparing a Budget is extremely tedious and a lengthy process. It begins with the Budget Division issuing circular to all ministries, states, UTs, autonomous bodies, departments and the defence forces, who are asked to submit expenditure estimates for the upcoming year. Extensive consultations are held between Union ministries and the Department of Expenditure of the finance ministry once the estimates have been submitted.

In the meantime, the Department of Economic Affairs (DEA) and Department of Revenue meet stakeholders such as farmers, businessmen, FIIs, economists and civil society groups to take their views. Once the pre-Budget meetings are over, a final call on the tax proposals is taken by the finance minister. The proposals are discussed with the Prime Minister before the Budget is finally prepared.

The Budget presentation speech comprises the following parts:

- Annual Financial Statement (AFS)
 - Demand for Grants (DG)
 - Appropriation Bill
 - Finance Bill
- Macro-economic framework for the relevant financial year
 - Medium-Term fiscal policy and a strategy statement
 - Expenditure Profile
 - Expenditure Budget
 - Receipts Budget

REVENUE, CAPITAL AND EXPENDITURE BUDGETS

Revenue Budget

The Revenue Budget records all the revenue receipts and expenditure. If the revenue expense is more than that of receipts, it indicates that there is a revenue deficit. Revenue expenditure is for the normal running of government departments and various services, interest payments on debt, subsidies, etc. Revenue receipts are divided into tax and non-tax revenue. Tax revenues are made up of taxes such as income tax, corporate tax, excise, customs and other duties that the government levies.

In non-tax revenue, the government's sources are interest on loans and dividend on investments like PSUs, fees, and other receipts for services that it renders.

Capital Budget

The Capital Budget part of the Union Budget has accounts for capital payment and receipts of the government. Capital receipts include:

- (i) Loans from the public;
- (ii) Loans from RBI

Capital receipts are loans raised by the government from the public (which are called market loans), borrowings by the government from the Reserve Bank of India and other parties through sale of treasury bills, loans received from foreign bodies and governments, and recoveries of loans granted by the Central government to state and Union Territory governments and other parties.

Capital payments include expenses incurred towards building long term assets and facilities like land, buildings, machinery, etc.

Expenditure Budget

The expenditure budget refers to the estimated expenditure of the government during a given financial year. It shows the capital and revenue disbursements of various ministries/departments and presents it under 'Plan' and Non Plan'. Expenditure Budget provides an analysis of various types of expenditure. Demand for grants of the Central government is also a part of the Expenditure Budget.

MAJOR COMPONENTS OF REVENUE AND CAPITAL BUDGET

Revenue Budget

Government receipts which neither create asset nor reduce any liability are called Revenue Receipts. Essentially, these are current income receipts for the government from all sources. Revenue Receipts are further classified into tax revenue and non-tax revenue.

Tax Revenue will include receipts from direct tax which is in the form of income tax is paid to the government. It will also include various indirect taxes like GST and Cess levied and collected by the government on various goods and services.

Non-tax Revenue will include receipts from the government's divestment process which are nothing but the proceeds from the stake sale in various public sector undertakings. Non-tax Revenue will also include the dividend income which the government receives as a shareholder of the various public sector undertakings.

As the name suggests, Revenue Expenditure is also called income statement expenditure. It denotes short-term cost-related assets that are not capitalised. To put it simply, these are the maintenance

expenditure which the government makes towards the assets which it owns in order to keep them functioning. These expenditures are recurring in nature and are incurred by the government regularly.

Revenue Expenditure does not create an asset for the government. For example, payment of salaries or pension as it does not create any asset. However, the amount spent on construction of Metro is not Revenue Expenditure as it leads to the creation of an asset.

Revenue Expenditure also must not decrease the liability for the government. For example, repayment of borrowings is not Revenue Expenditure as it leads to a reduction in liability of the government.

The difference between Revenue Receipt and Revenue Expenditure is known as Revenue Deficit. A Revenue Deficit does not denote an actual loss of revenue for the government but it only means a shortfall in revenue from what was expected by the government.

Capital Budget

Capital Budget is one of the two parts of the government budget. Generally, the budget is divided into revenue budget and capital budget. This classification is made by considering the items that comes under the two budget components. Capital budget is considered to be productive as it shows the investment type activities of the government.



Capital budget consists of capital receipts and payments. The capital receipts are:

- (1) loans raised by Government from public, called market loans, borrowings by Government from Reserve Bank and other parties through sale of Treasury Bills, loans received from foreign Governments and bodies,
- (2) disinvestment receipts and
- (3) recoveries of loans from State and Union Territory Governments and other parties.

Capital expenditure consists of expenditure for acquiring of assets like land, buildings, machinery, equipment, investments in shares, etc., and loans and advances granted by Central Government to State and Union Territory Governments, Government companies, Corporations and other parties.

FISCAL DEFICIT

A fiscal deficit is a shortfall in a government's income compared with its spending. A government that has a fiscal deficit is spending beyond its means.

A fiscal deficit is calculated as a percentage of gross domestic product (GDP), or simply as total dollars spent in excess of income. In either case, the income figure includes only taxes and other revenues and excludes money borrowed to make up the shortfall.

In other words, fiscal deficit is the difference between the total income of the government (total taxes and non-debt capital receipts) and its total expenditure. A fiscal deficit situation occurs when the government's expenditure exceeds its income. This difference is calculated both in absolute terms and also as a percentage of the Gross Domestic Product (GDP) of the country. A recurring high fiscal deficit means that the government has been spending beyond its means.

The government describes fiscal deficit of India as “the excess of total disbursements from the Consolidated Fund of India, excluding repayment of the debt, over total receipts into the Fund (excluding the debt receipts) during a financial year”.

The elements of the fiscal deficits are:

- (a) The revenue deficit, which is the difference between the government's current or revenue expenditure and total current receipts, that is excluding borrowing.
- (b) Capital expenditure.

In order to have a proper understanding on fiscal deficit, it is essential to have a fair idea on government's total income and receipts.

1. *Revenue Receipts*

- Corporation Tax
- Income Tax
- Custom Duties
- Union Excise Duties

2. *Non-tax Revenues*

- Interest Receipts
- Dividends and Profits
- External Grants
- Other non-tax revenues
- Receipts of union territories

3. *Expenditures of the government*

- Revenue Expenditure
- Capital Expenditure
- Interest Payments
- Grants-in-aid for creation of capital assets

Fiscal Deficit = Total expenditure of the government (capital and revenue expenditure) – Total income of the government (Revenue receipts + recovery of loans + other receipts)

If the total expenditure of the government exceeds its total revenue and non-revenue receipts in a financial year, then that gap is the fiscal deficit for the financial year. The fiscal deficit is usually mentioned as a percentage of GDP. For example, if the gap between the Centre's expenditure and total income is Rs 5 lakh crore and the country's GDP is Rs 200 lakh crore, the fiscal deficit is 2.5% of the GDP.

COMPONENTS / VARIABLES COVERED UNDER FISCAL DEFICIT

From the following exhibit, the various components covered under the fiscal deficit may be understood

	<i>Actuals</i> 2017-18	<i>Budgeted</i> 2018-19	<i>Revised</i> 2018-19	<i>Budgeted</i> 2019-20	<i>% change</i> (FE 2018- 19 to BE 2019-20)
Revenue Expenditure	18,78,833	21,41,772	21,40,612	24,47,780	14.3%
Capital Expenditure	2,63,140	3,00,441	3,16,623	338,569	6.9%
Total Expenditure	21,41,973	24,42,213	24,57,235	27,86,349	13.4%
Revenue Receipts	1435,233	17,25,738	17,29,682	19,62,761	13.5%
Capital Receipts of which:	1,15,678	92,199	93,155	1,19,828	28.6%
Recoveries of Loans	15,633	12,199	13,155	14,828	12.7%
Other receipts (including disinvestments)	1,00,045	80,000	80,000	1,05,000	31.3%
Total Receipts (without borrowings)	15,50,911	18,17,937	18,22,837	20,82,589	14.2%
Revenue Deficit	443,600	4,16,034	4,10,930	4,85,019	18.0%
% of GDP	2.6	2.2	2.2	2.3	
Fiscal Deficit	5,91,062	6,24,276	6,34,398	7,03,760	10.9%
% of GDP	3.5	3.3	3.4	3.3	
Primary Deficit	62.110	48,481	46,828	43.289	-7.6%
% of GDP	0.4	0.3	0.2	0.2	

Note: Budgeted estimates (BE) are budget allocations announced at the beginning of each financial year. Revised Estimates (RE) are estimates of projected amounts of receipts and expenditure until the end of the financial year. Actual amounts are audited accounts of expenditure and receipts in a year.

The fiscal deficit for the year 2017-18 (Actuals) is calculated by deducting Total Receipts of INR 15,50,911 from the Total Expenditure of INR 21,41,973 = INR 5,91,062 Crore.

It is to be noted that fiscal deficit could be financed by borrowing from Reserve Bank of India, which is also known as deficit financing or money creation and market borrowing (from money market, that is mainly from banks).

The fiscal deficit trajectory of India is as under:

<i>Years</i>	<i>Fiscal Deficit as percentage of GDP</i>
2014	4.6
2015	4.1
2016	3.9
2017	3.5
2018	3.5
2019	3.4
2020	3.8
2021	9.5
2022 (Revised Estimates)	6.9
2023 (Budgeted Estimates)	6.4

The fiscal deficit is keenly observed during the Budget as the size of the deficit may affect growth, price stability, cost of production, and inflation. At times, a sustained high fiscal deficit can impact a country's rating. An increase in the fiscal deficit, however, can also boost a sluggish economy.

Fiscal Deficit Scenario of India for 2022-2023

The fiscal deficit for the financial year 2022-2023 has been pegged at 6.4% of the GDP. The government had projected a fiscal deficit of 6.8 percent of the current fiscal and has been revised to 6.9%. States will be allowed a fiscal deficit of 4% of Gross State Domestic Product (GSDP) in the next fiscal year.

It is heartening to note that higher tax collections in the current fiscal have ensured that the government meets the target comfortably.

Primary Deficit

Primary deficit refers to the difference between the current year's fiscal deficit and interest payment on previous borrowings. It indicates the borrowing requirements of the government, excluding interest. It also shows how much of the government's expenses, other than interest payment, can be met through borrowings.

In other words, a primary deficit shows the government's borrowings to meet interest payments. Therefore, a shrinking primary deficit points to the recovering fiscal health of an economy. Primary deficit is arrived at by deducting interest payments on previous borrowings from the current year's fiscal deficit.

Primary deficit = Fiscal deficit - Interest payments.

It indicates that the government's borrowings are utilized to pay the interest on loan rather than on capital expenditure.

Revenue Deficit

A revenue deficit shows a shortage of funds with the government to maintain its day-to-day affairs. When total revenue expenditure exceeds total revenue receipts it leads to a revenue deficit. The Centre often resorts to borrowings and divestments to make up for this gap in revenue, alongside the introduction of new or increasing taxes.

Revenue Deficit = Revenue expenditure - Revenue receipts.

The following illustration explains the computation of Revenue Deficit, Fiscal Deficit and Primary Deficit from the following data:

Calculate Revenue Deficit, Fiscal Deficit and Primary Deficit from the following data:

<i>Items</i>	<i>(Rs in crore)</i>
(i) Revenue expenditure	22,250
(ii) Capital expenditure	28,000
(iii) Revenue receipts	17,750
(iv) Capital receipts (net of borrowing)	20,000
(v) Interest payments	5,000
(vi) Borrowings	12,500

- Revenue Deficit = Revenue expenditure - Revenue receipts
 = Rs. 22,250 crore - Rs. 17,750 crore
 = Rs. 4,500 crore
- Fiscal deficit = Revenue expenditure + Capital expenditure - Revenue receipts - Capital receipts (net of borrowings) = Borrowings = Rs. 12,500 crore
- Primary Deficit = Fiscal deficit - Interest payments
 = Rs. 12,500 crore - Rs. 5,000 crore
 = Rs. 7,500 crore

Revenue deficit = Rs. 4,500 crore

Fiscal deficit = Rs. 12,500 crore

Primary deficit = Rs. 7,500 crore

Lesson 4

**INDIAN FINANCIAL
MARKETS**

INDIAN FINANCIAL MARKETS

Introduction

Financial markets refer broadly to any marketplace where the trading of securities occurs, including the stock market, bond market, forex market, and derivatives market, among others. Financial markets are vital to the smooth operation of capitalist economies.

Financial markets play a vital role in facilitating the smooth operation of capitalist economies by allocating resources and creating liquidity for businesses and entrepreneurs. The markets make it easy for buyers and sellers to trade their financial holdings. Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers).

Types of Financial Markets

Stock Markets

Perhaps the most ubiquitous of financial markets are stock markets. These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO), with shares subsequently traded among various buyers and sellers in what is known as a secondary market.

Typical participants in a stock market include (both retail and institutional) investors and traders, as well as market makers (MMs) and specialists who maintain liquidity and provide two-sided markets. Brokers are third parties that facilitate trades between buyers and sellers but who do not take an actual position in a stock.

Over-the-Counter Markets

An over-the-counter (OTC) market is a decentralized market—meaning it does not have physical locations, and trading is conducted electronically—in which market participants trade securities directly between two parties without a broker. While OTC markets may handle trading in certain stocks (e.g., smaller or riskier companies that do not meet the listing criteria of exchanges), most stock trading is done via exchanges. Certain derivatives markets, however, are exclusively OTC, and so make up an important segment of the financial markets. Broadly speaking, OTC markets and the transactions that occur on them are far less regulated, less liquid, and more opaque.

Bond Markets

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. You may think of a bond as an agreement between the lender and borrower that contains the details of the loan and its payments. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the United States Treasury, for example. The bond market also is called the debt, credit, or fixed-income market.

Money Markets

Typically the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers.

Derivatives Markets

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying

financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. In and of itself a derivative is worthless. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products, that derive their value from underlying instruments like bonds, commodities, currencies, interest rates, market indexes, and stocks.

Futures markets are where futures contracts are listed and traded. Unlike forwards, which trade OTC, futures markets utilize standardized contract specifications, are well-regulated, and utilize clearinghouses to settle and confirm trades. Options markets, such as the Chicago Board Options Exchange (CBOE), similarly list and regulate options contracts. Both futures and options exchanges may list contracts on various asset classes, such as equities, fixed-income securities, commodities, and so on.

Forex Market

The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than \$5 trillion in daily transactions, which is more than the futures and equity markets combined. As with the OTC markets, the forex market is also decentralized and consists of a global network of computers and brokers from around the world. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

Commodities Markets

Commodities markets are venues where producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money.

The bulk of trading in these commodities, however, takes place on derivatives markets that utilize spot commodities as the underlying assets. Forwards, futures, and options on commodities are exchanged both OTC and on listed exchanges around the world such as the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE).

Cryptocurrency Markets

The past several years have seen the introduction and rise of cryptocurrencies such as Bitcoin and Ethereum, decentralized digital assets that are based on blockchain technology. Today, hundreds of cryptocurrency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another, or for fiat monies such as dollars or euros.

Because the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud. Decentralized exchanges are also available that operate without any central authority. These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies.

Key Takeaways

- Financial markets refer broadly to any marketplace where the trading of securities occurs.
- There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets.

- These markets may include assets or securities that are either listed on regulated exchanges or else trade over-the-counter (OTC).
- Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society.
- When financial markets fail, economic disruption including recession and unemployment can result.

OVERVIEW OF INDIAN FINANCIAL ECOSYSTEM

The financial system of an economy is a crucial element for its economic development. It facilitates the flow of funds from the households (savers) to business organisations (investors), thereby assisting in the creation of wealth for the nation. Mainly, the financial system of a country is concerned with the following:

- (a) Allocation and mobilisation of savings.
- (b) Provision of funds.
- (c) Facilitating the financial transactions.
- (d) Developing financial markets.
- (e) Provision of legal financial structure.
- (f) Provision of financial and advisory services.

The important features of a financial are-

- (i) It plays an important role in economic development of a country.
- (ii) It encourages both savings and investment
- (iii) It links savers and investors.
- (iv) It assists in capital formation.
- (v) It facilitates the expansion of financial markets.

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector.

There are four main components of the Indian Financial System. This includes:

1. Financial Institutions
2. Financial Assets
3. Financial Services
4. Financial Markets

1. Financial Institutions

The Financial Institutions act as a mediator between the investor and the borrower. The investor's savings are mobilised either directly or indirectly via the Financial Markets.

The main functions of the Financial Institutions are as follows:

- A short term liability can be converted into a long term investment
- It helps in conversion of a risky investment into a risk-free investment
- Also acts as a medium of convenience denomination, which means, it can match a small deposit with large loans and a large deposit with small loans

The best example of a Financial Institution is a Bank. People with surplus amounts of money make savings in their accounts, and people in dire need of money take loans. The bank acts as an intermediate between the two.

The financial institutions can further be divided into two types:

- *Banking Institutions or Depository Institutions* – This includes banks and other credit unions which collect money from the public against interest provided on the deposits made and lend that money to the ones in need.
- *Non-Banking Institutions or Non-Depository Institutions* – Insurance, mutual funds and brokerage companies fall under this category. They cannot ask for monetary deposits but sell financial products to their customers.

Further, Financial Institutions can be classified into three categories:

- *Regulatory* – Institutes that regulate the financial markets like RBI, IRDA, SEBI, etc.
- *Intermediates* – Commercial banks which provide loans and other financial assistance such as SBI, BOB, PNB, etc.
- *Non Intermediates* – Institutions that provide financial aid to corporate customers. It includes NABARD, SIDBI, etc.

2. Financial Assets

The products which are traded in the Financial Markets are called Financial Assets. Based on the different requirements and needs of the credit seeker, the securities in the market also differ from each other. Some important Financial Assets have been discussed briefly below:

- *Call Money* – When a loan is granted for one day and is repaid on the second day, it is called call money. No collateral securities are required for this kind of transaction.
- *Notice Money* – When a loan is granted for more than a day and for less than 14 days, it is called notice money. No collateral securities are required for this kind of transaction.
- *Term Money* – When the maturity period of a deposit is beyond 14 days, it is called term money.
- *Treasury Bills* – Also known as T-Bills, these are Government bonds or debt securities with a maturity of less than a year. Buying a T-Bill means lending money to the Government.
- *Certificate of Deposits* – It is a dematerialised form (Electronically generated) for funds deposited in the bank for a specific period of time.
- *Commercial Paper* – It is an unsecured short-term debt instrument issued by corporations.

3. Financial Services

Services provided by Asset Management and Liability Management Companies. They help to get the required funds and also make sure that they are efficiently invested.

The financial services in India include:

- *Banking Services* – Any small or big service provided by banks like granting a loan, depositing money, issuing debit/credit cards, opening accounts, etc.
- *Insurance Services* – Services like issuing of insurance, selling policies, insurance undertaking and brokerages, etc. are all a part of the Insurance services
- *Investment Services* – It mostly includes asset management
- *Foreign Exchange Services* – Exchange of currency, foreign exchange, etc. are a part of the Foreign exchange services

The main aim of the financial services is to assist a person with selling, borrowing or purchasing securities, allowing payments and settlements and lending and investing.

4. Financial Markets

The marketplace where buyers and sellers interact with each other and participate in the trading of money, bonds, shares and other assets is called a financial market.

The financial market can be further divided into four types:

Capital Market – Designed to finance the long term investment, the Capital market deals with transactions which are taking place in the market for over a year. The capital market can further be divided into three types:

- (a) Corporate Securities Market
- (b) Government Securities Market
- (c) Long Term Loan Market

Money Market – Mostly dominated by Government, Banks and other Large Institutions, the type of market is authorised for small-term investments only. It is a wholesale debt market which works on low-risk and highly liquid instruments. The money market can further be divided into two types:

- (a) Organised Money Market
- (b) Unorganised Money Market

Foreign exchange Market – One of the most developed markets across the world, the Foreign exchange market, deals with the requirements related to multi-currency. The transfer of funds in this market takes place based on the foreign currency rate.

Credit Market – A market where short-term and long-term loans are granted to individuals or Organisations by various banks and Financial and Non-Financial Institutions is called Credit Market.

Noteworthy developments in Indian Financial Ecosystem

The Indian financial sector currently comprises several segments: commercial banks, new-age fintech startups, non-banking financial companies (NBFCs), co-operatives, pension funds, mutual funds, small

and medium financial entities and recently established payment banks. These varied financial services provide solutions to a wide range of customers based on their requirements and accessibility. These customers can be individuals, public organizations or private enterprises.

The Government of India has introduced several reforms to liberalize, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for MSMEs, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by Government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

The Union Budget FY 2022–2023 of the Government of India has not only brought focus on digitalising finance and the finance sector, but has also taken the public sphere by storm. The budget has used “Digital India” as a pillar to bring in inclusion and to build a robust economy in the long term. Some of the key highlights that cut into the finance and digital-finance space include:

i) *CBDC—Digital Rupee*

The budget proposal mentions that the digital rupee will be introduced by the Reserve Bank of India (RBI) in FY 2022-23. Introduction of Central Bank Digital Currency (CBDC) will provide an impetus to digital economy. Digital currency will also lead to a more efficient and cheaper currency management system.

ii) *Cryptos as assets*

The government has also announced that any income from transfer of digital assets will be taxed at the rate of 30 percent. This will impact all profits from trading in cryptocurrency and Non-Fungible Tokens (NFTs). “No deduction in respect of any expenditure or allowance shall be allowed while computing such income except the cost of acquisition. Further, loss from transfer of virtual digital asset cannot be set off against any other income,” she added. To capture the transaction details, the government has also provided for TDS on payment made in relation to the transfer of virtual digital assets at the rate of 1 percent of such consideration. Gifting of virtual digital assets is also proposed to be taxed in the hands of the recipient.

iii) *Post offices on core-banking system*

All the 1.5 lakh post offices in India are set to be connected to the core banking system in the FY 2022-23. This will enable financial inclusion and access to post office accounts through net banking, mobile banking, ATMs, and also provide online transfer of funds between post office accounts and bank accounts. It is worthy to mention that this proposal has its ideological genesis in the National Mission for Financial Inclusion (NMFII) of August 2014, which seeks to provide universal banking services for every unbanked household, based on the guiding principles of “banking the unbanked, securing the unsecured, funding the unfunded, and serving unserved and underserved areas”.

iv) *Digital banking Units' in 75 districts by SCBs*

To mark 75 years of Indian Independence, 75 Digital banking units will be set up in 75 districts of the country by the Scheduled Commercial Banks (SCBs). This would push ahead financial inclusion, and the banks might see improved access to liabilities pools from newer consumer sources in those geographies. A 2017 RBI Report of the Working Group on FinTech and Digital Banking had noted that customers were rapidly adopting technology in their daily lives, driven by the growth in internet and mobile penetration, availability of low-cost data plans, and shift from offline to online commerce.

In this report, it was observed, “The form of retail financial services is completely dictated by consumers and as they evolve so will retail financial services. Hence innovation is not a luxury anymore, it’s a necessity. More importantly, we are also seeing the advent of nimble startups, which are slowly and steadily changing how retail financial services are delivered to the consumers and hence putting pressure on traditional banks to take notice and align their functioning accordingly. It is, therefore, extremely important for banks to innovate in the retail financial services space in tune with the changing times or else there is a grave risk of their becoming less relevant to existing customers.”

v) *Gift City: India’s first and only financial services centre*

Gift–IFSC has an entirely separate financial jurisdiction with the International Financial Services Centre Authority (IFSCA) as the unified financial services regulator. The IFSCA has been empowered under 14 separate Central Acts. An international arbitration centre will be set up in GIFT city with the aim to provide faster and cheaper dispute resolution, on the lines of the Singapore International Arbitration Centre or London Commercial Arbitration Centre.

vi) *Green Bonds*

The government will float a sovereign green bond, the proceeds of which will be deployed in public sector projects that reduce carbon footprint. Green bonds, or climate bonds, are debt instruments that are used to raise money to fund projects that have a positive impact on the environment and climate, amongst other things. India had issued over US \$6 billion in green bonds in CY 2021, according to the UK-based green bond tracking agency, Climate Bonds Initiative.

Green bonds have been fast gaining popularity, with Climate Bonds Market Intelligence pegging the green bond market size at an all-time high of US \$517 billion in 2021. India is at a distant 17th position amongst green bond issuing nations in 2021, where the United States, Germany, China, France, and the United Kingdom dominate. According to S&P, corporate and bank issuers in India are likely to tap the climate-related debt market more actively as the world’s third-largest emitter of carbon dioxide will need as much as US \$10 trillion to be carbon-neutral by 2070. Though the details of these green bonds will be announced in due course, tapping into the savings base of domestic retail investors by allowing them to invest in it can be an important source of funds.

KEY FACETS AND GROWTH OF FINANCIAL INSTITUTIONS IN INDIA

The significant characteristics of Indian financial system are as under:

1. Plays a pivotal role in accelerating the rate and volume of savings through the provision of different financial instruments and efficient mobilisation of savings.
2. It is playing a significant role in increasing the national output by providing funds to corporate customers to expand their business operations.
3. Safeguarding the interests of the investors by ensuring smooth financial transactions through regulatory bodies like, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) etc.
4. Contributes substantially towards the economic development and raising the standard of living of the people.
5. Promotes development of weaker sections of the society through rural development banks and cooperative societies.

6. Assist corporate customers to make better financial decisions by offering effective financial and advisory services.
7. Facilitates financial deepening and broadening. Financial deepening refers to an increase in financial assets as a percentage of GDP and financial broadening pertains to an increasing number of participants in the financial system.

The growth of Indian financial system may be broadly covered by banking, mutual funds and insurance.

(1) Banking Sector

The banking industry handles finances in a country including cash and credit. Banks are the institutional bodies that accept deposits and grant credit to the entities and play a major role in maintaining the economic stature of a country. Given their importance in the economy, banks are kept under strict regulation in most of the countries. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the monetary policy in the country.

Monetary Policy Instruments

There are numerous direct and indirect instruments used for executing monetary policy, which are as follows:

- *Repo Rate* : The fixed interest rate which the RBI provides to lend instant money to banks against the government security and other approved collaterals under the liquidity adjustment facility (LAF).
- *Reverse Repo Rate* : The fixed interest rate at which the RBI absorbs liquidity, on an instant basis, from banks against the security of eligible government securities under the LAF.
- *Liquidity Adjustment Facility (LAF)*: The LAF comprises overnight and term repo auctions. Gradually, the RBI has increased the amount of liquidity injected under the modified variable rate repo auctions of range of tenors. The objective of term repo is to help develop the interbank term money market, which can set market based standards for loan prices and deposits, and hence develop the transmission of monetary policy. The RBI also offers variable interest rate reverse repo auctions, as imposed under the market conditions.
- *Marginal Standing Facility (MSF)* : A facility under which planned commercial banks can lend extra amount of immediate cash from the RBI by dipping into their Statutory Liquidity Ratio (SLR) collection up till a limit at a penal rate of interest. This, in turn, provides a safety valve against unexpected liquidity shocks to the banking system.
- *Corridor* : The MSF rate and reverse repo rate regulate the corridor for the daily movement in the weighted average call money rate.
- *Bank Rate* : It's the rate at which the RBI is ready to purchase or rediscount invoices of exchange or other commercial papers. The bank rate is available under Section 49 of the Reserve Bank of India Act, 1934. The rate is associated with the MSF rate and changes automatically as and when the MSF rate changes along with the policy repo rate changes.
- *Cash Reserve Ratio (CRR)* : The average day-to-day balance a bank is required to sustain with the RBI as a share of such per cent of its net demand and time liabilities (NDTL) that the RBI may advise from time to time in the Gazette of India.
- *Statutory Liquidity Ratio (SLR)* : The share of NDTL a bank is required to retain in safe and

liquid assets, such as tangential government securities, cash, and gold. Variations in SLR often affect the availability of resources in the banking system for lending to the private sector.

- *Open Market Operations (OMOs)* : These include outright purchase and transaction of government securities, for injection and absorption of durable liquidity, respectively.
- *Market Stabilisation Scheme (MSS)*: This tool for monetary supervision was introduced in 2004. Excess liquidity of a more lasting nature arising from the inflow of large capital is absorbed via sale of short-dated government collaterals and treasury bills. The cash received is held in a separate government account with the RBI.

Banks are classified into four categories –

- (i) Commercial Banks
- (ii) Small Finance Banks
- (iii) Payments Banks
- (iv) Co-operative Banks

A brief description of the aforesaid forms of banks is as under:

- (i) *Commercial Banks* : Commercial Banks can be further classified into public sector banks, private sector banks, foreign banks and Regional Rural Banks (RRB). On the other hand, cooperative banks are classified into urban and rural. Apart from these, a fairly new addition to the structure is payments bank. Commercial Banks are regulated under the Banking Regulation Act, 1949 and their business model is designed to make profit. Their primary function is to accept deposits and grant loans to the general public, corporate and government.

Public sector banks are the nationalised banks and account for more than 75 per cent of the total banking business in the country. Majority of stakes in these banks are held by the government.

Private sector banks are those in which a major stake or equity is held by private shareholders. All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well.

A foreign bank is one that has its headquarters in a foreign country but operates in India as a private entity. These banks are under the obligation to follow the regulations of their home country as well as the country in which they are operating.

Regional Rural Banks (RRBs) are also scheduled commercial banks but they are established with the main objective of providing credit to weaker sections of the society like agricultural labourers, marginal farmers and small enterprises. They usually operate at regional levels in different states of India and may have branches in selected urban areas as well. Other important functions carried out by RRBs include-

- Providing banking and financial services to rural and semi-urban areas.
- Government operations like disbursement of wages of MGNREGA workers, distribution of pensions, etc.

- Para-Banking facilities like debit cards, credit cards and locker facilities.

The list of scheduled public sector banks, private banks, foreign banks and regional rural banks are provided in the following tables.

Table 1

Scheduled Public Sector Banks

<i>Sr.No.</i>	<i>List of scheduled public sector banks</i>	<i>Sr.No.</i>	<i>List of scheduled public sector banks</i>
1.	Bank of Baroda	7.	Indian Overseas Bank
2.	Bank of India	8.	Punjab & Sind Bank
3.	Bank of Maharashtra	9.	Punjab National Bank
4.	Canara Bank	10.	State Bank of India
5.	Central Bank of India	11.	UCO Bank
6.	Indian Bank	12.	Union Bank of India

Table 2

Scheduled Private Sector Banks

List of Scheduled Private Sector Banks

<i>Sr.No.</i>	<i>Name of the Bank</i>	<i>Sr.No.</i>	<i>Name of the Bank</i>
1.	Axis Bank Ltd.	12.	Jammu & Kashmir Bank Ltd.
2.	Bandhan Bank Ltd.	13.	Karnataka Bank Ltd.
3.	CSB Bank Ltd.	14.	Karur Vysya Bank Ltd.
4.	City Union Bank Ltd.	15.	Kotak Mahindra Bank Ltd
5.	DCB Bank Ltd.	16.	Lakshmi Vilas Bank Ltd.
6.	Dhanlaxmi Bank Ltd.	17.	Nainital Bank Ltd.
7.	Federal Bank Ltd.	18.	RBL Bank Ltd.
8.	HDFC Bank Ltd	19.	South Indian Bank Ltd.
9.	ICICI Bank Ltd.	20.	Tamilnad Mercantile Bank Ltd.
10.	IndusInd Bank Ltd	21.	YES Bank Ltd.
11.	IDFC First Bank Ltd.		

Table 3
List of Foreign Banks
List of Scheduled Foreign Banks in India

Sr.No.	<i>Name of the Bank</i>	Sr.No.	<i>Name of the Bank</i>
1.	Australia & New Zealand Banking Group Ltd.	24.	Shinhan Bank
2.	Westpac Banking Corporation	25.	Woori Bank
3.	Bank of Bahrain & Kuwait BSC	26.	KEB Hana Bank
4.	AB Bank Ltd.	27.	Industrial Bank of Korea
5.	Sonali Bank Ltd.	28.	Kookmin Bank
6.	Bank of Nova Scotia	29.	Bank of Ceylon
7.	Industrial & Commercial Bank of China Ltd.	30.	Credit Suisse A.G
8.	BNP Paribas	31.	CTBC Bank Co., Ltd.
9.	Credit Agricole Corporate & Investment Bank	32.	Krung Thai Bank Public Co. Ltd.
10.	Societe Generale	33.	Abu Dhabi Commercial Bank Ltd.
11.	Deutsche Bank	34.	Mashreq Bank PSC
12.	HSBC Ltd	35.	First Abu Dhabi Bank PJSC
13.	PT Bank Maybank Indonesia TBK	36.	Emirates Bank NBD
14.	Mizuho Bank Ltd.	37.	Barclays Bank Plc.
15.	Sumitomo Mitsui Banking Corporation	38.	Standard Chartered Bank
16.	MUFG Bank, Ltd.	39.	NatWest Markets Plc
17.	Cooperatieve Rabobank U.A.	40.	American Express Banking Corporation
18.	Doha Bank	41.	Bank of America
19.	Qatar National Bank	42.	Citibank N.A.
20.	JSC VTB Bank	43.	J.P. Morgan Chase Bank N.A.
21.	Sberbank	44.	SBM Bank (India) Limited*
22.	United Overseas Bank Ltd	45.	DBS Bank India Limited*
23.	FirstRand Bank Ltd	46.	Bank of China Ltd.

Table 4
List of Scheduled Regional Rural Banks

Sr.No.	Name of the RRB	Sr.No.	Name of the RRB
1.	Andhra Pragathi Grameena Bank	23.	Manipur Rural Bank
2.	Andhra Pradesh Grameena Vikas Bank	24.	Meghalaya Rural Bank
3.	Arunachal Pradesh Rural Bank	25.	Mizoram Rural Bank
4.	Aryavart Bank	26.	Nagaland Rural Bank
5.	Assam Gramin Vikash Bank	27.	Odisha Gramya Bank
6.	Bangiya Gramin Vikas Bank	28.	Paschim Banga Gramin Bank
7.	Baroda Gujarat Gramin Bank	29.	Prathama UP Gramin Bank
8.	Baroda Rajasthan Kshetriya Gramin Bank	30.	Puduvai Bharathiar Grama Bank
9.	Baroda UP Bank	31.	Punjab Gramin Bank
10.	Chaitanya Godavari Grameena Bank	32.	Rajasthan Marudhara Gramin Bank
11.	Chhattisgarh Rajya Gramin Bank	33.	Saptagiri Grameena Bank
12.	Dakshin Bihar Gramin Bank	34.	Sarva Haryana Gramin Bank
13.	Ellaquai Dehati Bank	35.	Saurashtra Gramin Bank
14.	Himachal Pradesh Gramin Bank	36.	Tamil Nadu Grama Bank
15.	J&K Grameen Bank	37.	Telangana Grameena Bank
16.	Jharkhand Rajya Gramin Bank	38.	Tripura Gramin Bank
17.	Karnataka Gramin Bank	39.	Utkal Grameen bank
18.	Karnataka Vikas Grameena Bank	40.	Uttar Bihar Gramin Bank
19.	Kerala Gramin Bank	41.	Uttarakhand Gramin Bank
20.	Madhya Pradesh Gramin Bank	42.	Uttarbanga Kshetriya Gramin Bank
21.	Madhyanchal Gramin Bank	43.	Vidharbha Konkan Gramin Bank
22.	Maharashtra Gramin Bank		

- (ii) *Small Finance Banks* : This is a niche banking segment in the country and is aimed to provide financial inclusion to sections of the society that are not served by other banks. The main customers of small finance banks include micro industries, small and marginal farmers, unorganized sector entities and small business units. These are licensed under Section 22 of the Banking Regulation Act, 1949 and are governed by the provisions of RBI Act, 1934 and FEMA.

List of Scheduled Small Finance Banks

Sr.No.	Name of the Bank	Sr.No.	Name of the Bank
1.	Au Small Finance Bank Limited	7.	ESAF Small Finance Bank Limited
2.	Capital Small Finance Bank Limited	8.	Fincare Small Finance Bank Limited
3.	Equitas Small Finance Bank Limited	9.	Jana Small Finance Bank Limited
4.	Suryoday Small Finance Bank Limited	10.	North East Small Finance Bank Limited
5.	Ujjivan Small Finance Bank Limited	11.	Shivalik Small Finance Bank Limited
6.	Utkarsh Small Finance Bank Limited		

- (iii) *Payments Bank* : This is a relatively new model of bank in the Indian Banking industry. It was conceptualised by the RBI and is allowed to accept a restricted deposit. they also offer services like ATM cards, debit cards, net-banking and mobile-banking. The following are the payments bank in India:

List of Scheduled Payments Banks

Sr.No.	Name of the Bank	Sr.No.	Name of the Bank
1.	India Post Payments Bank Limited	3.	Paytm Payments Bank Limited
2.	Fino Payments Bank Limited	4.	Airtel Payments Bank Limited

Comparison between Traditional Banks and Payment Banks

Features	Traditional Banks	Payment Banks
Accept deposits	Yes	Yes
Pay Interest on Deposits	Yes	Yes
Withdrawal facility for customers	Yes	Yes
Provide loans or involve in lending activities	Yes	No
Issue credit cards	Yes	No
Investment products	Yes	Yes
Maximum Deposit limit	No limit	Rs.1 lakh only per individual customer.

(iv) *Urban Co-operative Banks* : Urban Co-operative Banks refer to the primary cooperative banks located in urban and semi-urban areas. These banks essentially lent to small borrowers and businesses centered around communities, localities work place groups.

(v) *State Co-operative Banks* : A State Cooperative Bank is a federation of the central cooperative bank which acts as custodian of the cooperative banking structure in the State.

The major developments of Indian banking sector is captured in the following table-

<i>Years</i>	<i>Major Developments</i>
1921	<ul style="list-style-type: none"> • Closed market • State-owned Imperial Bank of India was the only bank existing.
1935	<ul style="list-style-type: none"> • RBI was established as the central bank of country. • Quasi central banking role of Imperial Bank came to an end.
1936-1955	<ul style="list-style-type: none"> • Imperial Bank expanded its network to 480 branches. • In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India.
1956-2000	<ul style="list-style-type: none"> • Nationalisation of 14 large commercial banks in 1969 & 6 more banks in 1980. • Entry of private players such as ICICI intensifying the competition. • Gradual technology upgradation in PSU banks .
2000 onwards	<ul style="list-style-type: none"> • In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted into a bank • In 2009, the government removed the Banking Cash Transaction Tax which had been introduced in 2005.
2018 onwards	<ul style="list-style-type: none"> • As per Union Budget 2019-2020, Provision coverage ratio of banks reached highest in 7 years. • As per RBI, as of November 30, 2018, India recorded foreign exchange reserves of approximately US\$ 393.72 billion.

Public Sector Banks

The banking sector was developed during the British era. British East India Company set up three banks: Bank of Bengal (1809); Bank of Bombay (1840) and Bank of Madras (1843). These three banks were later merged and called Imperial Bank, which was taken over by State Bank of India (SBI) in 1955. The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

July 19, 1969 was an important date in the history of Indian banking. As it is on this date that 14 major scheduled commercial banks having a deposit of more than INR 50 crore were nationalized. The 14 banks were Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Overseas Bank, Indian Bank, Bank of Baroda, Union Bank, Allahabad Bank, United Bank of India, UCO Bank and Bank of India.

Subsequently, some private banks were observed to suffer from governance problems. Further, there was a need to address the need of credit delivery in greater measure. In the second wave of nationalization six banks, i.e. Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab and Sind Bank and Vijaya Bank — with deposit liabilities of ₹200 crore and above were nationalised in April 1980. With the nationalisation of these six banks, the number of public sector banks (PSBs), including State Bank of India and its associate banks, rose to 28 in April 1980.

PSBs have played a significant role in the development of the country over the last five decades. They have rapidly expanded their branch network, extended credit to crucial segments such as large industry, MSMEs, agriculture, trade and retail, and participated wholeheartedly in the government's financial inclusion efforts.

Despite the opening up of the sector to private entities in the early 1990s, PSBs remain formidable players. This is underscored by the fact that their market share in overall bank credit and overall bank deposits was at 63.2 per cent and 66.9 per cent respectively at the end of FY18.

Though their market share has come down over the years, PSBs may regain some or most of it. They are now through with the recognition of bad loans, and are taking efforts to recover them. Further, they have tightened the loan origination process and put in place a monitoring mechanism to ensure that new loans don't go off-kilter. Moreover, the government is continuously pumping in capital to nurse them back to health and pushing for consolidation.

While some PSBs (such as SBI, PNB and Canara Bank) are lumbering giants, they did not balk when it was time to adapt to changes in the financial system and customer requirements, embracing retail banking and technology with gusto.

A recent drastic initiative of Government of India is going to change the scenario of public sector banks. As a banking reform measure, 10 public sector banks will be merged into four entities. This would take the number of banks in the country from 27 in 2017 to 12.

These bank mergers, and the ones already carried out, will lead to the creation of big banks with an enhanced capacity to give credit. These big banks, would also be able to compete globally and increase their operational efficiency by reducing their cost of lending.

The banks have been chosen for mergers on the basis of ensuring that there is no disruption in the banking services, and that the banks should benefit from increased CASA [current account savings account] and greater reach.

The largest of the mergers announced is that of Punjab National Bank with Oriental Bank of Commerce and United Bank. The amalgamated entity — to be called Punjab National Bank — will become the second-largest public sector bank in India, after the State Bank of India. It will also become the second-largest bank in India in terms of its branch network, with a combined total of 11,437 branches.

The second merger announced was that of Canara Bank and Syndicate Bank, which would render the merged entity the fourth-largest public sector bank. The merger also has the potential to lead to large cost reductions due to network overlaps. Further, the similar business cultures of the two banks would also facilitate a smooth transition.

The fourth merger announced is of Indian Bank and Allahabad Bank. This, too, would lead to a doubling of the size of the business and would also lead to a huge potential for scaling up due to the complementary networks of the two banks.

Private Sector Banks

Private Sector Banks refer to those banks where most of the capital is in private hands. In India, there are two types of private sector banks viz. Old Private Sector Banks and New Private Sector Banks. Old private sector banks are those which existed in India at the time of nationalization of major banks but were not nationalized due to their small size or some other reason. After the banking reforms, these banks got the license to continue and have existed in India along with new private banks and government banks.

The significant trends for the Indian banking sector for 2022 is as under:

a) *Economic revival and the changing regulatory landscape*

With the onset of the pandemic, the economy underwent an intense disruption and is still recovering to achieve pre-pandemic growth levels. However, with the start of 2022, the Indian economy is gradually picking up momentum and is expected to grow at 6.5 per cent in fiscal 2022-23. While the third wave of the pandemic has emerged this year, economists continue to maintain a positive outlook on the economic recovery due to higher FDI flows and India's place among the top attractive destinations for international investors.

Additionally, with the Reserve Bank of India (RBI) emphasizing on financial inclusion and digital banking models, further regulations are being put in place requiring banks to be more regulatory-sensitive. Big Techs who previously entered the lending space have consolidated their position – either directly or in partnership with regulated financial entities, thereby posing a competition for banks and necessitating further protection for consumers. The RBI has been working towards implementing technical and compliance standards for banks and financial institutions to regulate banking and lending processes and thereby ensuring a quicker economic revival.

b) *Reimagining customer relationships*

During the pandemic, banks and other financial institutions understood the importance of anticipating customer needs and expectations. Becoming a customer-centric and customer-first organization is essential to ensure not only survival in the market but also to retain existing customers, leave alone grow the segment. Banks must focus on shifting from solely providing transaction-focused services to value-driven advisory services to its customers. The value addition perceived by the customers from such services will help banks build long-lasting relationships with its customers.

However, it is important for banks to train and upskill their relationship managers with the right data and intelligence on customers for providing the right advisory services. Also, banks and financial institutions have a huge wealth of data internally which can be used intelligently to understand their customers and their preferences better, but predominantly remain unused due to technology gaps.

Leveraging the right technology and solutions is critical to collect such internal data efficiently, while maintaining safety and security. However, most banks are still struggling to leverage this data intelligently due to lack of in-house technologies.

Banks must therefore focus on implementing the right software solution to function as an intelligent middle layer to receive and retrieve the required intelligence on customers. This intelligence will help banks customize and personalize their advisory services for customers, offer the right advice and move away from transactional-focused tactical relationships.

c) *Buy Now Pay Later as a form of consumer lending*

With the rise in fintech companies, the concept of Buy Now Pay Later [BNPL] has revolutionized

the banking ecosystem in India. Banks have understood the importance of effectively leveraging this concept to improve customer experience and build positive sentiment. It is now considered to be the new form of consumer lending – where banks are extending the necessary credit in interest free or spaced-out interest-bearing installments to its consumers. The BNPL market in India is worth \$3-3.5 billion (about Rs 22,500-Rs 26,250 crore) and is expected to grow to \$45-50 billion (about Rs 3.37-Rs 3.75 lakh crore) by 2026, according to consultancy firm RedSeer.

d) *Digitization and a fast-emerging new ecosystem*

A 2020 Deloitte report in the aftermath of the lockdown found some significant changes in consumer behavior with an overwhelming 96 percent of respondents willing to go for digital transactions for meeting their day-to-day financing needs. With the increasing adoption of open banking worldwide, there are rising concerns around data sharing and security.

In view of the aforesaid facts, countries across the world are mapping out their way forward in terms of working on a regulatory approach to data sharing across sectors. India's financial and demographic landscape has witnessed a considerable change over the last few years, with the growing number of fintech companies emerging. These companies have transformed the digital payments and lending markets, thereby indicating an increase in digitalization.

To ensure an equitable regulatory landscape for all financial institutions, India recently introduced an account aggregation framework for financial data sharing and ensure seamless access of data by the users. Government data shows that digital transactions grew close to 90%, from 232,000 to over 430,000 in the three years from FY19 to FY21, primarily led by UPI. The value of digital payments in India will grow three-fold to touch \$1 trillion by financial year 2026, as compared to \$300 billion in financial year 2021. India's recent announcement of adhering to The UN's Responsible Digital Payments principles is expected to transform the streamline the regulatory landscape and make it safer.

(2) **Mutual Funds**

A mutual fund is an investment security that enables investors to pool their money together into one professionally managed investment. Mutual funds can invest in stocks, bonds, cash or a combination of those assets.

<i>Phases</i>	<i>Major Developments</i>
First Phase (1964-1987)	The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had Rs. 6,700 crores of Assets Under Management (AUM).
Second Phase (1987-1993)	The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by Canbank Mutual Fund (Dec. 1987), Punjab National Bank Mutual Fund (Aug. 1989), Indian Bank Mutual Fund (Nov 1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct. 1992). LIC

established its mutual fund in June 1989, while GIC had set up its mutual fund in December 1990. At the end of 1993, the MF industry had assets under management of Rs. 47,004 crores.

Third Phase (1993-2003)

The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market.

In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993. With the entry of private sector funds in 1993, a new era began in the Indian MF industry, giving the Indian investors a wider choice of MF products. The initial SEBI MF Regulations were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulations, 1996 which is currently applicable.

The number of MFs increased over the years, with many foreign sponsors setting up mutual funds in India. Also the MF industry witnessed several mergers and acquisitions during this phase. As at the end of January 2003, there were 33 MFs with total AUM of Rs. 1,21,805 crores, out of which UTI alone had AUM of Rs. 44,541 crores.

Fourth Phase (Since February 2003 – April 2014)

In February 2003, following the repeal of the Unit Trust of India

Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation.

Following the global melt-down in the year 2009, securities markets all over the world had tanked and so was the case in India. Most investors who had entered the capital market during the peak, had lost money and their faith in MF products was shaken greatly. The abolition of Entry Load by SEBI, coupled with the after-effects of the global financial crisis, deepened the adverse impact on the Indian MF Industry, which struggled to recover and remodel itself for over two years, in an attempt to maintain its economic viability which is evident from the sluggish growth in MF Industry AUM between 2010 to 2013.

Fifth (Current Phase)- Since May 2014

Taking cognisance of the lack of penetration of MFs, especially

in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI introduced several progressive measures in September 2012 to "re-energize" the Indian Mutual Fund industry and increase MFs' penetration.

In due course, the measures did succeed in reversing the negative

trend that had set in after the global melt-down and improved significantly after the new Government was formed at the Center.

Since May 2014, the Industry has witnessed steady inflows and increase in the AUM as well as the number of investor folios (accounts).

The Industry's AUM crossed the milestone of Rs. 10 Trillion (Rs. 10 Lakh Crore) for the first time as on 31st May 2014 and in a short span of two years the AUM size has crossed Rs. 15 lakh crore in July 2016.

The overall size of the Indian MF Industry has grown from Rs. 3.26 trillion as on 31st March 2007 to Rs. 15.63 trillion as on 31st August 2016, the highest AUM ever and a five-fold increase in a span of less than 10 years !!

In fact, the MF Industry has doubled its AUM in the last 4 years from Rs. 5.87 trillion as on 31st March, 2012 to Rs. 12.33 trillion as on 31st March, 2016 and further grown to Rs. 15.63 trillion as on 31st August 2016.

The no. of investor folios has gone up from 3.95 crore folios as on 31-03-2014 to 4.98 crore as on 31-08-2016.

On an average 3.38 lakh new folios are added every month in the last 2 years since Jun 2014.

The growth in the size of the Industry has been possible due to the twin effects of the regulatory measures taken by SEBI in re-energising the MF Industry in September 2012 and the support from mutual fund distributors in expanding the retail base.

MF Distributors have been providing the much needed last mile connect with investors, particularly in smaller towns and this is not limited to just enabling investors to invest in appropriate schemes, but also in helping investors stay on course through bouts of market volatility and thus experience the benefit of investing in mutual funds.

In fact, even though FY 2015-16 was not a very good year for the Indian securities market, the MF Industry witnessed steady positive net inflows month after month, even when the FIIs were pulling out in a big way. This was largely because of the 'hand-holding' of the investors by the MF distributors and convincing them to stay invested and/or invest at lower NAVs when the market had fallen.

MF distributors have also had a major role in popularising Systematic Investment Plans (SIP) over the years. In April 2016, the no. of SIP accounts has crossed 1 crore mark and currently each month retail investors contribute around Rs. 3,500 crore via SIPs.

One of the remarkable developments in Union Budget 2022 regarding mutual fund industry is taxing of virtual digital assets which is seen as a boost to the Rs 38-trillion mutual fund (MF) industry, as it will help more millennials come into its fold. Taxation on gains from the digital asset will help curb speculation and should help channelise savings into well-regulated long-term investments like mutual fund.

Further, in order to capture the transaction details, it was also proposed to provide for tax deducted at source (TDS) on payment made in relation to transfer of virtual digital assets at the rate of 1 per cent of such consideration above a monetary threshold.

MF players say that until now many investors used to invest in 'crypto currency' as there was no proper taxation structure. With this announcement it makes sense to book the profits in the virtual digital assets and move the money into financial assets like mutual funds.

Further in the Budget it was proposed to cap the surcharge on long term capital gains arising on transfer of any type of assets at 15 per cent. According to the Grant Thornton Bharat, the current rate of surcharge on long term capital gains (LTCGs) arising to any assessee from transfer of equity oriented mutual funds is capped at 15 per cent.

The current rate of surcharge on LTCGs arising from transfer of debt oriented mutual funds depends on the legal status of the taxpayer (i.e. corporate, LLP, co-operatives, individual, HUF etc.) and could go up to 37 per cent.

Other key highlights of Indian Mutual Fund Industry

1. As of October 2021, AUM managed by the mutual funds industry stood at Rs. 37.33 trillion (US\$ 500.67 billion).
2. As of October 2021, the total number of accounts stood at 114.4 million.
3. As of August 2021, AUM managed by the mutual funds industry stood at Rs. 36.59 trillion (US\$ 492.77 billion) and the total number of accounts stood at 108.5 million. In May 2021, the mutual fund industry crossed over 10 crore folios. Inflow in India's mutual fund schemes via systematic investment plan (SIP) were Rs. 96,080 crore (US\$ 13.12 billion) in FY2.
4. As of September 2021, AUM managed by the mutual funds industry stood at Rs. 36.73 trillion (US\$ 489.11 billion).

(3) Insurance Sector

The insurance industry of India consists of 57 insurance companies of which 24 are in life insurance business and 33 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Market Size

1. The insurance industry in India has witnessed an impressive growth rate over the last two decades driven by the greater private sector participation and an improvement in distribution capabilities, along with substantial improvements in operational efficiencies.
2. Private Life Insurers are expected to grow their retail APE at a CAGR of over 17% between 2021-23, and new retail term premiums are expected to double in 5 years. The Private Non-Life insurance segment is forecasted to grow at 16% in FY22 and 14% in FY23. Standalone Health Insurers are expected to grow by over 25% in FY22 due to the increased focus on healthcare.
3. The New Business Premium for Life Insurers has grown at a CAGR of 14% over FY14-20 led by the financialization of savings and new product launches, and the insurance industry size in

- India is expected to grow at 12.5% CAGR over the next decade 2020-30 led by specialized products such as protection and annuities.
4. Non-life insurers have been able to post a modest growth despite the last financial year being a challenging year on account of the pandemic, the gross direct premiums for the segment grew at 5.19% with a total Gross Direct Premium Income (GDPI) of INR 1.98 tn (\$27 bn) in FY21. The non-life insurance premiums are expected to bounce back with an estimated 14% growth in FY22 and 11% in FY23, led by private insurers and standalone health insurers.
 5. A recent study conducted by the strategic consulting and market research firm BlueWeave Consulting revealed that the India health insurance market is estimated to grow at a CAGR of 10.1% during the forecast period of 2021-2027.
 6. The Life Insurance Industry in India recorded a total premium of INR 5.73 tn (\$81.3 bn) in FY20 witnessing a growth of 12.75% over the previous year and the private insurers accounted for 33.7% of total premium underwritten by the industry. New business premium contributed 45.25% of the total premium and witnessed a strong growth of 20.59% over FY19. 60% of the new business premium was derived from single premium with remaining 40% accounted for by first year premiums.
 7. In the first half of FY22, the life insurance industry recorded a growth rate of 5.8% compared with 0.8% in the same period last year.

The factors that will drive the Indian insurance sector are as under:

1. Industry structure and capital markets

- a) *Consolidation* : The market structure of the insurance sector indicates that the top four or five players control a key portion of the market while there is a significantly longer tail. This has led to several consolidation activities in the industry over the last year or two. This trend is expected to continue with market leaders keenly assessing players with niche capabilities or market presence in geographies which would add value to their larger portfolio.
- b) *Capital markets activity* : The impending IPO of India's largest insurer is expected to be a game changer for the Indian insurance industry in many ways owing to the issue size as well as policyholders being given the option to subscribe. The IPO would, in many ways, drive the way the market values the sector as well as potential future listings of insurance companies. The value of existing public companies has increased significantly since they were listed, driven by product innovations, digitalisation, focus on ecosystems and adherence to corporate governance standards. They are expected to continue along the same trends.

2. Business

- a) *Customer centricity* : Customer experience, journey simplification and product modularisation will be key themes adopted by insurance companies. Insurers will look at providing a seamless omnichannel experience to customers leveraging technology while ensuring simplification of product constructs to drive penetration.
- b) *Sachet products and ecosystems* : Ecosystems as a strategy has been gaining traction, both in the life insurance and non-life insurance spaces. Tie-ups with internet ecosystems, such as e-commerce, health-tech, logistics, etc., may bring further traction, going forward. Insurance companies will be assessing these ecosystems for embedding their products, which would typically follow a simplified construct and would be issued as well as serviced

in a seamless manner, as a part of the larger ecosystem of offerings. Products such as on-demand insurance, event-based insurance, covers for purchases, etc. would gain prominence.

- c) *Digital commerce* : Digital commerce would witness increased adoption by insurers in both the life and non-life segments and would complement the sachet products and ecosystem strategy. Usage of digital marketing channels to acquire as well as engage with customers would be a key trend going forward. Market leaders and digital disruptors are already adopting the same in an aggressive manner.
- d) *Big data* : A key enabler for insurance companies, going forward, would be increased adoption of big data solutions, including cloud computing, artificial intelligence, machine learning, etc. The improved analytical capabilities driven by in-house development or through tie-ups with technology companies will drive data usage, underwriting, claims management, acquisition, renewals as well as fraud management. New age data sources enabled by the Account Aggregator Framework or the National Health Mission as well as the government's push for block chain would result in creation of significant number of use cases, which could be adopted by insurance companies.
- e) *Payments* : The disruptions in the payments space will also substantially affect the insurance industry in terms of ease of premium payments or settlements. Digital modes of payment and settlement are expected to be adopted increasingly, especially in tier II/III/IV cities.

Capital and governance

- a) *Risk-based capital and financial reporting* : Adoption of risk-based capital calculation might be in the anvil for insurance companies in the near-to-mid term, and this would have an effect on capital allocation basis the individual risk profile of the insurer. Furthermore, possible adoption of International Financial Reporting Standards (IFRS) 9 and 17 in line with global adoption would lead to greater transparency and consistency in reporting as well as a major change in insurance accounting and other processes.

Government Initiatives

The Government of India has taken a number of initiatives to boost the insurance industry. Some of them are as follows:

- In September 2018, National Health Protection Scheme was launched under Ayushman Bharat to provide coverage of up to Rs 500,000 (US\$ 7,723) to more than 100 million vulnerable families. The scheme is expected to increase penetration of health insurance in India from 34 per cent to 50 per cent.
- Over 47.9 million farmers were benefitted under Pradhan Mantri Fasal Bima Yojana (PMFBY) in 2017-18.
- The Insurance Regulatory and Development Authority of India (IRDAI) plans to issue redesigned initial public offering (IPO) guidelines for insurance companies in India, which are to looking to divest equity through the IPO route.
- IRDAI has allowed insurers to invest up to 10 per cent in additional tier 1 (AT1) bonds that are issued by banks to augment their tier 1 capital, in order to expand the pool of eligible investors for the banks.
- In August 2021, Parliament passed the General Insurance Business (Nationalization Amendment Bill. The bill aims to allow privatization of state-run-general insurance companies.

- Union Budget 2021 increased FDI limit in insurance from 49% to 74% India's Insurance Regulatory and Development Authority (IRDAI) has announced the issuance, through Digilocker of digital insurance policies by insurance firms.
- In June 2021, the government extended Rs. 50 lakh (US\$ 66.85 thousand) insurance coverage scheme for healthcare workers across India until the next one year.
- In February 2021, the Finance Ministry announced to infuse Rs. 3,000 crore (US\$ 413.13 million) into state-owned general insurance companies to improve the overall financial health of companies.
- Under Union Budget 2021, fund of Rs. 16,000 crore (US\$ 2.20 billion) has been allocated for crop insurance scheme.
- Over 53.8 million farmers were benefitted under Pradhan Mantri Fasal Bima Yojana (PMFBY) in FY20.
- To provide crop insurance to farmers, the Government has launched various schemes like National Agriculture Insurance Scheme (NAIS). Modified National Agriculture Insurance Scheme (MNAIS) and Weather-based Crop Insurance Scheme (WBCIS).
- On January 13, 2021, Crop Insurance Scheme, the Pradhan Mantri Fasal Bima Yojana (PMFBY) completed five years of operations towards strengthening risk coverage of crops for farmers of India.

Major Events in the Journey of Indian Insurance Sector

<i>Years</i>	<i>Major Events</i>
1956-72	All life insurance companies were nationalised to form LIC in 1956 to increase penetration and protect policy holders from mismanagement. The non-life insurance business was nationalised to form GIC in 1972.
1993-99	Malhotra Committee recommended opening up the insurance sector to private players. IRDA, LIC and GIC Acts were passed in 1999, making IRDA the statutory regulatory body for insurance and ending the monopoly of LIC and GIC.
2000-2014	Post liberalisation, the insurance industry recorded significant growth; the number of private players increased to 46 in 2017.
2015	In 2015, Government introduced Pradhan Mantri Suraksha Bima Yojna and Pradhan Mantri Jeevan Jyoti Bima Yojana. Government introduced Atal Pension Yojana and Health insurance in 2015.
2017 onwards	National Health Protection Scheme was proposed to be launched under Ayushman Bharat, as per Union Budget 2018-19. Insurance companies raised more than US\$ 6 billion from public issues in 2017.

Notable Trends

- (i) New distribution channels like bancassurance, online distribution and NBFCs have widened the reach and reduced costs.

- (ii) Firms have tied up with local NGOs to target lucrative rural markets.
- (iii) In October 2018, Indian e-commerce major Flipkart entered the insurance space in partnership with Bajaj Allianz to offer mobile insurance.
- (iv) Amazon India is also expected to enter the insurance market as an agent.
- (v) In September 2018, India Post Payments Bank (IPPB) also partnered with Bajaj Allianz to distribute their products.
- (vi) Over the years, share of private sector in the life insurance segment has grown from around 2 per cent in FY03 to 31.8 per cent in FY19 (up to September 2018).
- (vii) In the non-life insurance segment, share of private sector increased to 55.70 per cent in FY20 (up to April 2019) from 14.5 per cent in FY04.
- (viii) The life insurance sector has witnessed the launch of innovative products such as Unit Linked Insurance Plans (ULIPs).
- (ix) Other traditional products have also been customised to meet the specific needs of Indian consumers.
- (x) In September 2018, HDFC Ergo launched 'E@Secure' a cyber insurance policy for individuals.
- (xi) Large insurers continue to expand, focusing on cost rationalisation and aligning business models to realise reported Embedded Value (EV), and generate value from future business rather than focus on present profits.
- (xii) In January 2019, online insurance distribution platform, Turtlemint raised US\$ 25 million in funding.
- (xiii) As of November 2018, HDFC Ergo is in advanced talks to acquire Apollo Munich Health Insurance at a valuation of around Rs 2,600 crore (US\$ 370.05 million).

INDUSTRIAL FINANCE CORPORATION OF INDIA AND SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

(a) Industrial Finance Corporation of India

At the time of independence in 1947, the Indian Capital Markets were relatively less developed. The demand for capital was growing rapidly, however, there was a dearth of providers of capital. The commercial banks that existed were not equipped well enough to provide for long term capital needs in any significant manner. Against this backdrop and to bridge the demand supply gap for capital needs of the economy, the Government of India established The Industrial Finance Corporation of India (IFCI) on July 1, 1948 by way of an IFC Act 1948.

IFCI was the first Development Financial Institution of India set up to propel economic growth through the development of infrastructure and industry. Since then, IFCI has contributed significantly to the economy through its incessant support to projects in all the three spheres of growth & development – manufacturing, infrastructure & services and agriculture allied sectors. The Liberalisation of the Indian Economy in 1991 made significant changes in the Indian Capital Markets & Financial System. To aid in raising funds directly through capital markets, the constitution of IFCI was changed from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was changed to 'IFCI Limited' with effect from October 1999.

Since its inception 70 years back, IFCI has witnessed and sustained all business economic cycles.

IFCI has been able to maintain the financial sustainability with the consistent support and cooperation of all its stakeholders and particularly the Government of India. In addition to its core competence in long term lending to industrial and infrastructure sectors, IFCI is also enhancing its organizational value through optimising the value of core and non-core assets & investments. Over the years, IFCI played a pivotal role in establishment of various institutes (including some of its subsidiaries & associates) - that are respected in their fields today, namely Stock Holding Corporation of India Ltd (SHCIL), National Stock Exchange Ltd (NSE), LIC Housing Finance Ltd, Tourism Finance Corporation of India Ltd (TFCI), Management Development Institute (MDI), ICRA Ltd, among many others. With the changes in the markets over a period of time a few of the subsidiaries were divested and currently IFCI Group has the following subsidiaries – Stock Holding Corporation of India Ltd, IFCI Venture Capital Fund Ltd, IFCI Factors Ltd, IFCI Infrastructure Development Ltd, IFCI Financial Services Ltd, MPCON, Management Development Institute and Institute of Leadership Development.

IFCI Products

The products of IFCI may be categorised under the following:

1. *Loan Products* : IFCI Ltd., established as the Industrial Finance Corporation of India (IFCI) on July 1, 1948, was the first Development Financial Institution in the country, setup to cater to the long-term finance needs of the industrial sector. Since its inception, IFCI has been a catalyst in creating a robust industrial base for the country through modernization of Indian industry, export promotion, import substitution, nurturing sunrise industries etc. through commercially viable and market-friendly initiatives.

In order to continue serving the needs of the Industry and society, IFCI offers the following products broadly categorized into three segments – Project Finance, Corporate Finance & Structured Finance spreading across industries, services and Agro-based sectors.

2. *Project Finance* : IFCI's team of professionals with an in-depth understanding of the sectoral dynamics, has the ability to provide customized financial solutions to meet the growing & diversified requirement for different levels of the projects – greenfield projects, brownfield, diversification and modernisation of existing projects in infrastructure and manufacturing sectors.

The various sectors covered under Project Finance are Power including Renewable energy, Telecommunications, Roads, Oil & gas, Ports, Airports, Basic Metals, Chemicals, Pharmaceuticals, Electronics, Textiles, Real Estate, Smart Cities & Urban Infrastructure etc.

3. *Corporate Finance* : IFCI caters to the varied needs of diverse set of customers ranging across small, mid and large corporates. IFCI offers financial solutions in areas of corporate finance through Balance Sheet Funding, Loan Against Shares, Lease Rental Discounting, Promoter Funding, Long Term Working Capital requirements, Capital Expenditure and regular Maintenance Capex.

IFCI also offers a Short Term Loan product (tenure upto 1 year) to meet various business requirements including bridge financing and short term working capital requirements.

4. *Syndication & Advisory* : IFCI has taken an initiative to provide customized corporate advisory services and facilitating the financial re-engineering of various corporate houses and companies. We assimilate the inputs gathered from our vast and rich experience of project appraisal, documentation, syndication, product design in providing a customized comprehensive end to end financial solution for Corporates. We further carry out debt and equity syndication and advisory services for our client companies.

In the area of providing customized corporate advisory services, IFCI has been able to secure new assignments relating to financial/investment appraisal, business re-engineering and advisory activities.

5. *Structured Products* : IFCI also provides financing solutions to its clients through Structured Debt/Mezzanine products and assists in providing optimal financing solutions for various requirements such as sponsor financing, acquisition financing, pre-IPO financing and Off-Balance Sheet Structured Solutions amongst others.

(b) Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.

SIDBI's initiatives have remained aligned to the national goals of poverty alleviation, employment generation, kindling entrepreneurship and fostering competitiveness in MSME sector.

Some of SIDBI's key initiatives over more than the past 25 years of tirelessly promoting the growth of MSMEs, include-

- (i) Providing a cumulative assistance of around INR 5.40 lakh crore channelized into MSME segment.
- (ii) Directly impacting over 360 lakh persons/enterprises through its branch network of around 80 offices spread across the country as well as through the network of banks / institutions (having more than 1.25 lakh branches) across the country.
- (iii) Extending loans, equity and quasi-equity aggregating to INR 13,689 crore benefitting 356 lakh disadvantaged people, mostly women, through its Micro Finance operations.
- (iv) Deepening its outreach by nurturing and evolving more than 100 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.
- (v) Supporting more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling initiatives.
- (vi) Facilitating Institutions Building by adopting a SIDBI Plus approach and creating its Subsidiary and Associate Institutions for providing impetus to the growth of MSME ecosystem.
- (vii) Developing a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category, for serving the needs of the dynamic and consistently evolving MSME Sector.

Key Milestones in the Journey of SIDBI

<i>Years</i>	<i>Milestones Achieved</i>
1990	Setting up of SIDBI
1994	Foundation of Microfinance laid
1995	Technology Bureau for Small Enterprise (TBSE) was set up which converted into India SME Technology Services
1999	Setting up of SIDBI Venture Capital Limited

2000	Setting up of Credit Guarantee Fund Trust for Micro & Small Enterprise (CGTMSE)
2005	Setting up of SMERA Ratings Ltd.
2008	Birth of India SME Asset Reconstruction Company Ltd. (ISARC)
2015	Set up MUDRA
2016	Trade Receivables Discounting System (TReDS)
2017	Launched Certified Credit Counsellor (CCC)
2018	Launch MSME Pulse and CriSidEx

REGIONAL RURAL BANKS (RRBs)

Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September, 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result, Five Regional Rural Banks were set up on 2nd October, 1975, Gandhi Jayanti. These were set up on the recommendations of The Narshimham committee Working Group[1] during the tenure of Indira Gandhi's Government with a view to include rural areas into the economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2nd October, 1975, Gandhi Jayanti with the forming of the first RRB, the Prathama Bank, Head Office at Moradabad (U.P.) with an authorised capital of Rs 5 crore at its starting. As on 2nd October, 1975 Out of the remaining four RRBs in the country one was Set up at Malda in West Bengal under the name of Gour Gramin Bank, which was the first RRB in the Eastern Region of India.

The current structure of RRBs is that Central Government owns 50% , Sponsorship Bank holds 35% and State Government holds 15%.

Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too.

The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions. RRBs perform various functions in the following heads:

- (a) Providing banking facilities to rural and semi-urban areas.
- (b) Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
- (c) Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking, UPI etc.
- (d) Small financial banks.

India is eyeing a mega revamp of its regional rural banks (RRBs) and the plan includes consolidation of these lenders for better operational efficiencies in line with the government's big rural focus.

The plan that the finance ministry is drawing up also envisages RRBs adopting differentiated banking strategies, such as targeting specific sectors, for a strong regional connect. Some RRBs will be merged with their sponsoring banks. There are 56 operational RRBs & the roadmap is to bring them down to 38 or below.

COOPERATIVE BANKS

Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

The cooperative banks, however, differ from joint stock banks in the following manner:

1. Cooperative banks issue shares of unlimited liability, while the joint stock banks issue shares of limited liability.
2. In a cooperative bank, one shareholder has one vote whatever the number of shares he may hold. In a joint stock bank, the voting right of a shareholder is determined by the number of shares he possesses.
3. Cooperative banks are generally concerned with the rural credit and provide financial assistance for agricultural and rural activities. Joint stock companies are primarily concerned with the credit requirements of trade and industry.
4. Cooperative banking in India is federal in structure. Primary credit societies are at the lowest rung. Then, there are central cooperative banks at the district level and state cooperative banks at the state level. Joint stock banks do not have such a federal structure.
5. Cooperative credit societies are located in the villages spread over the entire country. Joint stock banks and their branches mainly concentrate in the urban areas, particularly in the big cities.

History of Cooperative Banking in India

Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means."

Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit. These organisations were- (a) A union, consisting of primary societies; (b) the central banks; and (c) provincial banks.

Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre-independence period. Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

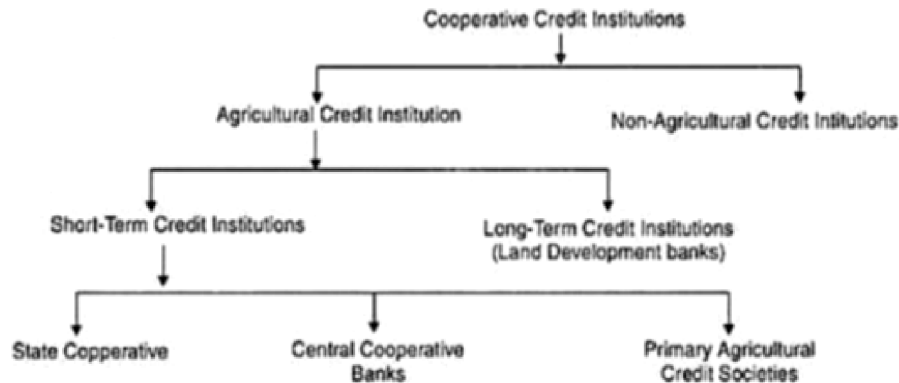
Structure of Cooperative Banking

There are different types of cooperative credit institutions working in India. These institutions can be classified into two broad categories- agricultural and non-agricultural. Agricultural credit institutions dominate the entire cooperative credit structure.

Agricultural credit institutions are further divided into short-term agricultural credit institutions and long-term agricultural credit institutions.

The short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have a three-tier federal structure- (a) at the apex, there is the state cooperative bank in each state; (b) at the district level, there are central cooperative banks; (c) at the village level, there are primary agricultural credit societies. Long-term agricultural credit is provided by the land development banks.

The whole structure of cooperative credit institutions is shown in the chart given.



Source: Economics discussions

There are 4 types of co-operative banks in India:

1. *Central Co-Operative Banks* :These banks are organized and operated at the district level and can be of two types:
 - (a) Co-operative Banking Union
 - (b) Mixed control Co-operative Bank

At the first, the members of the bank are the co-operative societies only. However, in the second, the members can be co-operative societies as well as individuals. The central co-operative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. *State Co-Operative Banks* : These banks are organized and operated at the district level and rest at the top of the hierarchy in the co-operative credit structure. With the help of State Co-operative Banks (SCBs), the RBI funds the co-operative institutions. These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.
3. *Primary Co-Operative Banks* : These offer credit services in urban and semi-urban regions. Thus, they are not considered as agricultural credit societies.

Primary Co-Operative Banks receive concessional refinance services from RBI and IDBI from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. *Land Development Banks* : The land development banks are divided into three tiers which are primary, state, and central. These offer credit services to the farmers for developmental purposes.

They used to be regulated by the RBI as well as the state governments. However, this responsibility was recently transferred to the National Bank for Agricultural and Rural Development (NABARD).

NON-BANKING FINANCE COMPANIES (NBFCs)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

- i. NBFC cannot accept demand deposits;
- ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in the case of banks.

Different types of NBFCs

NBFCs are categorized a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs, b) non-deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and c) by the kind of activity they conduct. Within this broad categorization the different types of NBFCs are as follows:

- (i) *Asset Finance Company (AFC)* : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as the aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.
- (ii) *Investment Company (IC)* : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.
- (iii) *Loan Company (LC)* : LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.
- (iv) *Infrastructure Finance Company (IFC)* : IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs. 300 crore, c) has a minimum credit rating of 'A' or equivalent d) and a CRAR of 15%.

- (v) *Systemically Important Core Investment Company (CIC-ND-SI)* : CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:-
- (a) it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;
 - (b) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitute not less than 60% of its Total Assets;
 - (c) it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
 - (d) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
 - (e) Its asset size is Rs. 100 crore or above and
 - (f) It accepts public funds
- (vi) *Infrastructure Debt Fund : Non-Banking Financial Company (IDF-NBFC)* : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through the issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.
- (vii) *Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI)* : NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:
- a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000;
 - b. loan amount does not exceed Rs. 50,000 in the first cycle and Rs. 1,00,000 in subsequent cycles;
 - c. total indebtedness of the borrower does not exceed Rs. 1,00,000;
 - d. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;
 - e. loan to be extended without collateral;
 - f. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
 - g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.
- (viii) *Non-Banking Financial Company – Factors (NBFC-Factors)* : NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

- (ix) *Mortgage Guarantee Companies (MGC)* - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs. 100 crore.
- (x) *NBFC- Non-Operative Financial Holding Company (NOFHC)* is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

BASICS OF CAPITAL MARKET : TYPES OF SHARES AND DEBENTURES

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading centres were Bombay(now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre wherein bank shares were the major trading stock. During the American Civil War (1860-61). Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was a tremendous slump in share prices.

Trading was at that time limited to a dozen brokers, their trading place was under a banyan tree in front of the Town Hall in Bombay. These stockbrokers organized an informal association in 1875-Native Shares and Stock Brokers Association. Bombay. The stock exchanges in Calcutta and Ahmedabad, also industrial and trading centres; came up later. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925.

Indian remained largely inactive till the 1970s. Partial liberalisation of the economy and pro-capital market policies during the 1980s infused some life into the markets, but it was only the economic liberalisation of the 1990s that provided a lasting impetus. Today, segments of India's capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency (price discovery), tradability (low impact cost), resilience (co-movement of rates across product classes and yield curves), and stability. In particular, their ability to withstand several periods of stress, notably the Asian financial crisis in 1997-98, the global financial crisis in 2007-09 and the "taper tantrum" episode in 2013, is a sign of their increasing maturity.

Types of Shares and Debentures

Types of Shares

Equity share capital

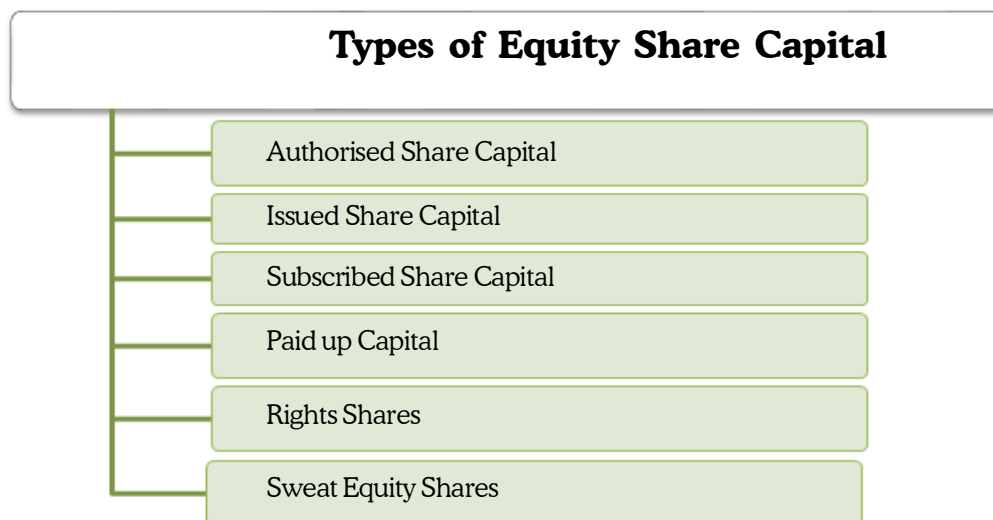
Equity shares, also known as ordinary shares or common shares represent the owners' capital in a company. The holders of these shares are the real owners of the company. They have control over the working of the company. Equity shareholders are paid dividend after paying them to the preference shareholders. The rate of dividend on these shares depends upon the profits of the company. They may be paid a higher rate of dividend or they may not get anything.

Equity share is a main source of finance for any company giving investors rights to vote, share profits and claim on assets. Various types of equity share capital are authorized, issued, subscribed, paid up, rights, bonus, sweat equity etc. The expression of the value of equity shares in terms of the face value or par value, issue price, book value, market value, intrinsic value, stock market value etc.

Normally, a company is started with equity finance as its first source of capital from the owners or promoters of that company. After a certain level of growth, there is a requirement for more capital for further growth. The company then finds an investor in the form of friends, relatives, venture capitalists, mutual funds, or any such small group of investors and issue fresh equity shares to these investors.

A point comes where the company reaches a very big level and requires huge capital investment for business growth. Initial Public Offer (IPO) is the offer of shares which the company makes to the general public for the first time. And Follow on Public Offer (FPO) is more such offers in future to the public.

Types of Equity Share Capital / Shares

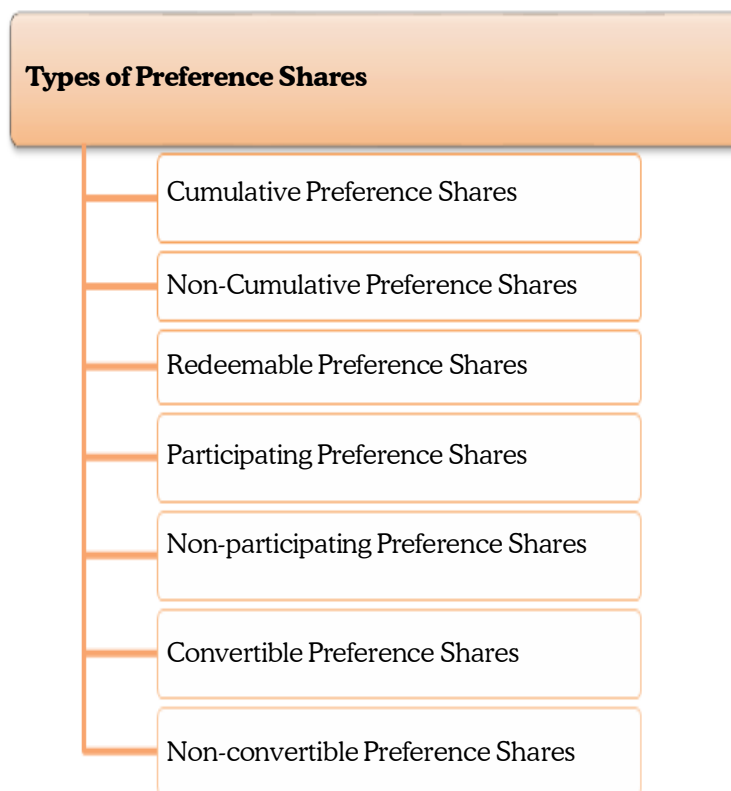


1. *Authorised Share Capital* : It is the maximum amount of capital which a company can issue. The companies can increase it from time to time. However, for that we need to comply with some formalities and also have to pay some fees to the legal bodies.
2. *Issued Share Capital* : It is that part of authorized capital which the company offers to the investors.
3. *Subscribed Share Capital* : It is that part of issued capital which an investor accepts and agrees upon.
4. *Paid up Capital* : It is the part of the subscribed capital, which the investors pay. Normally, all companies accept complete money in one shot and therefore issued, subscribed and paid capital becomes one and the same. Conceptually, paid-up capital is the amount of money which a company actually invests in the business.
5. *Rights Shares* : These shares are those which a company issues to its existing shareholders. The company issues such kind of shares in order to protect the ownership rights of the existing investors.
6. *Sweat Equity Shares* : Sweat equity shares are issued to exceptional employees or directors of the company for their exceptional job in terms of providing know-how or intellectual property rights to the company.

Preference Share Capital

Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets before common stockholders. Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders also typically do not hold any voting rights, but common shareholders usually do.

Types of Preference Shares



1. *Cumulative Preference Shares* : Preference dividend is payable if the company earns an adequate profit. However, cumulative preference shares carry additional features which allow the preference shareholders to claim unpaid dividends of the years in which dividend could not be paid due to insufficient profit.
2. *Non-Cumulative Preference Shares* : The holders of non-cumulative preference shares will get preference dividend if the company earns sufficient profit but they do not have the right to claim unpaid dividend which could not be paid due to insufficient profit.
3. *Redeemable Preference Shares* : Redeemable preference shares are those shares which are redeemed or repaid after the expiry of a stipulated period.
4. *Participating Preference Shares* : Participating preference shareholders are entitled to share the surplus profit and surplus assets of the company in addition to the preference dividend.

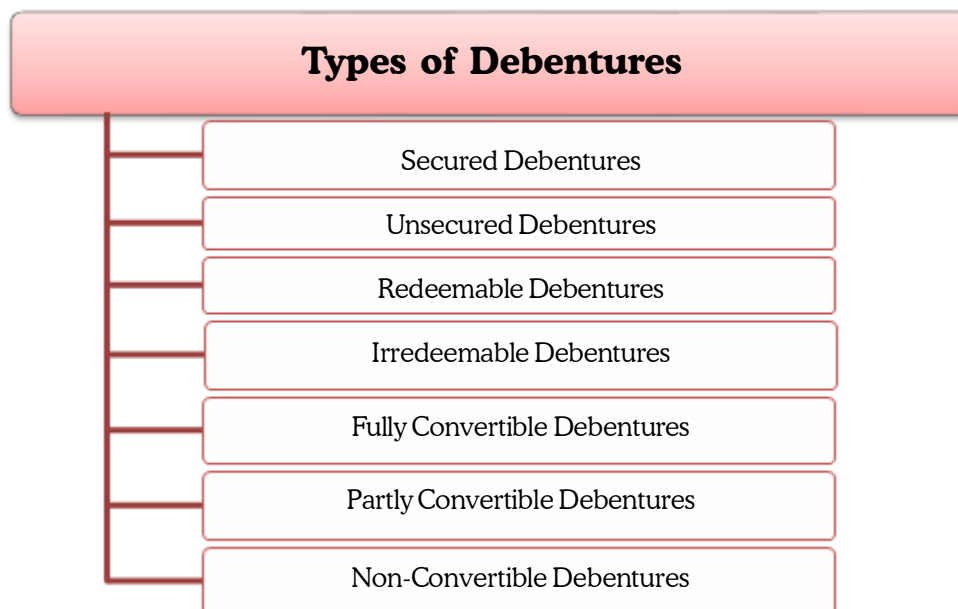
5. *Non-participating Preference Shares* : Non-participating preference shareholders are not entitled to share surplus profit and surplus assets like participating preference shareholders.
6. *Convertible Preference Shares* : The holders of convertible preference shares are given an option to convert whole or part of their holding into equity shares after a specific period of time.
7. *Non-convertible Preference Shares* : The holders of non-convertible preference shares do not have the option to convert their holding into equity shares i.e. they remain as preference share till their redemption.

Debentures

A company may raise long-term finance through public borrowings. These loans are raised by the issue of debentures. "A debenture is a document under the company's seal which provides for the payment of principal sum and interest thereon at regular intervals, which is usually secured by a fixed or floating charge on the company's property or undertaking and which acknowledges a loan to the company".

A debenture holder is a creditor of the company. A fixed rate of interest is paid on debentures. The interest on debentures is a charge on the profit and loss account of the company. The debentures are generally given a floating charge over the assets of the company. When the debentures are secured, they are paid on priority in comparison to all other creditors.

Types of Debentures



- *Secured Debentures* : These are debentures that are secured against an asset/assets of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.
- *Unsecured Debentures* : These are not secured by any charge against the assets of the company,

neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

- *Redeemable Debentures* : These debentures are payable at the expiry of their term. Which means at the end of a specified period they are payable, either in the lump sum or in installments over a time period. Such debentures can be redeemable at par, premium or at a discount.
- *Irredeemable Debentures* : Such debentures are perpetual in nature. There is no fixed date at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long time interval.
- *Fully Convertible Debentures* : These shares can be converted to equity shares at the option of the debenture holder. So if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.
- *Partly Convertible Debentures* : Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.
- *Non-Convertible Debentures* : As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

Bearer Debentures are those which are payable to the bearer thereof. These can be transferred merely by delivery. Interest is paid to the person who produces the interest coupon attached to such debentures.

Registered Debentures are those which are payable to the persons who appear in the Register of Debenture holders. These can be transferred only by executing a transfer deed. Interest is paid to the registered holder.

FINANCIAL ASSISTANCE SCENARIO FOR SMALL AND MEDIUM ENTERPRISES AND START-UPS

1. Financial Assistance Scenario for Small and Medium Enterprises in India

There are various schemes launched by the Ministry of Micro, Small & Medium Enterprises, and Government of India for providing financial assistance to SME sector. However, in this section we would restrict our discussion to certain selected schemes.

(a) *Scheme of Fund for Regeneration of Traditional Industries (SFURTI)*

Related Scheme of Fund for Regeneration of Traditional Industries (SFURTI).

Description	The objectives of the scheme is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability, sustained employment, to enhance marketability of products of such clusters, to equip traditional artisans of the associated clusters with the improved skills, to make provision for common facilities and improved tools and equipments for artisans, to strengthen the cluster governance systems with the active participation of the stakeholders, and to build up innovated and traditional skills, improved technologies, advanced processes, market intelligence and new models of public-private partnerships, so as to
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	gradually replicate similar models of cluster-based regenerated traditional industries.
Nature of assistance	The financial assistance provided for any specific project shall be subject to a maximum of Rs 8 (eight) crore to support Soft, Hard and Thematic interventions.
Who can apply?	Non-Government organizations (NGOs), institutions of the Central and State Governments and semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), Private sector by forming cluster specific SPVs, Corporates and Social Responsibility (CSR) foundations with expertise to undertake cluster development.
(b) A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)-	
<i>Objectives of the Scheme:</i>	
(i) Create new jobs and reduce unemployment	
(ii) Promote entrepreneurship culture in India	
(iii) Grassroots economic development at the district level	
(iv) Facilitate innovative business solution for un-met social needs	
(v) Promote innovation to further strengthen the competitiveness of MSME sector.	
<i>Nature of Assistance</i> - 80 Livelihood business incubators (2014-2016) to be set up by NSIC, KVIC or Coir Board or any other Institution/agency of GoI/State Govt. on its own or by any of the agency/Scheme for promotion of Innovation, Entrepreneurship and Agro-Industry organisation of the M/o MSME, one-time grant of 100% of the cost of Plant & Machinery other than the land and infrastructure or an amount up to Rs.100 lakhs whichever is less to be provided	
In case of incubation centres to be set up under PPP mode with NSIC, KVIC or Coir Board or any other Institution/agency of GoI/State Govt., one- time grant of 50% of the cost of Plant & Machinery other than the land and infrastructure or Rs.50.00 lakhs, whichever is less to be provided	
Assistance towards the training cost of incubates will be met out of the ATI scheme of the Ministry as far as possible for both centres.	
(c) <i>Entrepreneurship and Skill Development Programme (ESDP)</i>	
Related Scheme	Entrepreneurship Skill Development Programme (ESDP)
Description	Entrepreneurship Development Programmes are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSEs. These EDPs are generally conducted in ITIs , Polytechnics and other technical institutions, where skill is available to motivate them towards self-employment.
Nature of assistance	20 % of the total targeted of ESDPs are conducted exclusively for weaker sections of the society i.e. (SC/ST/women and PH) with a

stipend of Rs.500/- per month per candidate under the Promotional Package for (Micro, Small Enterprises) MSEs. No fee is charged from the candidates under these programmes.

Who can apply? These programmes are conducted by MSME-DIs of Ministry.

- (d) *Schemes of National Small Industries Corporation (NSIC)* - The schemes of National Small Industries Corporation are as under:

Single Point Registration - The Government is the single largest buyer of a variety of goods. With a view to increase the share of purchases from the small-scale sector, the Government Stores Purchase Programme was launched in 1955-56. NSIC registers Micro & Small Enterprises (MSEs) under Single Point Registration scheme (SPRS) for participation in Government Purchases.

2. Financial Assistance for Start-Ups

There are numerous schemes launched by Government of India for financing start-ups. However, this section covers only three finance schemes i.e. (a) The Venture Capital Assistance Scheme; (b) Support for International Patent Protection in Electronics & Information Technology (SIP-EIT) and (c) Stand-Up India for Financing SC/ST and/or Women Entrepreneurs.

- (a) *The Venture Capital Assistance Scheme:* This scheme is run by Ministry of Agriculture and Farmers welfare. Venture Capital Assistance is financial support in the form of an interest free loan provided by SFAC to qualifying projects to meet shortfall in the capital requirement for implementation of the project.

The benefits of the Venture Capital Assistance Scheme are as under:

- (i) Help in assisting agripreneurs to make investments in setting up agribusiness projects through financial participation.
- (ii) Provides financial support for preparation of bankable Detailed Project Reports (DPRs) through Project Development Facility (PDF).

Eligibility Criteria (Who can apply)-

Farmers

Producer Groups

Partnership/Proprietary Firms

Self Help Groups

This section covers only three finance schemes

The Venture Capital Assistance Scheme

Support for International Patent Protection in Electronics & Information Technology (SIP-EIT)

Stand-Up India for Financing SC/ST and/or Women Entrepreneurs

Companies

Agripreneurs

Units in agriexport zones

Agriculture graduates Individually or in groups for setting up agribusiness projects.

- (b) *Support for International Patent Protection in Electronics & Information Technology (SIP-EIT)*: This scheme is managed by Ministry of Electronics & Information Technology.

SIP-EIT is a scheme to provide financial support to MSMEs and Technology Start-up units for international patent filing to encourage innovation and recognize the value and capabilities of global IP along with capturing growth opportunities in ICTE sector.

Eligibility Criteria :

1. The Applicant should be registered under the MSME Development Act 2006 of Government of India as amended from time to time on MSME unit as per the criteria for such registration (the applicant would be required to furnish the proof of such registration).
 2. The applicant should be a registered company under the Companies Act of Government of India and should fulfil the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006 of Government of India as amended from time to time (this criteria will be ascertained from the proof of such registration and last audited balance sheet of the applicant)
 3. The applicant should be a registered STP Unit and should fulfill the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006 of Government of India as amended from time to time (this criteria will be ascertained from the proof of such registration and last audited balance sheet of the applicant).
 4. The applicant should be a technology incubation enterprise or a startup located in an incubation centre/ park and registered as a company (a certification from the incubation centre/ park in this case is mandatory) and should fulfill the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006 of Government of India as amended from time to time (this criteria will be ascertained from the proof of such registration and last audited balance sheet of the applicant).
- (c) *Stand-Up India for Financing SC/ST and/or Women Entrepreneurs* : This scheme is managed by Small Industries Development Bank of India (SIDBI). Stand Up India Scheme facilitate bank loans between 10 lakh and 1 crore to atleast one scheduled caste (SC) or Sceduled Tribe, borrower and atleast one women per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

Eligibility

1. SC/ST and/or women entrepreneurs; above 18 years of age.
2. Loans under the scheme is available for only greenfield project. GreenField signifies, in

this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.

3. In case of non-individual enterprises, 51% of the shareholding and controlling stakes should be held by either SC/ST and/or Women Entrepreneur.
4. Borrower should not be in default to any bank or financial institution.

Lesson 5

INDIAN ECONOMY

PRIMARY (AGRICULTURE AND ALLIED ACTIVITIES)

Agriculture is the primary source of livelihood for about 58 per cent of India's population. Gross Value Added by agriculture, forestry and fishing was estimated at Rs 19.48 lakh crore (US\$ 276.37 billion) in FY20. Share of agriculture and allied sectors in Gross Value Added (GVA) of India at current prices stood at 17.8% in FY(20)

The Indian food industry is poised for huge growth, increasing its contribution to the world food trade every year due to its immense potential for value addition, particularly within the food processing industry. The Indian food and grocery market is the world's sixth largest, with retail contributing 70 per cent of the sales. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (GVA) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment.

According to Inc42, the Indian agricultural sector is predicted to increase to US\$ 24 billion by 2025. The private sector's share in seed production increased from 57.28% in 2017 to 64.46% in FY21. India is the world's second-largest producer of rice, wheat, sugarcane, cotton, groundnuts and fruits & vegetables. It also produced 25% of the world's pulses, as of last decade, until 2019.

The organic food segment in India is expected to grow at a CAGR of 10% during 2015--25 and is estimated to reach Rs. 75,000 crore (US\$ 10.73 billion) by 2025 from Rs. 2,700 crore (US\$ 386.32 million) in 2015. The processed food market in India is expected to grow to Rs. 3,451,352.5 crore (US\$ 470 billion) by 2025, from Rs. 1,931,288.7 crore (US\$ 263 billion) in FY20 on the back of government initiatives such as planned infrastructure worth US\$ 1 trillion and Pradhan Mantri Kisan Sampada Yojna. The food processing industry employs about 1.77 million people. The sector allows 100% FDI under the automatic route.

Between April 2020 and February 2021, the total value of processed food products exports was Rs. 43,798 crore (US\$ 6.02 billion). India exported key processed food products such as pulses, processed vegetables, processed fruits and juices, groundnuts, guar gum, cereal preparations, milled products, alcoholic beverages and oil meals.

Major Investments

According to the Department for Promotion of Industry and Internal Trade (DPIIT), the Indian food processing industry has cumulatively attracted Foreign Direct Investment (FDI) equity inflow of about US\$ 9.08 billion between April 2000 and March 2019.

Some major investments and developments in agriculture are as follows:

- Investments worth Rs 8,500 crore (US\$ 1.19 billion) have been announced in India for ethanol production.
- The first mega food park in Rajasthan was inaugurated in March 2018.
- Agrifood start-ups in India received funding of US\$ 1.66 billion between 2013-17 in 558 deals.
- In 2017, the agriculture sector in India witnessed 18 M&A deals worth US\$ 251 million.
- From 2017 to 2020, India received ~US\$ 1 billion in agritech funding. With significant interest from the investors, India ranks third in terms of agritech funding and number of agritech start-ups by 2025, Indian agritech companies are likely to witness investments worth US\$ 30-35 billion.
- In March 2020, Fertiliser, the oldest large scale fertiliser manufacturer in the country, crossed one million production and sales mark.

- Investment worth Rs. 8,500 crore (US\$ 1.19 billion) have been announced in India for ethanol production.

Major Government Initiatives

Some of the recent major government initiatives in the sector are as follows:

- Prime Minister of India, launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) and transferred Rs 2,021 crore (US\$ 284.48 million) to the bank accounts of more than 10 million beneficiaries on February 24, 2019.
- The Government of India has come out with the Transport and Marketing Assistance (TMA) scheme to provide financial assistance for transport and marketing of agriculture products in order to boost agriculture exports.
- The Agriculture Export Policy, 2018 was approved by Government of India in December 2018. The new policy aims to increase India's agricultural exports to US\$ 60 billion by 2022 and US\$ 100 billion in the next few years with a stable trade policy regime.
- In September 2018, the Government of India announced Rs 15,053 crore (US\$ 2.25 billion) procurement policy named 'Pradhan Mantri Annadata Aay SanraksHan Abhiyan' (PM-AASHA), under which states can decide the compensation scheme and can also partner with private agencies to ensure fair prices for farmers in the country.
- In September 2018, the Cabinet Committee on Economic Affairs (CCEA) approved a Rs 5,500 crore (US\$ 820.41 million) assistance package for the sugar industry in India.
- The Government of India is going to provide Rs 2,000 crore (US\$ 306.29 million) for computerisation of Primary Agricultural Credit Society (PACS) to ensure cooperatives are benefitted through digital technology.
- With an aim to boost innovation and entrepreneurship in agriculture, the Government of India is introducing a new AGRI-UDAAN programme to mentor start-ups and to enable them to connect with potential investors.
- The Government of India has launched the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) with an investment of Rs 50,000 crore (US\$ 7.7 billion) aimed at the development of irrigation sources for providing a permanent solution from drought.
- The Government of India plans to triple the capacity of food processing sector in India from the current 10 per cent of agriculture produce and has also committed Rs 6,000 crore (US\$ 936.38 billion) as investments for mega food parks in the country, as a part of the Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters (SAMPADA).
- The Government of India has allowed 100 per cent FDI in marketing of food products and in food product e-commerce under the automatic route.
- In October 2021, the Union Minister of Home Affairs and Co-operation launched the 'Dairy Sahakar' scheme in Anand, Gujarat.
- Ministry of Civil Aviation launched the Krishi UDAN 2.0 scheme in October 2021. The scheme proposes assistance and incentive for movement of agri-produce by air transport. The Krishi UDAN 2.0 will be implemented at 53 airports across the country, largely focusing on Northeast and tribal regions, and is expected to benefit farmers, freight forwarders and airlines.
- In October 2021, Agricultural and Processed Food Products Export Development Authority (APEDA) signed a Memorandum of Understanding (MoU) with ICAR-Central Citrus Research

- Institute (ICAR-CCRI), Nagpur, for boosting exports of citrus and its value-added products.
- In October 2021, the Union Ministry of Agriculture and Farmers Welfare announced that 820,600 seed mini-kits will be distributed free of cost in 343 identified districts across 15 major producing states under a special programme. This programme is likely to boost production and productivity by speeding up the seed replacement rate and subsequently, help in increasing farmer's income.
 - In September 2021, Prime Minister Mr. Narendra Modi launched 35 crop varieties with special traits such as climate resilience and higher nutrient content.
 - Prime Minister of India launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) and transferred Rs. 2,021 crore (US\$ 284.48 million) to bank accounts of more than 10 million beneficiaries on February 24, 2019. As per the Union Budget 2021-22, Rs. 65,000 crore (US\$ 8.9 billion) was allocated to Pradhan Mantri Kisan Samman Nidhi (PM-Kisan).
 - In September 2021, the Union Ministry of Agriculture and Farmers' Welfare signed five MoUs with CISCO, Ninjacart, Jio Platforms Limited, ITC Limited and NCDEX e-Markets Limited. This MoU will have five pilot projects, which will help farmers make decisions on the kind of crops to grow, variety of seeds to use and the best practices to adopt to maximise yield.
 - With a budget of US\$ 1.46 billion, the 'Production-Linked Incentive Scheme for Food Processing Industry (PLISFPI)' has been approved to develop global food manufacturing champions commensurate with India's natural resource endowment and to support Indian food brands in international markets.
 - The key highlights of Union Budget 2022 for agriculture sector are-
 - a) Rs. 2.37 lakh crore direct payment to 1.63 crore farmers for procurement of wheat and paddy.
 - b) Chemical free Natural farming to be promoted throughout the county. Initial focus is on farmer's lands in 5 Km wide corridors along the river Ganga.
 - c) NABARD to facilitate fund with blended capital to finance startups for agriculture & rural enterprise.
 - d) 'Kisan Drones' for crop assessment, digitization of land records, spraying of insecticides and nutrients.
 - e) 9.08 lakh hectares of farmers' lands to receive irrigation benefits by Ken-Betwa link project.

SECONDARY (MANUFACTURING)

Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, had launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. India is expected to become the fifth largest manufacturing country in the world by the end of the year 2020.

Major Investments

With the help of Make in India drive, India is on the path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and increasing purchasing power.

Cumulative Foreign Direct Investment (FDI) in India's manufacturing sector reached US\$ 76.82 billion during April 2000-June 2018.

India has become one of the most attractive destinations for investments in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- As of December 2018, premium smartphone maker OnePlus is anticipating that India will become its largest Research and Development (R&D) base within the next three years.
- India's manufacturing PMI stood at 51.7 in May 2019. Also companies start to spend more on hiring and anticipate good growth in future prospects.
- As of October 2018, Filatex India, a polymer manufacturer, is planning to undertake forward integration by setting up a fabric manufacturing and processing unit.
- As of August 2018, IISC's Society of Innovation and Development (SID) and WIPRO 3D are collaborating to produce India's first industrial scale 3D printing machine.
- For its Commercial Vehicles, Ashok Leyland is utilising machine learning algorithms and its newly created telematics unit to improve the performance of the vehicle, driver and so on.
- The overall index stood at 134.0, as of July 2021. This rise in the index was supported by growth in the production of natural gas, steel, cement, fertilisers, coal, refinery products and electricity.
- The IHS Markit India Manufacturing Purchasing Managers' Index (PMI) stood at 55.9 in October 2021.
- As per the survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI), capacity utilization in India's manufacturing sector stood at 72.0% in the second quarter of FY22, indicating a significant recovery in the sector.
- Merchandise exports from select industries (including engineering, petroleum products, gems & jewellery, drugs & pharmaceuticals and chemicals) stood at US\$ 151.96 billion between April 2021 and October 2021.

Major Government Initiatives

The Government of India has taken several initiatives to promote a healthy environment for the growth of the manufacturing sector in the country. Some of the notable initiatives and developments are:

- In October 2018, the Government of India released the draft National Policy on Electronics (NPE) which has envisaged the creation of a US\$ 400 billion electronics manufacturing industry in the country by 2025.
- In September 2018, the Government of India exempted 35 machine parts from basic custom duty in order to boost mobile handset production in the country.
- Government of India is in the process of coming up with a new industrial policy which envisions the development of a globally competitive Indian industry. As of December 2018, the policy has been sent to the Union Cabinet for approval.
- In Union Budget 2018-19, the Government of India reduced the income tax rate to 25 per cent for all companies having a turnover of up to Rs 250 crore (US\$ 38.75 million).
- Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Government of India increased export incentives available to labour intensive MSME sectors by 2 per cent.
- The Government of India has launched a phased manufacturing programme (PMP) aimed at adding more smartphone components under the Make in India initiative thereby giving a push to the domestic manufacturing of mobile handsets.

- The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.
- In May 2020, the Government of India increased FDI in defence manufacturing under the automatic route from 49% to 74%.
- The Ministry of Defence, Government of India, approved the “Strategic Partnership” model which will enable private companies to tie up with foreign players for manufacturing submarines, fighter jets, helicopters and armoured vehicles.
- The Union Cabinet has approved the Modified Special Incentive Package Scheme (M-SIPS) in which, proposals will be accepted till December 2018 or up to an incentive commitment limit of Rs 10,000 crore (US\$ 1.5 billion).
- With the help of Make in India drive, India is on a path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and an increasing purchasing power.
- On November 19, 2021, Prime Minister, Mr. Narendra Modi, laid the foundation stone for the Uttar Pradesh Defence Industrial Corridor project worth Rs. 400 crore (US\$ 53.73 million) in Jhansi
- In November 2021, the Experts' Advisory Committee (EAC) of the Department for Promotion of Industry and Internal Trade approved Rs. 3 crore (US\$ 403,293.54) for the Atal Incubation Centre (AIC), Pondicherry Engineering College Foundation (PECF), under the Start-up India Seed Fund scheme.
- In September 2021, Prime Minister Mr. Narendra Modi approved the production-linked incentive (PLI) scheme in the textiles sector—for man-made fibre (MMF) apparel, MMF fabrics and 10 segments/products of technical textiles—at an estimated outlay of Rs. 10,683 crore (US\$ 1.45 billion).
- India outlines a plan in August 2021 to reach its goal of US\$ 1 trillion in manufactured goods exports.
- In July 2021, the government launched six technology innovation platforms to develop technologies and thereby, boost the manufacturing sector in India to compete globally.
- To propagate Make in India, in July 2021, the Defence Ministry issued a tender of Rs. 50,000 crore (US\$ 6.7 billion) for building six conventional submarines under Project-75 India.
- In July 2021, the Ministry of Commerce and Industry announced that 104 start-ups from sectors, including food-tech, green energy, defence, education-tech, and health-tech, have joined ‘Start-up India Showcase’, an online discovery platform for the country's most promising start-ups that provides various social and digital connect opportunities.
- In May 2021, the government approved a PLI scheme worth Rs. 18,000 crore (US\$ 2.47 billion) for the production of advanced chemical cell (ACC) batteries; this is expected to attract investments worth Rs. 45,000 crore (US\$ 6.18 billion) in the country, and further boost capacity in core component technology and make India a clean energy global hub.
- To facilitate manufacturing and investment in sectors such as ICT and telecom, in May 2021, TEMA (Telecom Equipment Manufacturers Association of India) signed a collaboration deal with ICCO (Indo-Canada Chamber of Commerce) to promote ‘Make in India’ and ‘Self-reliant India’ initiatives.

- India's display panel market is estimated to grow from ~US\$ 7 billion in 2021 to US\$ 15 billion in 2025.
- The Mega Investment Textiles Parks (MITRA) scheme to build world-class infrastructure will enable global industry champions to be created, benefiting from economies of scale and agglomeration. Seven Textile Parks will be established over three years.
- The government proposed to make significant investments in the construction of modern fishing harbours and fish landing centres, covering five major fishing harbours in Kochi, Chennai, Visakhapatnam, Paradip, and Petuaghat, along with a multipurpose Seaweed Park in Tamil Nadu. These initiatives are expected to improve exports from the textiles and marine sectors.
- The 'Operation Green' scheme of the Ministry of the Food Processing Industry, which was limited to onions, potatoes and tomatoes, has been expanded to 22 perishable products to encourage exports from the agricultural sector. This will facilitate infrastructure projects for horticulture products.
- India is emerging as an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

Major Investments

- In October 2021, information technology major Zoho, announced that it will invest Rs. 50–100 crore (US\$ 6.7–13.4 million) and form a new company, that will focus on research and development (R&D) in the manufacturing sector.
- In August 2021, Wistron Corp. collaborated with India's Optiemus Electronics to manufacture products such as laptops and smartphones, giving a major boost to the 'Make in India' initiative and electronics manufacturing in the country.
- In FY21, India received a total foreign direct investment (FDI) infl-ow of US\$ 81.72 billion, a 10% increase YoY.
- On February 16, 2021, Amazon India announced to start manufacturing electronic products in India, starting first with Amazon Fire TV stick manufacturing. The company plans to start manufacturing with contract manufacturer Cloud Network Technology, a subsidiary of Foxconn in Chennai by the end-2021.
- In April 2021, Samsung started manufacturing mobile display panels at its Noida plant and plans to ramp up manufacturing IT display panels soon.

Way Forward

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phones, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

The manufacturing sector of India has the potential to reach US\$ 1 trillion by 2025 and India is expected to rank amongst the top three growth economies and manufacturing destination of the world by the year 2020. The implementation of the Goods and Services Tax (GST) will make India a common market with a GDP of US\$ 2.5 trillion along with a population of 1.32 billion people, which will be a big draw for investors.

With impetus on developing industrial corridors and smart cities, the government aims to ensure the holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for industrial development and will promote advanced practices

in manufacturing.

TERTIARY (SERVICES)

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Market of Services Sector

Share of the services sector accounted for 54% of the total GVA in FY21. India's services sector GVA increased at a CAGR of 11.43% to Rs. 101.47 trillion (US\$ 1,439.48 billion) in FY20, from Rs. 68.81 trillion (US\$ 1,005.30 billion) in FY16. Between FY16 and FY20, financial, real estate and professional services augmented at a CAGR of 11.68% (in Rs. terms), while trade, hotels, transport, communication and services related to broadcasting rose at a CAGR of 10.98% (in Rs. terms).

India's IT and business services market is projected to reach US\$ 19.93 billion by 2025.

Services exports comprise a major part of the total export from India. According to RBI, between April 2021 and September 2021, India's service exports stood at US\$ 114.58 billion, whereas imports stood at US\$ 65.08 billion.

In October 2021, the India Services Business Activity Index/ Nikkei/IHS Markit Services Purchasing Managers' Index stood at 58.4, compared with 55.2 recorded in September 2021.

The India Services Business Activity Index/ Nikkei/IHS Markit Services Purchasing Managers' Index stood at 55.2 in September 2021, compared with 56.7 in August 2021.

Key Developments

- a. In October 2021, India's service exports increased by 23.52% to reach US\$ 20.86 billion, while imports stood at US\$ 12.71 billion.
- b. In June 2021, India's exports increased by 48.34% to US\$ 32.5 billion, marking the seventh consecutive month of growth.
- c. The Indian services sector was the largest recipient of FDI inflows worth US\$ 88.95 billion between April 2000 and June 2021. The services category ranked 1st in FDI inflow as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT).
- d. In August 2021, the Department of Telecommunications (DoT) issued a letter of intent (LoI) to OneWeb (backed by Bharti Group) for satellite communication services licence.
- e. In July 2021, Tata Teleservices collaborated with Zoom Video Communications to offer bundled communication services.
- f. In April 2021, the Ministry of Education (MoE) and University Grants Commission (UGC) started a series of online interactions with stakeholders to streamline forms and processes to reduce compliance burden in the higher education sector, as a follow-up to the government's focus on ease of doing business to enable ease of living for stakeholders.
- g. By October 2021, the Health Ministry's eSanjeevani telemedicine service, crossed 14 million (1.4 crore) teleconsultations since its launch, enabling patient-to-doctor consultations, from the confines of their home, and doctor-to-doctor consultations.

- h. In April 2021, Elon Musk's SpaceX has started accepting pre-orders for the beta version of its Starlink satellite internet service in India for a fully refundable deposit of US\$ 99.
- i. In December 2020, a cohort of six health-tech start-ups—AarogyaAI, BrainSightAI, Fluid AI, InMed Prognostics, Wellthy Therapeutics, and Onward Assist—have been selected by the India Edison Accelerator, fuelled by GE Healthcare. India Edison Accelerator, the company's first start-up partnership programme focused on Indian mentors, creates strategic partners to co-develop healthcare solutions.
- j. The Indian healthcare industry is expected to shift digitally enabled remote consultations via teleconsultation. The telemedicine market in India is expected to increase at a CAGR of 31% from 2020 to 2025.
- k. In December 2020, Gamma Skills Automation Training introduced a unique robotics & automation career launch programme for engineers, an 'Industry 4.0 Hands-on Skill Learning Centre' located at IMT Manesar, Gurgaon in Haryana.
- l. In December 2020, the 'IGNITE' programme was initiated by Siemens, BMZ and MSDE to encourage high-quality training and technical education. 'IGNITE' aims to develop highly trained technicians, with an emphasis on getting them ready for the industry and future, based on the German Dual Vocational Educational Training (DRET) model. By 2024, this programme aims to upskill ~40,000 employees.
- m. In October 2020, Bharti Airtel entered the cloud communications market with the launch of business-centric 'Airtel IQ'.

Major Government Initiatives

1. *Services Exports from India Scheme (SEIS)*
 - (a) SEIS is aimed at promoting export of services from India by providing duty scrip credit for eligible export.
 - (b) Under this scheme, a reward of 3 to 5 per cent of net foreign exchange earned is given for Mode 1 and Mode 2 services.
 - (c) In the Mid-term review of FTP 2015-20, SEIS incentives to notified services were increased by 2 per cent.
2. *National Digital Communications Policy 2018*

The National Digital Communications Policy 2018 envisages three missions:

 - (a) Connect India: Creating Robust Digital Communications Infrastructure.
 - (b) Propel India: Enabling Next Generation Technologies and Services through Investments, Innovation and IPR generation.
 - (c) Secure India: Ensuring Sovereignty, Safety and Security of Digital Communications.
3. *National Tourism Policy 2015*
 - (a) Formulation of National Tourism Policy 2015 that would encourage the citizens of India to explore their own country as well as position the country as a 'Must See' destination for global travellers.

4. National Health Policy 2017

(a) National Health Policy 2017 proposes ten key policy principles to attain policy objectives. These key policy principles are:

- 1) Professionalism, Integrity and Ethics,
- 2) Equity,
- 3) Affordability,
- 4) Universality,
- 5) Patient Centred & Quality of Care,
- 6) Accountability,
- 7) Inclusive Partnerships,
- 8) Pluralism,
- 9) Decentralization, and
- 10) Dynamism and Adaptiveness. NHP 2017 states that these key policy principles will help in reducing mortality and morbidity as well as in improving wellness in population.

Specific Quantitative Goals

National Health Policy 2017 also sets specific quantitative goals in three core areas to track attainment of policy objectives: a) Health Status and Programme Impact, b) Health Systems Performance, c) Health Systems strengthening. Some of the key quantitative indicators are following:

1. Increase Life Expectancy at birth from 67.5 to 70 by 2025.
2. Reduction of TFR to 2.1 at national and sub-national level by 2025.
3. Reduce under Five Mortality to 23 by 2025 and MMR from current levels to 100 by 2020.
4. Reduce infant mortality rate to 28 by 2019.
5. Reduce neo-natal mortality to 16 and still birth rate to "single digit" by 2025.
6. Achieve global target of 2020 which is also termed as target of 90:90:90, for HIV/AIDS i. e., - 90% of all people living with HIV know their HIV status, - 90% of all people diagnosed with HIV infection receive sustained antiretroviral therapy and 90% of all people receiving antiretroviral therapy will have viral suppression.
7. To achieve and maintain a cure rate of >85% in new sputum positive patients for TB and reduce incidence of new cases, to reach elimination status by 2025.
8. To reduce premature mortality from cardiovascular diseases, cancer, diabetes or chronic respiratory diseases by 25% by 2025.
9. More than 90% of the new born are fully immunized by one year of age by 2025.
10. Reduction of 40% in prevalence of stunting of under-five children by 2025.
11. Increase health expenditure by Government as a percentage of GDP from the existing 1.15% to 2.5 % by 2025.

12. Ensure availability of paramedics and doctors as per Indian Public Health Standard (IPHS) norm in high priority districts by 2020.
13. Increase community health volunteers to population ratio as per IPHS norm, in high priority districts by 2025.
14. Establish primary and secondary care facility as per norms in high priority districts (population as well as time to reach norms) by 2025.
15. Ensure district-level electronic database of information on health system components by 2020.
16. Strengthen the health surveillance system and establish registries for diseases of public health importance by 2020.

5. *National Education Policy, 2020*

The key highlights of the National Education Policy, 2020 are as under:

- i. Ensuring Universal Access at All Levels of schooling from pre-primary school to Grade 12;
- ii. Ensuring quality early childhood care and education for all children between 3-6 years;
- iii. New Curricular and Pedagogical Structure (5+3+3+4);
- iv. No hard separations between arts and sciences, between curricular and extra-curricular activities, between vocational and academic streams;
- v. Establishing National Mission on Foundational Literacy and Numeracy;
- vi. Emphasis on promoting multilingualism and Indian languages; The medium of instruction until at least Grade 5, but preferably till Grade 8 and beyond, will be the home language/ mother tongue/local language/regional language;
- vii. Assessment reforms - Board Exams on up to two occasions during any given school year, one main examination and one for improvement, if desired;
- viii. Setting up of a new National Assessment Centre, PARAKH (Performance Assessment, Review, and Analysis of Knowledge for Holistic Development);
- ix. Equitable and inclusive education - Special emphasis given to Socially and Economically Disadvantaged Groups (SEDGs);
- x. A separate Gender Inclusion fund and Special Education Zones for disadvantaged regions and groups;
- xi. Robust and transparent processes for recruitment of teachers and merit based performance;
- xii. Ensuring availability of all resources through school complexes and clusters;
- xiii. Setting up of State School Standards Authority (SSSA);
- xiv. Exposure to vocational education in school and higher education system;
- xv. Increasing GER in higher education to 50%;
- xvi. Holistic Multidisciplinary Education with multiple entry/exit options;
- xvii. NTA to offer Common Entrance Exam for Admission to HEIs;

- xviii. Establishment of Academic Bank of Credit;
 - xix. Setting up of Multidisciplinary Education and Research Universities(MERUs);
 - xx. Setting up of National Research Foundation(NRF);
 - xxi. 'Light but Tight' regulation;
 - xxii. Single overarching umbrella body for promotion of the higher education sector including teacher education and excluding medical and legal education- the Higher Education Commission of India (HECI)-with independent bodies for standard setting- the General Education Council; funding-Higher Education Grants Council (HEGC); accreditation-National Accreditation Council (NAC); and regulation- National Higher Education Regulatory Council (NHERC);
 - xxiii. Expansion of open and distance learning to increase GER;
 - xxiv. Internationalization of Education;
 - xxv. Professional Education will be an integral part of the higher education system. Stand-alone technical universities, health science universities, legal and agricultural universities, or institutions in these or other fields, will aim to become multi-disciplinary institutions;
 - xxvi. Teacher Education - 4-year integrated stage-specific, subject- specific Bachelor of Education;
 - xxvii. Establishing a National Mission for Mentoring;
 - xxviii. Creation of an autonomous body, the National Educational Technology Forum (NETF) to provide a platform for the free exchange of ideas on the use of technology to enhance learning, assessment, planning, administration. Appropriate integration of technology into all levels of education;
 - xxix. Achieving 100% youth and adult literacy;
 - xxx. Multiple mechanisms with checks and balances will combat and stop the commercialization of higher education;
 - xxxi. All education institutions will be held to similar standards of audit and disclosure as a 'not forprofit' entity;
 - xxxii. The Centre and the States will work together to increase the public investment in Education sector to reach 6% of GDP at the earliest;
 - xxxiii. Strengthening of the Central Advisory Board of Education to ensure coordination to bring overall focus on quality education;
 - xxxiv. Ministry of Education: In order to bring the focus back on education and learning, it may be desirable to re-designate MHRD as the Ministry of Education (MoE).
6. *FDI Policy*
- (a) 100 per cent FDI is allowed under automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline.
 - (b) Approval of 100 per cent FDI in aviation for foreign carriers.
 - (c) 100 per cent FDI is allowed under the automatic route in tourism and hospitality, subject to applicable regulations and laws.

- (d) The Government of India allowed 100 per cent FDI in the education sector through the automatic route since 2002.
- (e) For the healthcare sector, 100 per cent FDI is allowed under the automatic route for greenfield projects and for brownfield project investments, up to 100 per cent FDI is permitted under the government route.
- (f) FDI cap in the telecom sector has been increased to 100 per cent from 74 per cent; out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done through the FIPB approval route.
- (g) Government has allowed 100 per cent FDI in the railway sector for approved list of projects.
- (h) FDI limit for insurance companies has been raised from 26 per cent to 49 per cent and 100 per cent for insurance intermediates.

Further initiatives

- In October 2021, Prime Minister, Mr. Narendra Modi, approved the establishment of 157 new medical colleges to boost the accessibility of affordable health treatments among citizens.
- In October 2021, the government launched a production linked incentive (PLI) scheme to boost the manufacturing of telecom and networking products in India. The scheme is expected to attract an investment of Rs. 3,345 crore (US\$ 446.22 million) over the next four years and generate additional employment for >40,000 individuals.
- In October 2021, the government launched phase-II of the Mahatma Gandhi National Fellowship to empower students and boost skill development.
- In October 2021, the PM Ayushman Bharat Health Infrastructure Mission was launched by the government, to strengthen the critical healthcare network across India in the next four to five years.
- In September 2021, India and the UK joined the 11th Economic and Financial Dialogue (EFD) to discuss the FTA (Free Trade Agreement) opportunities in services.
- Credit to non-food industries stood at Rs. 110.86 trillion (US\$ 1.49 trillion), as of November 5, 2021.
- The Indian government is planning to introduce a credit incentive programme worth Rs. 50,000 crore (US\$ 6.8 billion) to boost healthcare infrastructure in the country. The programme will allow companies to access funds to ramp up hospital capacity or medical supplies with the government acting as a guarantor.
- In June 2021, India and Australia announced its collaboration in cyber-enabled critical technologies, highlighting the requirement to boost the critical information security infrastructure such as 5G telecom networks.
- Under Union Budget 2021-22, the government allocated Rs. 7,000 crore (US\$ 963.97 million) to the BharatNet programme to boost digital connectivity across India.
- FDI limit for insurance companies has been raised from 49% to 74% and 100% for insurance intermediates.
- In May 2021, the Ministry of Commerce and Industry announced that India received an FDI inflow of US\$ 81.72 billion, the highest FDI during FY 2020-21.

- In March 2021, the central government infused Rs. 14,500 crore (US\$ 1.99 billion) capital in Central Bank of India, Indian Overseas Bank, Bank of India and UCO Bank through non-interest bearing bonds.
- On January 15, 2021, the third phase of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was launched in 600 districts with 300+ skill courses. Spearheaded by the Ministry of Skill Development and Entrepreneurship, the third phase will focus on new-age and COVID-related skills. PMKVY 3.0 aims to train eight lakh candidates.
- In January 2021, the Department of Telecom, Government of India, signed an MoU with the Ministry of Communications, Government of Japan, to strengthen cooperation in the areas of 5G technologies, telecom security and submarine optical fibre cable system.
- On November 4, 2020, the Union Cabinet, chaired by the Prime Minister, Mr. Narendra Modi, approved to sign a memorandum of understanding (MoU) between the Ministry of Communication and Information Technology and the Department of Digital, Culture, Media and Sports (DCMS) of United Kingdom Government to cooperate in the field of telecommunications/information and communication technologies (ICTs).
- In October 2020, the government selected Hughes Communications India to connect 5,000 village panchayats in border and naxal-affected states and island territories with satellite broadband under BharatNet project by March 2021.
- In September 2020, the government announced that it may infuse Rs. 200 billion (US\$ 2.72 billion) in public sector banks through recapitalisation of bonds
- In the next five years, the Ministry of Electronics and Information Technology is working to increase the contribution of the digital economy to 20% of GDP. The government is working to build a cloud-based infrastructure for collaborative networks that can be used for the creation of innovative solutions by AI entrepreneurs and startups.
- On Independence Day 2020, Prime Minister Mr. Narendra Modi announced the National Digital Health Mission (NDHM) to provide a unique health ID to every Indian and revolutionise the healthcare industry by making it easily accessible to everyone in the country. The policy draft is under 'public consultation' until September 21, 2020.
- In September 2020, the Government of Tamil Nadu announced a new electronics & hardware manufacturing policy aligned with the old policy to increase the state's electronics output to US\$ 100 billion by 2025. Under the policy, it aims to meet the requirement for incremental human resource by upskilling and training > 100,000 people by 2024.
- Government of India has launched the National Broadband Mission with an aim to provide Broadband access to all villages by 2022.

Note: Since the topics, Current scenario of agriculture and allied activities in India and Current scenario of services sector in India have been already covered under Primary (Agriculture and allied activities); Secondary (Manufacturing) and Tertiary (Services), in view of this, they have not been explained separately.

AGRICULTURAL AND INDUSTRIAL POLICIES OF INDIA

(A) Agricultural Policies

The agricultural development policies during five year plans are as under:

- (1) *Five-year plan (1951-56)* : The highest priority was accorded to increase of agricultural production. Nearly one third or 31 per cent of total plan funds were allocated to the agriculture sector. River

valley projects were taken up. Irrigational facilities and fertilizer plants were established. Consequently, production of food-grains increased by 36 per cent in a short span of five years.

- (2) *Second five-year plan (1956-61)* : It focused on industrial growth and only 20 per cent of plan allocation was devoted to agriculture. Still food-grains production exceeded the target due to extension of irrigation facilities and use of chemical fertilizers.
- (3) *Third Five Years Plan (1961-66)* : The priorities were on self-sufficiency in food grains, meeting the raw material needs of industries and increase in exports. During this period, Green Revolution programme was started on a small scale. But this plan failed to meet the target due to Chinese aggression (1962), Indo-Pak war (1965) and severe and prolonged drought during 1965-66. There was a great crisis of food that forced Prime Minister L. B. Shastri to appeal to people to observe fast once a week. During the next three annual plans (1966-69) agriculture recorded 6-9 per cent annual growth under the impact of Green Revolution. The production of food grain touched 94 million tonnes.
- (4) *Fourth Five Years Plan (1969-74)* : It aimed at a 5 per cent annual growth in food grains. High Yielding Variety (HYV) of seeds, fertilizer use, new agriculture techniques and irrigation facilities provided to expand the area of Green Revolution. The production of wheat increased sharply but growth in rice, oilseeds and coarse grains were nominal resulting in only 3 per cent annual growth against the target of 5 per cent.
- (5) *Fifth Five Years Plan (1974-79)* : It emphasised on self-sufficiency in food production and poverty eradication. Stress was laid on the extension of irrigation, expansion in cultivated area under HYV seeds and grant of loans and subsidies to farmers. Dry farming was propagated. This plan achieved its target successfully with 4.6 per cent growth. Almost all food grains except pulses witnessed an increase in production.
- (6) *Sixth Five Years Plan (1980-85)* : It emphasised on land reforms, use of HYV seeds, chemical fertilisers and groundwater resources and improving post harvest technology as well as marketing and storage facilities. The annual growth rate was 6 per cent, highest ever during plan periods. The food-grain production reached 152 million tonnes.
- (7) *Seventh Five Year Plan (1985-90)* : During this period, the highest growth in foodgrain, pulses and coarse cereals was recorded showing overall annual growth rate of 4 per cent. The areas of Green Revolution were expanded during the period.
- (8) *Eight Five Year Plan (1992-97)* : This witnessed a tendency of stagnation in foodgrain production while oilseed registered a rapid growth.
- (9) *Ninth Five Year Plan (1997-02)* : The ninth five year plan witnessed a mixed success. There were fluctuations in the foodgrain production. During this plan period National Agricultural Policy, 2000, was framed and several measures were announced including, watershed management, development of horticulture, agricultural credits and an insurance scheme for crops.
- (10) *Tenth Five Year Plan (2002-07)* : In the Tenth Plan (2002-2007) focus was placed on (i) sustainable management of water and land resources, (ii) development of rural infrastructure to support agriculture, (iii) dissemination of agriculture technology, (iv) credit flow to agriculture sector, and (v) agricultural marketing reforms. The New Agricultural Policy The Government of India has announced (28th July 2000) a new National Agricultural policy, 2000, in the light of changes arising out of economic liberalization and globalization.

The main aims of the policy were:

- (i) achieving more than 4 per cent per annum growth rate in the agriculture sector,

- (ii) growth based on efficient use of resources and conservation of soil, water and biodiversity,
 - (iii) growth with equity in region and among the farmers,
 - (iv) growth that caters to the domestic market and maximizes benefits from exports of agricultural products and
 - (v) technologically, environmentally and economically sustainable growth.
- (11) *Eleventh Five Year Plan (2007-12)* : The 11th Five Year Plan (2007–12) emphasised 'Inclusive growth' to achieve target growth of 4 per cent per annum in GDP from agriculture and allied services. Globally, studies indicate that a higher GDP in agriculture is more effective in alleviating poverty in comparison with higher GDP in other sectors.

To achieve 'Inclusive growth', the 11th plan aimed at the following:

- (i) Improving accessibility of technology to farmers to increase production and ensure optimum use of natural resources.
- (ii) Attracting higher public investments and ensuring the efficacy of such investments.
- (iii) Promoting diversification for higher value crops and livestock.
- (iv) Addressing issues pertaining to food security.
- (v) Decentralising decision making to come up with customised solutions to specific local problems and to improve the accessibility of land, credit, skills and scale to the poor.

One of the major accomplishment of Eleventh Five Year Plan was launching of National Food Security Mission (NFSM) launched in 2007 and introduction of Rashtriya Krishi Vikas Yojana (RKVY) in the financial year 2008.

National Food Security Mission (NFSM) : In 2007, the Government of India launched the National Food Security Mission (NFSM) initiative to improve the country's overall crop production, especially that of rice, wheat and pulses. The primary objective of NFSM is to introduce technological components that include farm machines/implements as well as improved variants of seeds, soil ameliorants, plant nutrients and plant protection measures.

The government aimed to increase the production of rice, wheat and pulses by 10 million tons, eight million tons and two million tons, respectively, by the end of 2012. It had allocated Rs 4,883 crore (US\$ 915.7 million) to NFSM, of which Rs 3,381 crore (US\$ 634 million) was spent until 31 March 2011. Through NFSM, 25 million tonnes of additional food grain were produced in the 11th Five Year Plan.

The following are the major achievements of the initiative:

- (i) Implemented in about 312 districts, spread across 17 states.
- (ii) Wheat production increased from 71.3 million tons in FY07 (terminal year of 10th plan) to 80.3 million tons in FY10.
- (iii) Rice production increased from 89.4 million tons in FY07 to 99.2 million tons in FY09; however, it declined to 87.6 million tons in FY10.
- (iv) Pulse production increased from 13.6 million tons in FY07 to 14.7 million tons in FY10.
- (v) Different districts were able to increase the food basket of the country.

Rashtriya Krishi Vikas Yojana (RKVY): In FY08, the government introduced Rashtriya Krishi Vikas

Yojana (RKVY), with an outlay of Rs 25,000 crore (US\$ 4.7 billion), to encourage states to increase public investment in agriculture and allied services. The programme enables adoption of national priorities as sub-schemes, thereby providing flexibility in project selection and implementation to state governments. Various sub-schemes under RKVY are as follows:

- (a) Green revolution in the Eastern region.
 - (b) Combining development of 60,000 pulses villages in rainfed areas.
 - (c) Encouraging the use of palm oil.
 - (d) Initiative on vegetable clusters.
 - (e) Nutri cereals.
 - (f) National Mission for Protein Supplements initiative.
 - (g) Accelerated Fodder Development Programme.
 - (h) Rainfed Area Development Programme.
 - (i) Saffron Mission.
- (12) *Twelfth Five Year Plan (2012-17)* : Agriculture sector grew by an average 1.6 percent per annum in first four years as against the targeted 4 percent annual growth due to lower production. However, Government of India took several steps for increasing investment in the agriculture sector such as enhanced institutional credit to farmers, promotion of scientific warehousing infrastructure for increasing the shelf life of agriculture produce, setting up of agri-tech infrastructure fund for making farming competitive and profitable, developing commercial organic farming.

However, it was realized that action is required on numerous fronts including the provision of basic support services such as technology and irrigation infrastructure, access to credit, good and reliable seeds and improved post-harvest technology. The latter is particularly important since the bulk of the acceleration in growth will come from diversification towards horticulture, animal husbandry and fisheries.

The greatest potential for improving productivity was identified in the rain-fed areas, which accounted for 55 per cent of net sown area and where most of the poor live. Land productivity was low in these areas, but a combination of effective water management combined with better seeds, promotion of soil health and critical on farm investments combined with public sector efforts to improve infrastructure was expected to make a big difference.

Latest Developments – Union Budget 2022

- Rs. 2.37 lakh crore direct payment to 1.63 crore farmers for procurement of wheat and paddy.
- Chemical free Natural farming to be promoted throughout the country. Initial focus is on farmer's lands in 5 Km wide corridors along the river Ganga.
- NABARD to facilitate fund with blended capital to finance startups for agriculture & rural enterprise.
- 'Kisan Drones' for crop assessment, digitization of land records, spraying of insecticides and nutrients.

Ken Betwa project

- 1400 crore outlay for implementation of the Ken – Betwa link project.

- 9.08 lakh hectares of farmers' lands to receive irrigation benefits by Ken-Betwa link project.

Drawbacks of agricultural planning in India

1. *Self-Complacency:*

The First 5-Year Plan wisely gave top priority to agriculture. But the Second 5-Year Plan failed to give agriculture a proper place. It appears that the success of the First 5-year Plan, which was primarily due to a series of favourable Monsoons created a sense of self-complacency.

2. *Quick-Yielding Projects not given sufficient importance:*

Projects having a long gestation period were given undue importance and those with a short fruition lag were not given sufficient importance. Minor irrigation works did not receive the attention they deserved. More attention was given to the expansion of irrigation potential and less to maintenance of existing works so that increase in irrigation potential was neutralized by loss of irrigation potential.

3. *Unproductive Expenditure :* Unnecessarily large sums were provided for unproductive expenditure.

4. *Inadequate Provision for Rural Credit :*

The annual credit requirements of the Indian farmers have been estimated at Rs. 10, 000-12,000 mn. whereas the provision is not even for Rs. 3500 mn. Without adequate credit facilities agriculture cannot progress.

5. *No Provision for Agricultural Inputs:*

There has been co-ordinated provision for the simultaneous production of agricultural inputs like fertilizers, pesticides, cement, etc.

6. *New Farming Techniques Not Enforced:*

In agricultural planning in India, no concrete steps were taken for the adoption of new agricultural technique and for standardizing farming practices.

7. *Lack of Suitable Price Policy:*

Unless farm output programmes are backed by a suitable agricultural price policy providing price support and incentives to the growers, things might go wrong and they have actually gone wrong in India.

8. *Morale Neglected:*

India is passing through a crisis of confidence. The planners did not provide any concrete measures to keep up the morale of the people.

9. *Unrealistic Planning :*

The failure to achieve targets indicates the unrealistic element in agricultural planning in India. The physical targets have proved ,to be "paper targets" treating irrigated area from all sources alike and to put all types of food grains superior and inferior together and above all to split up minutely the total allotment: under, different headings assigned to different authorities, are a few, instances of unrealistic planning.

10. *Delay in Land Reforms :*

Land reforms have not been implemented and whichever implemented have been delayed much.

(B) Industrial Policies

Industrial policy is a statement of objectives to be achieved in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy thus formally indicates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity.

(1) Industrial Policy Resolution 1948

After having attained independence, the Government of India declared its first Industrial Policy on 6th April, 1948.

Salient Features of Industrial Policy, 1948

Under this policy, the large industries were classified in four categories viz. Strategic Industries, Basic / Key industries, Important Industries and other industries which respectively referred to Public Sector; Public-cum-Private Sector; Controlled Private Sector and Private & Cooperative sector.

- (i) *Strategic Industries (Public Sector)* : This category included three industries in which Central Government had a monopoly. These included Arms and ammunitions; Atomic energy and Rail transport.
- (ii) *Basic / Key Industries (Public-cum-Private Sector)* : Six industries viz. coal, Iron and Steel, Aircraft manufacturing, Ship-building, Manufacture of telephone, telegraph and wireless apparatus, and Mineral oil were designated as “Key Industries” or “Basic Industries”. It was decided that the new industries in this category will henceforth only beset-up by the Central Government. However, the existing private sector enterprises were allowed to continue.
- (iii) *Important Industries (Controlled Private Sector)* : Eighteen industries were kept in the “Important Industries” category. Such important industries included heavy chemicals, sugar, cotton textile and woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc. These industries will continue to remain under private sector however, the central government, in consultation with the state government, will have general control over them.
- (iv) *Other Industries (Private and Co-operative Sector)* : All other industries which were not included in the above mentioned three categories were left open for the private sector. However, government could impose controls on these industries also if any of them was not working satisfactorily.

2. The Industries (Development and Regulation) Act, 1951

Industries (Development and Regulation) Act, 1951 was passed by parliament in Oct, 1951 to control and regulate industrial development in the country. Its objectives were:

- The regulation of industrial investment and production according to planned priorities and targets
- The protection of small entrepreneurs against the competition from larger industries
- Prevention of monopoly and concentration of ownership industries
- Balanced regional development with the view to reduce the disparity level of development of different regions of the country.

Provisions of the Act

The act laid down two provisions:

- *Restrictive provisions* : Under this category, all the measures were designed to curb the unfair practices adopted by industries
 - Registration and licensing of industrial undertakings
 - Enquiry of listed industries
 - Cancellation of registration license.
- *Reformative provisions*
 - Direct regulation and control by government
 - Control on price, distribution and supply
 - Constructive measures.

3. Industry Policy Resolution (IPR), 1956

Industrial Policy Resolution, 1956 replaced the IPR, 1948. It stressed on:

- Speeding up the pace of industrialization, particularly heavy industries.
- Expansion of public sector and growth of co-operative sector.
- State to take up the responsibility of setting up new industrial set up and development of transport facilities.
- Prevent private monopolies and concentration of economic process in hands of few number of individuals.

4. New Industrial Policy of India, 1991

The new Industrial Policy was announced in July, 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy

1. Strengthening of Private Sector
 - Abolition of licensing system for large number of industries
 - Greater role of private sector envisaged
 - Contraction in field of operations for public sector.
2. Dismantling of controls
3. Dispersing Industries
 - Policy to shift industries away from big congested cities to rural and backward areas
 - Incentives were brought to attract industries to village and backward regions
 - Favoured agro-based industries near the farming areas.

Limiting role of public sector

- Policy pointed out the grey area which were not fit for PSUs and needs to be vacated by them

Liberalization of foreign investments

- Foreign investment in the form of FDI allowed up to 50% with automatic approval
- Foreign investment in export promotion activities.

Foreign technology had been made easy by allowing automatic approvals for technology related agreements**Promotion of Small Scale Industries (SSI)**

- It ensured adequate supply of credit these industries based on their needs
- To enable modernization and technical up gradation, the policy allows equity participation by other non-SSI undertakings in SSI sector
- Limited partnership was allowed to enhance the supply of risk capital to the SSI sector
- It ensured the speedy payment towards the sale of products by SSI sector.

Domestic Regulatory Reforms

- Reduced the number of reserve industries
- Security and Industries of strategic concern were reserved for public sector.

Abolition of Industrial Licensing : It abolished industrial licensing system for all industries except few such as security and strategic concerns, social concerns, related to safety and manufacture of hazardous industries.

Recent Developments

The Union Cabinet had given approval for the PLI Scheme for White Goods for manufacture of components and sub-assemblies of Air Conditioners (ACs) and LED Lights on 7.04.2021 in pursuance of Prime Minister's clarion call for 'Atmanirbhar Bharat' to bring manufacturing at the center stage and emphasize its significance in driving India's growth and creating jobs. The Scheme is to be implemented over a seven-year period, from FY 2021-22 to FY 2028-29 and has an outlay of Rs. 6,238 crore.

MSME

The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports. The sector has also contributed immensely with respect to entrepreneurship development especially in semi-urban and rural areas of India.

According to the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes i.e., Manufacturing Enterprises and Service Enterprises.

The enterprises are further categorized based on investment in equipment and annual turnover.

Previous MSME Classification**Criteria: Investment in Plant & Machinery or Equipment**

<i>Classification</i>	<i>Micro</i>	<i>Small</i>	<i>Medium</i>
Manufacturing Enterprises	Investment <Rs.25 lac.	Investment <Rs.5 cr.	Investment <Rs.10 cr.
Services Enterprise	Investment <Rs.10 lac	Investment <Rs.2 cr.	Investment <Rs.5 cr.

Revised MSME Classification
Composite Criteria: Investment and Annual Turnover

<i>Classification</i>	<i>Micro</i>	<i>Small</i>	<i>Medium</i>
Manufacturing & Services	Investment < Rs. 1cr. and	Investment <Rs.10 cr. and	Investment <Rs.20 cr. and
	Turnover < Rs.5 cr.	Turnover < Rs.50 cr.	Turnover < Rs. 100 cr.
Services Enterprise	Investment <Rs.10 lac	Investment <Rs.2 cr.	Investment <Rs.5 cr.

Announcements in Union Budget 2022 for MSMEs.

- Udyam, e-shram, NCS and ASEEM portals to be interlinked.
- 130 lakh MSMEs provided additional credit under Emergency Credit Linked Guarantee Scheme (ECLGS)
- ECLGS to be extended up to March 2023.
- Guarantee cover under ECLGS to be expanded by Rs 50000 Crore to total cover of Rs 5 Lakh Crore.
- Rs 2 lakh Crore additional credit for Micro and Small Enterprises to be facilitated under the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE).
- Raising and Accelerating MSME performance (RAMP) programme with an outlay of Rs 6000 Crore to be rolled out.

BALANCE OF PAYMENTS

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.

Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming. A country's trade balance equals the value of its exports minus its imports.

The formula is $X - M = TB$, where:

X = Exports

M = Imports

TB = Trade Balance

With reference to India, the components of Balance of Payments (BOP) are as under:

Major Items of India's Balance of Payments

(US\$ Billion)

- A. Current Account
1. Goods
 - Of which:
 - POL
 2. Services
 3. Primary Income
 4. Secondary Income
- B. Capital Account and Financial Account
- Of which:
- Change in Reserves (Increase (-)/Decrease (+))
- C. Errors & Omissions (-) (A+B)
- P: Preliminary; PR: Partially Revised
-

Foreign Direct Investment (FDI)

Foreign Portfolio Investment
(FPI)

Foreign Institutional
Investment (FII)

Source : RBI

Why is Balance of Payment (BOP) vital for a country?

A country's BOP is vital for the following reasons:

- The BOP of a country reveals its financial and economic status.
- A BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.

- The BOP statement helps the Government to decide on fiscal and trade policies.
- It provides important information to analyze and understand the economic dealings of a country with other countries.

Significance of Balance of Payments in India

The importance of the balance of payment in India can be determined from the following points:

1. It monitors the transaction of all the imports and exports of services and goods for a given period.
2. It helps the government analyse a particular industry export growth potential and formulate policy to sustain it.
3. It gives the government a comprehensive perspective on a different range of import and export tariffs. The government then increases and decreases the tax to discourage import and encourage export, individually, and be self-sufficient.

FAVOURABLE AND UNFAVOURABLE BALANCE OF TRADE

The balance of trade or Net Exports is the difference between the monetary value of exports and imports of output in an economy over a certain period of time. It is the relationship between a nation's imports and exports. A favorable balance of trade is known as a trade surplus and consists of exporting more than is imported; an unfavorable balance of trade is known as a trade deficit or, informally, a trade gap.

1. Favourable Balance of Trade

When there is an excess of exports over imports, it is called favourable balance of trade. In 1976-77 in India, the imports were of the value of the INR 5073 crore while exports were of value of the INR 5142 crore. Thus, balance of trade was +INR 69 crore. Further, it assists in strengthening the economy of a country.

2. Unfavourable Balance of Trade

When there is excess of imports over exports, it is called an unfavourable balance of trade. In India in 1982-83 imports were of the value INR 14,047 crore while exports were of value of INR 8,637 crore. Balance of trade was INR -5410 crore. Further, it create problems for the economy.

FOREIGN INVESTMENTS IN INDIA - TYPES AND FLOWS

Any investment that is made in India with the source of funding that is from outside of India is a foreign investment. By this definition, the investments that are made by Foreign Corporates, Foreign Nationals, as well as Non-Resident Indians would fall into the category of Foreign Investment.

Types of Foreign Investments

Funds from foreign country could be invested in shares, properties, ownership / management or collaboration. Based on this, Foreign Investments are classified as below.

Details on each of the foreign investment type can be found below:

Foreign Direct Investment (FDI)

A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders.

Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to a new region. It is not usually used to

describe a stock investment in a foreign company.

In other words, foreign direct investment (FDI) is an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country. A foreign direct investment can be made by obtaining a lasting interest or by expanding one's business into a foreign country.

Foreign Portfolio Investment (FPI)

The existing contents to be replaced by the following contents:

Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country. It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.

Key takeaways:

1. Foreign portfolio investment (FPI) involves holding financial assets from a country outside of the investor's own.
2. FPI holdings can include stocks, ADRs, GDRs, bonds, mutual funds, and exchange traded funds.
3. Along with foreign direct investment (FDI), FPI is one of the common ways for investors to participate in an overseas economy, especially retail investors.
4. Unlike FDI, FPI consists of passive ownership; investors have no control over ventures or direct ownership of property or a stake in a company.

Foreign Institutional Investment (FII)

FII can include hedge funds, insurance companies, pension funds, investment banks, and mutual funds. FIIs can be important sources of capital in developing economies, yet many developing nations, such as India, have placed limits on the total value of assets an FII can purchase and the number of equity shares it can buy, particularly in a single company. This helps limit the influence of FIIs on individual companies and the nation's financial markets, and the potential damage that might occur if FIIs move out of an economy during a crisis.

Key takeaways:

1. A foreign institutional investor is an investor in a financial market outside its official home country.
2. Foreign institutional investors can include pension funds, investment banks, hedge funds, and mutual funds.
3. Some countries place restrictions on the size of investments by foreign investors.

Differences between FDI and FII

<i>BASIS FOR COMPARISON</i>	<i>FDI</i>	<i>FII</i>
Meaning	When a company situated in one country makes an investment in a company situated abroad, it is known as FDI.	FII is when foreign companies make investments in the stock market of a country.
Entry and Exit	Difficult	Easy

What it brings?	Long term capital Funds, resources, technology, strategies, know-how etc.	Long/Short term capital Funds only
Transfer of		
Economic Growth	Yes	No
Consequences	Increase in country's Gross Domestic Product (GDP)	Increase in capital of the country
Target	Specific Company	No such target, investment flows into the financial market
Control over a company	Yes	No

Source: keydifferences.com

Difference between FDI and FPI

BASIS FOR COMPARISON	FDI	FPI
Meaning	FDI refers to the investment made by the foreign investors to obtain a substantial interest in the enterprise located in a different country.	When an international investor, invests in the passive holdings of an enterprise of another country, i.e. investment in the financial asset, it is known as FPI.
Role of investors Degree of control	Active High	Passive Very less
Term Management of Projects	Long term Efficient	Short term Comparatively less efficient
Investment in Entry and exit Results in	Physical assets Difficult Transfer of funds, technology and other resources	Financial assets Relatively easy Capital inflows

Source: keydifferences.com

Lesson 6

**Entrepreneurship
Scenario**

GOVERNMENT INITIATIVES TO FOSTER ENTREPRENEURSHIP

Initiatives taken by the Government of India to strengthen entrepreneurship in India are as under:

1. **Make in India** : Businesses from across the globe, and not merely the Americas, consider Make in India as a breakthrough policy of the new India. The 'Make in India' programme was launched in September 2014 soon after the Modi Government came to power.

As a national programme, the Make in India initiatives is aimed at transforming India into a global manufacturing hub, and contained a raft of proposals to attract investments from both local and foreign corporate houses in 25 key areas it has identified, such as:

- (a) Automobile
- (b) Automobile components
- (c) Aviation
- (d) Biotechnology
- (e) Chemicals
- (f) Construction
- (g) Defence Manufacturing
- (h) Electrical Machinery
- (i) Electronic Systems
- (j) Food Processing
- (k) IT and BPM
- (l) Leather
- (m) Media and Entertainment
- (n) Mining
- (o) Oil and Gas
- (p) Pharmaceuticals
- (q) Ports and Shipping
- (r) Railways
- (s) Renewable Energy
- (t) Roads and Highways
- (u) Space
- (v) Textile and Garments
- (w) Thermal Power
- (x) Tourism and Hospitality
- (y) Wellness

With this scheme, the government has increased the FDI limit in various industries to attract foreign investment and participation

It has established an investor facilitation centre to assist foreign businesses to locate partners and sites, while a slew of measures have been initiated for domestic companies, which were revealed after Modi Government unveiled the 'Stand Up India' initiative in his Independence Day address in 2015.

2. Stand Up India : The key elements of the Stand-Up India scheme are as under:

- (i) *Title of the Scheme* : Stand-Up India Scheme for financing SC/ST and/or Women Entrepreneurs.
- (ii) *Objective* : The objective of the Stand-Up India scheme is to facilitate bank loans between INR 10 Lakh and INR 1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services, agri-allied activities or the trading sector in case of non-individual enterprises at least 51% of the shareholding and controlling stake should be either an SC/ST or woman entrepreneur.
- (iii) *Eligibility* : Eligibility under Stand Up India scheme are -
 - (a) SC/ST and/or woman entrepreneurs, above 18 years of age.
 - (b) Loans under the scheme is available for only greenfield project. GreenField signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.
 - (c) In case of non-individual enterprises, 51% of the shareholding and controlling stakes should be held by either SC/ST and/or Women Entrepreneur.
 - (d) Borrower should not be in default to any bank or financial institution.
- (iv) *Nature of loan* : Composite loan (inclusive of term loan and working capital) between INR 10 Lakh upto INR 100 Lakh.
- (v) *Purpose of loan* : For setting up a new enterprise in manufacturing, services, agri-allied activities or the trading sector by SC/ST women entrepreneur.
- (vi) *Size of loan* : Composite loan of 85% of the project cost inclusive of term loan and working capital. The stipulation of the loan being expected to cover 85% of the project cost would not apply if the borrower's contribution along with convergence support from any other schemes exceeds 15% of the project cost.
- (vii) *Interest rate* : The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3% + tenor premium).
- (viii) *Security*: Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India (CGFSIL) as decided by the banks.
- (ix) *Repayment* : The loan is repayable in 7 years with a maximum moratorium period of 18 months.
- (x) *Working capital* : For drawal of working capital upto INR 10 Lakh, the same may be sanctioned by way of overdraft. Working capital limit above INR 10 Lakh to be sanctioned by way of Cash Credit limit.

- (xi) *Margin Money* : The scheme envisages 15% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.

For more details, please visit: <https://www.startupmitra.in/>

- 3. Startup India** : Startup India Scheme is an initiative by the Government of India for generation of employment and wealth creation. The goal of Startup India is the development and innovation of products and services and to increase the employment rate in India. Benefits of Start-up India Scheme are Simplification of Work, Finance support, Government tenders, Networking opportunities. Startup India was launched by Prime Minister Shri. Narendra Modi on 16th January 2016.

Benefits of Startup India

- (a) *Financial benefits* - Most of the start-ups are patent based. It means they produce or provide unique goods or services. In order to register their patents, they have to incur a heavy cost which is known as the Patent Cost.

Under this scheme, the government provides 80% rebate on the patent costs. Moreover, the process of patent registration and related is faster for them. Also, the government pays the fees of the facilitator to obtain the patent.

- (b) *Income Tax Benefits* - Start-ups enjoy a good amount of benefits under the Income Tax head. The government exempts their 3 years income tax post the incorporation year. But they can avail it only after getting a certificate from the Inter-Ministerial Board. Also, they can claim exemption from tax on Capital Gains if they invest money in specified funds.
- (c) *Registration Benefits* - Everyone believes that incorporation and registration of business are far more difficult than running it. It is because of the long and complex steps of registration. Under the Start-up India scheme, an application is there to facilitate registration. A single meeting is arranged at the Start-up India hub. Also, there is a single doubt and problem-solving window for them.
- (d) *Government Tenders* - Everyone seeks to acquire Government tenders because of high payments and large projects. But it is not easy to acquire the government tenders. Under this scheme, the start-ups get priority in getting government tenders. Also, they are not required to have any prior experience.
- (e) *Huge Networking Opportunities* - Networking Opportunities means the opportunity to meet with various startup stakeholders at a particular place and time. The government provides this opportunity by conducting 2 startups fests annually (both at the domestic as well as international level). Startup India scheme also provides Intellectual Property awareness workshop and awareness.

Some vital points pertaining to the Start Up India:

- (a) *Startup India Hub* : Startup India Hub is a one-stop platform for all stakeholders in the Startup ecosystem to interact amongst each other, exchange knowledge and form successful partnerships in a highly dynamic environment.
- (b) *Investors adding value to the Startups* : Investors particularly venture capitalists (VCs) add value to startups in a lot of ways:
- (i) *Stakeholder Management*: Investors manage the company board and leadership to

facilitate smooth operations of the startup. In addition, their functional experience and domain knowledge of working and investing with startups imparts vision and direction to the company.

- (ii) Raising Funds : Investors are best guides for the startup to raise subsequent rounds of funding on the basis of stage, maturity, sector focus etc. and aid in networking and connection for the founders to pitch their business to other investors.
 - (iii) Recruiting Talent : Sourcing high-quality and best-fit human capital is critical for startups, especially when it comes to recruiting senior executives to manage and drive business goals. VCs, with their extensive network can help bridge the talent gap by recruiting the right set of people at the right time.
 - (iv) Marketing : VCs assist with marketing strategy for your product/service.
 - (v) M&A Activity : VCs have their eyes and ears open to merger and acquisition opportunities in the local entrepreneurial ecosystem to enable greater value addition to the business through inorganic growth.
 - (vi) Organizational Restructuring: As a young startup matures to an established company, VCs help with the right organizational structuring and introduce processes to increase capital efficiency, lower costs and scale efficiently.
- (c) Investors investing in Startups: Investing in startups is a risky proposition, but the low requirement for overhead capital combined with high upside potential, makes it lucrative for investors to put their bets on startups.
- (d) Foreign company registering in registering under Startup India hub: Any entity having atleast one registered office in India is welcome to register on the hub as location preferences, for the time being are only created for Indian states.

Registration of the Start-up can be done only from following types of companies-

1. Partnership Firm
2. Limited Liability Partnership Firm
3. Private Limited Company.

4. Skill India

The contents of National Skill Development Corporation to be included at the end of the contents covered under the aforesaid point.

National Skill Development Corporation

National Skill Development Corporation (NSDC) is a not-for-profit public limited company incorporated on July 31, 2008 under section 25 of the Companies Act, 1956 (corresponding to section 8 of the Companies Act, 2013). NSDC was set up by Ministry of Finance as Public Private Partnership (PPP) model. The Government of India through Ministry of Skill Development & Entrepreneurship (MSDE) holds 49% of the share capital of NSDC, while the private sector has a balance 51% of the share capital.

NSDC aims to promote skill development by catalyzing creation of large, quality and for-profit vocational institutions. Further, the organisation provides funding to build scalable and profitable vocational training initiatives. Its mandate is also to enable a support system which focuses on

quality assurance, information systems and train the trainer academies either directly or through partnerships. NSDC acts as a catalyst in skill development by providing funding to enterprises, companies and organizations that provide skill training. It also develops appropriate models to enhance, support and coordinate private sector initiatives. The differentiated focus on 21 sectors under NSDC's purview and its understanding of their viability will make every sector attractive to private investment.

The details of various schemes and initiatives are provided below-

- (a) *Pradhan Mantri Kaushal Kendra* : Vocational training needs to be made aspirational to transform India into the skill capital of the world. In line with the same, Ministry of Skill Development and Entrepreneurship (MSDE) intends to establish visible and aspirational Model Training Centres (MTCs) in every district of the country. NSDC is the implementation agency for the project.

The model training centres envisage to:

- Create benchmark institutions that demonstrate aspirational value for competency-based skill development training.
- Focus on elements of quality, sustainability and Connection with stakeholders in skills delivery process.
- Transform from a Mandate-driven footloose model to a sustainable institutional model.

Funding Support

Capital Expenditure

NSDC will provide a concessional secured loan funding per centre, up to 75% of the project investment, to cover expenditure only related to:

- Training infrastructure including purchase of plant, machinery & equipment
- Training aid and other associated items
- Civil work including setting up prefabricated structures and retrofit existing structures

Operations Support

The sustainability of the centres will be assured against dedicated training numbers under Pradhan Mantri Kaushal Vikas Yojna (PMKVY) or its successor schemes (any other scheme under MSDE or NSDC). Each PMKK will be assured a training mandate for three years, under the PMKVY scheme, as per common norms, subject to capacity and utilization of the centre.

- (b) *International Skill Training* : A country's ability and potential for growth is determined by the size of its youth population. Youth today need to be harnessed, motivated, skilled and streamlined to bring rapid progress for a country.

India has a relative advantage at present over other countries in terms of distribution of youth population even when compared to large, fast-growing Asian economies such as China and Indonesia, the two major countries other than India which determine the demographic features of Asia.

National Policy on Skill Development and Entrepreneurship 2015

The objective of the National Policy on Skill Development and Entrepreneurship, 2015 is to

meet the challenge of skilling at scale with speed and standard (quality). It aims to provide an umbrella framework to all skilling activities being carried out within the country, to align them to common standards and link the skilling with demand centres. In addition to laying down the objectives and expected outcomes, the effort also involves to identify the various institutional frameworks which can act as the vehicle to reach the expected outcomes. The national policy will also provide clarity and coherence on how skill development efforts across the country can be aligned within the existing institutional arrangements. This policy will link skills development to improved employability and productivity.

The Vision, Mission and Objectives of the National Policy on Skill Development and Entrepreneurship 2015 are-

Vision : “To create an ecosystem of empowerment by Skilling on a large Scale at Speed with high Standards and to promote a culture of innovation based entrepreneurship which can generate wealth and employment so as to ensure Sustainable livelihoods for all citizens in the country.”

Mission : The mission is to

- Create a demand for skilling across the country;
- Correct and align skilling with required competencies;
- Connect the supply of skilled human resources with sectoral demands;
- Certify and assess in alignment with global and national standards; and
- Catalyse an ecosystem wherein productive and innovative entrepreneurship germinates, sustains and grows leading to creation of a more dynamic entrepreneurial economy and more formal wage employment.

Objectives : The core objective of the Policy is to empower the individual, by enabling her/him to realize their full potential through a process of lifelong learning where competencies are accumulated via instruments such as credible certifications, credit accumulation and transfer, etc. As individuals grow, the society and nation also benefit from their productivity and growth. This will involve:

- i. Make quality vocational training aspirational for both youth and employers whereby youth sees it as a matter of choice and employer acknowledges the productivity linked to skilled workforce by paying the requisite premium.
- ii. Ensure both vertical and horizontal pathways to skilled workforce for further growth by providing seamless integration of skill training with formal education.
- iii. Focus on an outcome-based approach towards quality skilling that on one hand results in increased employability and better livelihoods for individuals, and on the other hand translates into improved productivity across primary, secondary and tertiary sectors.
- iv. Increase the capacity and quality of training infrastructure and trainers to ensure equitable and easy access to every citizen.
- v. Address human resource needs by aligning supply of skilled workers with sectoral requirements of industry and the country’s strategic priorities including flagship programmes like Make in India.
- vi. Establish an IT based information system for aggregating demand and supply of skilled workforce which can help in matching and connecting supply with demand.

- vii. Promote national standards in the skilling space through active involvement of employers in setting occupational standards, helping develop curriculum, providing apprenticeship opportunities, participating in assessments, and providing gainful employment to skilled workforce with adequate compensation.
- viii. Operationalize a well-defined quality assurance framework aligned with global standards to facilitate mobility of labour.
- ix. Leverage modern technology to ensure scale, access and outreach, in addition to ease of delivering content and monitoring results.
- x. Recognise the value of on-the-job training, by making apprenticeships in actual work environments an integral part of all skill development efforts.
- xi. Ensure that the skilling needs of the socially and geographically disadvantaged and marginalized groups (like the SCs, STs, OBCs, minorities, differently abled persons etc.) are appropriately taken care of.
- xii. Promote increased participation of women in the workforce through appropriate skilling and gender mainstreaming of training. xiii. Promote commitment and ownership of all stakeholders towards skill development and create an effective coordination mechanism.

The core objective of the entrepreneurship framework is to coordinate and strengthen factors essential for growth of entrepreneurship across the country. This would include:

- i. Promote entrepreneurship culture and make it aspirational
- ii. Encourage entrepreneurship as a viable career option through advocacy.
- iii. Enhance support for potential entrepreneurs through mentorship and networks.
- iv. Integrate entrepreneurship education in the formal education system
- v. Foster innovation-driven and social entrepreneurship to address the needs of the population at the bottom of the pyramid.
- vi. Ensure ease of doing business by reducing entry and exit barriers.
- vii. Facilitate access to finance through credit and market linkages.
- viii. Promote entrepreneurship amongst women.
- ix. Broaden the base of entrepreneurial supply by meeting specific needs of both socially and geographically disadvantaged sections of the society including SCs, STs, OBCs, minorities, differently-abled persons.

Pre-Departure Orientation Training (PDOT)

Given the need to orient potential migrant workers with regards to language, culture, do's and don'ts in the destination country, the emigration process and welfare measures, PDOT program has been launched. Ministry of External Affairs (MEA) in collaboration with Ministry of Skill Development and Entrepreneurship (MSDE) is conducting the PDOT program. NSDC is the implementing agency for this program.

A longer variant of PDOT i.e. 160 hours was offered at all IISCs which consisted of country orientation, language and digital literacy.

A shorter variant of PDOT program i.e. 1 Day (ongoing) is offered to all migrant workers who are likely to depart soon and register for the training through registered recruitment agents.

PDOT program is delivered by trainers who have undergone Training of Trainers (ToT) program organized by MEA. So far, 52 trainers from existing IISCs and NSDC Training Partners have undergone the PDOT (ToT).

- c) *Technical Intern Training Program* : The program promotes international collaboration through the transfer of skills, technology, and knowledge among the participating countries thereby, contributing towards the human resource development. It offers training to the workers for a specific period (3 – 5 years) in Japan's industrial society.

The objective is to ensure that the most competent youth is selected and sent to Japan to participate in TITP.

Ministry of Skill Development & Entrepreneurship (MSDE), Government of India and the Ministry of Justice, Ministry of Foreign Affairs and Ministry of Health, Labour and Welfare of Japan signed a Memorandum of Cooperation initiating the Technical Intern Training Program (TITP) in India in October 2017.

5. Investment in physical infrastructure

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI in construction development (townships, housing, built-up infrastructure and construction development projects) and construction (infrastructure) activity sectors stood at US\$ 26.17 billion and US\$ 26.30 billion, respectively, between April 2000-December 2021. In FY21, infrastructure activities accounted for 13% share of the total FDI inflows of US\$ 81.72 billion.

Major initiatives of the Government of India (Union Budget 2022):

1. Under PM GatiShakti the seven engines that have been identified that will drive PM GatiShakti are Roads, Railways, Airports, Ports, Mass Transport, Waterways and Logistics Infrastructure. The projects pertaining to these 7 engines in the National Infrastructure Pipeline will be aligned with PM GatiShakti framework.
2. Road Transport
 - (a) National Highways Network to be expanded by 25000 Km in 2022-23.
 - (b) Rs 20000 Crore to be mobilized for National Highways Network expansion.
3. Multimodal Logistics Parks- Contracts to be awarded through PPP mode in 2022-23 for implementation of Multimodal Logistics Parks at four locations.
4. Railways-
 - (a) One Station One Product concept to help local businesses & supply chains.
 - (b) 2000 Km of railway network to be brought under Kavach, the indigenous world class technology and capacity augmentation in 2022-23.

- (c) 400 new generation Vande Bharat Trains to be manufactured during the next three years.
- (d) 100 PM GatiShakti Cargo terminals for multimodal logistics to be developed during the next three years.
- 5. Prime Minister's Development Initiative for North-East Region (PM-DevINE)
 - (a) New scheme PM-DevINE launched to fund infrastructure and social development projects in the North-East.
 - (b) An initial allocation of Rs. 1,500 crore made to enable livelihood activities for youth and women under the scheme.
- 6. Vibrant Village Programmes
Vibrant Villages Programme for development of Border villages with sparse population, limited connectivity and infrastructure on the northern border.
- 7. Mobilising Resources
Data Centres and Energy Storage Systems to be given infrastructure status.
- 8. Sovereign Green Bonds to be issued for mobilizing resources for green infrastructure.

NEED FOR ENTREPRENEURSHIP IN INDIA

The entrepreneurs are considered 'change agents' in the process of industrial and economic development of an economy. The premium mobile role that entrepreneurs play in promoting industrial and economic development of an economy is well adduced across the countries.

In a sense, entrepreneurs are the 'spark plugs' who transform the economic scene of an economy. The developed countries have more entrepreneurial development as compared to underdeveloped countries.

Thus, the need for entrepreneurs in India may be captured in the following points:

1. Entrepreneurs promote capital formation by mobilising the idle saving of the people.
2. They create immediate and large-scale employment by establishing small-scale enterprises. Thus, they reduce the unemployment problem in the country, i.e., the root cause of all socio-economic problems.
3. They promote balanced regional development by establishing small-scale enterprises in rural, remote and less developed regions.
4. They help reduce the concentration of economic power.
5. They promote the equitable redistribution of wealth, income and even political power in the interest of the country.
6. They encourage effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. They, by establishing industries, induce backward and forward linkages which stimulate the process of economic development in the country.
8. Last but no means the least; they also promote country's export business, i.e. an important ingredient to economic development.

BOTTLENECKS IN ENTREPRENEURIAL GROWTH

1. Inefficient time management

Most entrepreneurs think on infinite time scales, as though they have plenty of time to achieve their goals. Time is the most valuable resource, yet most entrepreneurial leaders don't use it effectively. It is very important to analyze the business flow metrics and identify time-wasting processes. Comparing the performance with industry standards to find out the problem areas is a major challenge. Leveraging technology tools such as automation and machine learning wherever possible is very important in contemporary times.

McKinsey & Co. reported that the next era of supply chain management will hinge on autonomous vehicles and a network of smart programs that can optimize efficiency. Organisational efficiency can be increased by implementing software solutions that break through bottlenecks and boost productivity.

2. Lack of money

Inadequate funds – Less funding and the resources obtained by these funds -- can hinder expansion. When it comes to resolving bottlenecks, money matters a lot. It helps in the purchase of software programs and hire consultants who reduce the obstacles to growth and profitability. As the company expands, there is a need to scale up the technology, invest in sales enablement and direct resources to a number of other critical areas. Money is needed to achieve all of that.

Fortunately, there are a number of capital sources out there. In addition to venture capital funding, one can apply for a loan backed by the Small Business Administration. Loans repaid in less than seven years typically incur a less than 10 percent interest rate, and these loans can be used to purchase new technology or building your team with supply chain experts.

3. Too much noise

Building and running a start-up can become too complex when the entrepreneur is trying to cut through the noise generated through social media, marketing, apps and vendors. It's enough to make entrepreneurs think they need to chase down the "next big thing" and clamour for the media limelight.

But limelight doesn't guarantee success. Many companies that drew huge amounts of press and venture funding have ultimately failed. The better path is to focus on the work and trust that attention will come. Put out a great product, and be rigorous about clearing ones path to growth. The accolades will follow, but they matter only if one can scale and thrive sustainably.

4. A small (or nonexistent) network

Being a first-time entrepreneur, with a near-nonexistent industry, developing contacts is one of the biggest challenges to overcome. A strong network is crucial to a company's growth. But strong networks aren't built through viral campaigns or flashy marketing. They develop over years through resilience, relationship-building and cultivation of a community around the idea. In Japan and China, sustainable strong networks are an integral part of the value chain and supply chain

To build a supportive network around one's own business, the type of reach an entrepreneurship wants to have is critical. Is the brand primarily local? Thereafter, a blue print needs to be put down, roots have to be made, through partnerships and sponsorships with influencers in the region.

If the entrepreneur wants to have global appeal, there is a need to attend conferences and reach out internationally to learn how to move into other markets. The entrepreneur must become relevant to the rest of the world.

5. Growing too much too soon

With the objective of growing production, the problems also compound at the same rate. Figuring out how to scale requires frequent testing and a willingness to pivot -- the entrepreneur doesn't want to miss out on strategic opportunities. For instance, there's nothing wrong with starting small and growing slowly. It's better to take that approach than to overinvest in a lacklustre strategy. One needs to pay attention and switch gears when that's needed.

When Groupon, a US based start-up started the concept of online couponing in 2008, it was a tremendous hit. But Groupon focused too much on customer acquisition and not enough on customer retention. So when the company rushed to scale, it hadn't dealt with its preexisting issues. Within months of filing its IPO in 2011, Groupon's share price plunged from \$20 to \$9.

As common as these issues are, startup founders are actually the biggest bottlenecks in their own businesses. They believe they have to do everything themselves, and they try to charge through problems on their way to growth. Hence, there is a strong need to create strong internal bonds and decentralisation systems.

Lesson 7

**BUSINESS
ENVIRONMENT**

OVERVIEW OF BUSINESS ENVIRONMENT

Business organization has to interact and transact with its environment. Hence, both the business and environment are totally interrelated and mutually interdependent. Business environment refers to those aspects of the surroundings business enterprise, which affect or influence its operations and determine its effectiveness.

According to Keith Davis, “Business environment is the aggregate of all conditions, events and influence that surrounds and affect it”.

According to Andrews, “The environment of a company as the pattern of all external influences that affect its life and development”.

According to Professor Paire and Anderson, “It is set of those inputs to an organisation which are under the control of other organisations or interest groups or are influenced by interaction of several groups, such as economy”.

According Mr.J.A.King and Mr.C.J. Duggan, “Environment consists of all external and internal influence the complex interaction of the market, production and finance, the three basic components of our business world.”

According to Professor Gerald Bell, “An organisation’s external environment consists of those things outside an organisation such as customers, government units, suppliers, financial firms and labour pools that are relevant to an organisation’s operations.”

The business environment is always changing and is uncertain. It is because of the dynamism of environment. As it is already said that the business environment is the sum of all the factors outside the control of management of a company, the factor, which are constantly changing, and they carry with them both opportunities and risks or uncertainties which can make or mark the future of business.

Business environment encompasses all those factors that affect a company’s operations and includes customers, competitors, stakeholders, suppliers, industry trends, regulations other government activities, social and economic factors and technological developments. Thus, business environment refers to the external environment and includes all factors outside the firm, which lead to opportunities and threats to a firm.

No business can exist in a vacuum. The rapidly changing business environment might shorten the life of a given strategy. The external changes might influence the activities and quality of decisions of both the firm and its competitors. George Salk says, “If you’re not faster than your competitor, you’re in a tenuous position, and if you’re only half as fast, you’re terminal.”

Hence, as Kenich Ohmae says that “environmental analysis is the critical starting point of strategic thinking.” Charles Darwin has said, “It is not the strongest of the species that survive nor the most intelligent, but the one most responsive to change.”

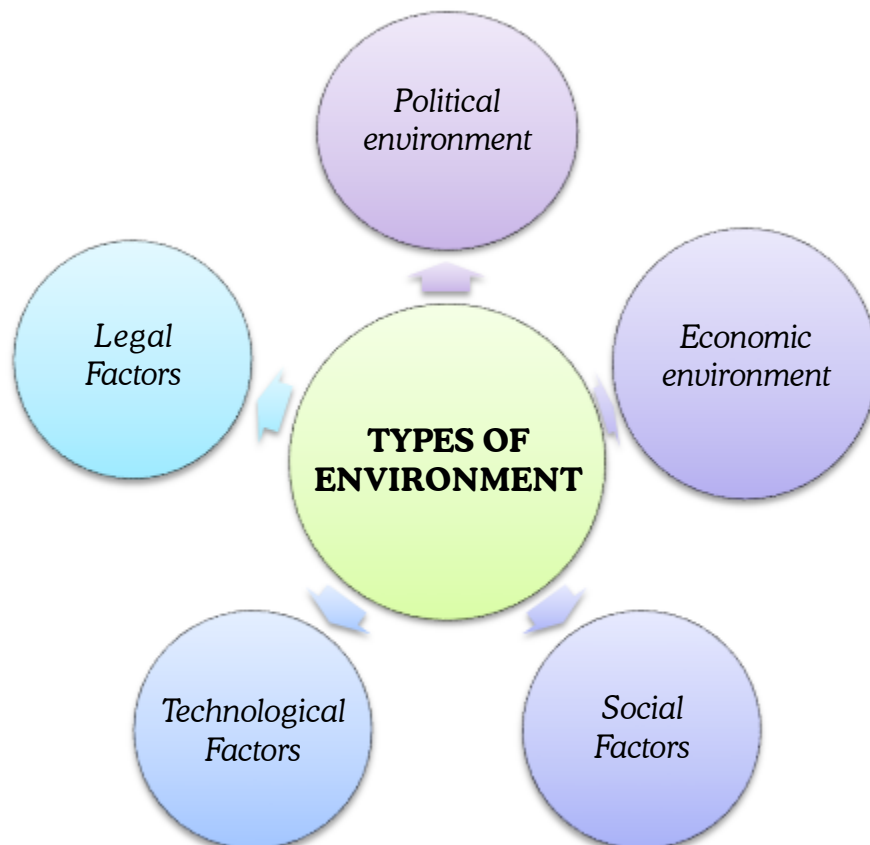
FEATURES AND FACTORS INFLUENCING BUSINESS ENVIRONMENT

The main features of business environment are:

1. *All the external forces* : Business Environment includes all the forces, institutions and factors which directly or indirectly affect the Business Organizations.
2. *Specific and general forces* : Business environment includes specific forces such as investors, customers, competitors and suppliers. Non-human or general forces are Social, Legal, Technological, Political, etc. which affect the Business indirectly.

3. *Inter-relation* : All the forces and factors of Business Environment are inter-related to each other. For example with an inclination of youth towards western culture, the demand for fast food is increasing.
4. *Uncertainty* : It is very difficult to predict the changes in Business Environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.
5. *Dynamic* : Business environment is highly flexible and keeps changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.
6. *Complex* : It is very difficult to understand the impact of Business environment on the companies. Although it is easy to scan the environment but it is very difficult to know how these changes will influence Business decisions. Some-time change may be minor but it might have a large impact. For example, a change in government policy to increase the tax rate by 5% may affect the income of a company by large amount.
7. *Relativity* : The impact of Business environment may differ from company to company or country to country. For example, when consumer organisation CES published the report of finding pesticides in cold drinks, resulted in a decrease in the sale of cold drinks, on the other hand, it increased the sale of juice and other drinks.

TYPES OF ENVIRONMENT



1. **Political environment** : The political environment affects the economic environment of businesses. Legislators at the local, state and federal levels may provide incentives or tax breaks to companies or they can impose regulations that restrict business transactions. In the latter case, for example, if a political body states that a company must include a certain chemical in its product, the cost of the product differs. The company passes those costs on to the customer in the form of higher prices. The customer must determine whether he wants to purchase that product. If he does not purchase the product, then the company does not receive the revenue. If a large number of customers decide not to purchase the product, the company may need to lay off employees.
2. **Economic environment** : The larger economic environment of a society is a factor that can affect a company's business environment. During a recession, consumers spend less on optional items such as cars and appliances. As a result, the business environment suffers. On the other hand, if the economic environment is one of prosperity, consumers are more likely to spend money, not just on necessities, but on larger items as well.
3. **Social Factors** : Social factors that affect the economic environment of a business are the cultural influences of the time. For example, a fashion designer that creates bell bottom, striped pants will not succeed in an environment where straight-leg, solid colored pants are desired. A social environment that tends to be more conservative will not support styles that appear to be trendy. The fashion designer's business will suffer if he does not change the clothing style. The same would apply to the manufacturers that produce and stores that sell these wares.
4. **Technological Factors** : Innovation and technology affect business environments. As technology advances, a business is forced to keep pace. For example, when computers were first invented, they were the size of a room. Users were forced to employ punch cards to perform basic functions. Today, computers that are much more powerful can fit into the palm of a hand. Businesses that do not keep up with technology risk increased costs of production and higher prices. If the company's cost to produce a product or service outpaces competitors, the company may soon find itself out of business.
5. **Legal Factors** : Often, a business will need to change how it operates for legal reasons. This is often done when a company's lawyers anticipate a change in legislation, or it may be due to lawsuits, already filed or anticipated. For example, if a part in a machine is found to be defective, the company may need to issue a recall. If other companies in the same industry are being sued over something like a data breach of confidential information, a business may need to change how information is collected and stored.

EASE OF DOING BUSINESS INDEX BY WORLD BANK FOR INDIA

The World Bank released its latest Doing Business Report (DBR, 2020) on 24th October 2019. India has recorded a jump of 14 positions against its rank of 77 in 2019 to be placed now at 63rd rank among 190 countries assessed by the World Bank. India's leap of 14 ranks in the Ease of Doing Business ranking is significant considering that there has been continuous improvement since 2015 and for the third consecutive year India is amongst the top 10 improvers.

The Doing Business assessment provides objective measures of business regulations and their enforcement across 190 economies on ten parameters affecting a business through its life cycle. The DBR ranks countries on the basis of Distance to Frontier (DTF), a score that shows the gap of an economy to the global best practice. This year, India's DTF score improved to 71.0 from 67.23 in the previous year.

India has improved its rank in 7 out of 10 indicators and has moved closer to international best practices (Distance to Frontier score). Significant improvements have been registered in 'Resolving Insolvency',

'Dealing with Construction Permits', 'Registering Property', 'Trading across Boards' and 'Paying Taxes' indicators. The changes in seven indicators where India improved its rank are as follows:

S.No.	Indicator	2018	2019	Change
1	Resolving Insolvency	108	52	+56
2	Construction Permits	52	27	+25
3	Trading Across Borders	80	68	+12
4	Registering Property 166	154	+12	
5	Paying Taxes	121	115	+6
6	Getting Electricity	24	22	+2
7	Starting a Business	137	136	+1
	Overall Rank	77	63	+14

The important features of India's performance are:

- The World Bank has recognized India as one of the top 10 improvers for the third consecutive year.
- Recovery rate under resolving insolvency has improved significantly from 26.5% to 71.6%.
- The time taken for resolving insolvency has also come down significantly from 4.3 years to 1.6 years.
- India continues to maintain its first position among South Asian countries. It was 6th in 2014.

EASE OF DOING BUSINESS INDEX BY DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE (DPIIT) FOR STATES

Department for Promotion of Industry and Internal Trade (DPIIT), in coordination with Central Ministries/ Departments, States and Union Territories (UTs), has spearheaded various reforms to improve business regulatory environment in the country. On the lines of annual assessment done by the World Bank for its Doing Business Report (DBR), DPIIT spearheads a dynamic reform exercise called Business Reforms Action Plan, which ranks all the States and UTs in the country based on implementation of designated reform parameters. The focus of the reforms has been on streamlining the existing regulations and processes and eliminating unnecessary requirements and procedures. The Action Plan covers number of reform areas such as Investment Enablers, Online Single Window System, Land administration and Transfer of Land and Property, Construction Permits Enablers, Labour Regulation Enablers, Environment Registration Enablers, Inspection Enablers, Paying Taxes, Obtaining Utility Permits, etc.

The Ministry of Labour and Employment has taken several initiatives towards simplification of Labour Laws for ease of doing business. The Government has notified four Labour Codes, namely, the Code on Wages, 2019, the Industrial Relations Code, 2020, the Code on Social Security, 2020 and the Occupational Safety, Health and Working Conditions Code, 2020 by simplifying, amalgamating and rationalizing the relevant provisions of 29 Central Labour Laws.

Through Labour Codes provisions have been made for one registration for an establishment instead of multiple registrations, one license and one return in place of multiple licenses and returns.

Shram Suvidha Portal (SSP) is a major IT initiative of the Ministry, towards ease of doing business and reducing the complexities in labour law compliance.

Department of Justice (DoJ) and Department of Legal Affairs have taken following measures for timely disposal of commercial cases which promote Ease of doing Business:

1. The Commercial Courts Act, 2015 has been enacted to deal specifically with commercial disputes in India. It was amended in 2018, providing for the constitution of commercial courts at the district level and Commercial Division in all the High Courts. To streamline their functioning, the pecuniary value of commercial cases which can be entertained by the commercial courts has been reduced to Rs. 3 lakh from earlier Rs. 1 crore. The Commercial Courts Act, 2015 is administered by the Department of Legal Affairs.
2. Designated Special Courts for hearing Infrastructure projects related disputes have been set up in 23 High Courts along with Special Commercial Benches in High Courts for dealing with high value commercial disputes i.e. above Rs. 500 crores have been set up in 8 High Courts.
3. Alternate Dispute Resolution Mechanism by way of Pre-Institution Mediation & Settlement (PIMS) has been provided in the Act. It provides an opportunity to the parties to resolve commercial disputes outside the ambit of the courts at the very outset which has reduced the clogging of cases in Commercial Courts.
4. The Act mandates holding of Case Management Hearing (Pre-Trial Conference) to complete the trial in a time bound manner. This has been institutionalized leading to speedier resolution of commercial cases.
5. Commercial cases are now randomly and automatically assigned to Judges using Case Information System (CIS) software eliminating human intervention this enhancing judicial transparency. To ensure compliance of three adjournment Rule a facility of colour banding in CIS software has been created which provides information regarding the number of adjournments in a case and facilitates speedy decision making.
6. Electronic filing of commercial cases (E-Filing) has been operationalised in most Commercial Courts to reduce the time taken to file cases. Electronic service of Summons (E-Summons) of commercial cases has been operationalised in few commercial courts which reduces the delay in sending summons to parties. Electronic Case management tools (ECMT) for Judges and Advocates have been integrated into one single CIS Software, which has enhanced judicial productivity and made the justice delivery system more accessible, reliable and transparent. Dedicated Websites have been started for Commercial Courts.
7. The Government has notified the Commercial Courts (Statistical Data) Rules, 2018 for making available detailed data points on various aspects of commercial cases for effective monitoring of time taken in case disposal by these courts.

DPIIT, in coordination with Central Ministries/Departments, States and UTs, spearheads the exercise of reducing compliance burden for improving overall business regulatory environment in the country. The objective of this exercise is to improve Ease of Doing Business and Ease of Living and Government to Business and Citizen interface hassle-free. The key focus areas of the exercise are:

1. Rationalization/Auto-renewal of licenses/certificates/permissions
2. Risk-based / Third-party Inspections and Audits
3. Standardized and simplified return filing
4. Rationalized maintenance of registers

5. Minimize / eliminate display requirements
6. Digitization and simplification of manual forms and records
7. Decriminalization of minor technical and procedural defaults
8. Repeal or amendment of redundant laws

Ministry of Micro, Small and Medium Enterprises has also undertaken various steps towards improving the ease of doing business that include, inter alia, introduction of Online Registration – Udyam Registration (completely online and no fees), constitution of Review Committee to monitor the progress of the implementation of the Policy, opening of a grievance cell to redress the Grievances of MSEs and launch of “MSME Sambandh Portal” to monitor the progress of procurement by the CPSEs from MSEs, etc.

Lesson 8

**KEY GOVERNMENT
INSTITUTIONS**

KEY GOVERNMENT INSTITUTIONS

NITI AAYOG

Objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

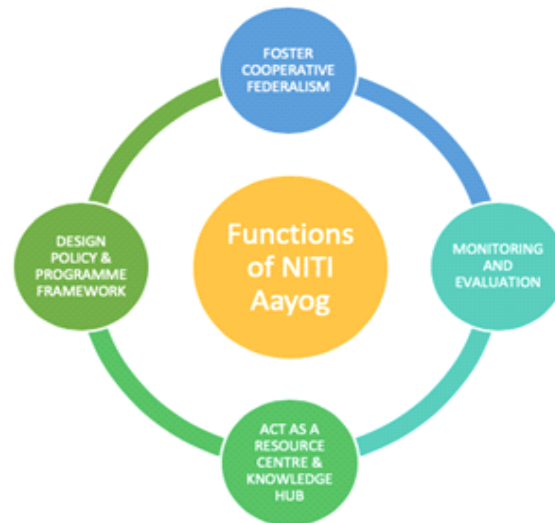
Features

NITI Aayog is developing itself as a State-of-the-art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues.

NITI Aayog's entire gamut of activities can be divided into four main heads:

1. Design Policy & Programme Framework

2. Foster Cooperative Federalism
3. Monitoring & Evaluation
4. Think Tank and Knowledge & Innovation Hub



NITI Aayog is based on the 7 pillars of effective governance – **(1) Pro-People (2) Pro-Activity (3) Participation (4) Empowering (5) Inclusion of all (6) Equality (7) Transparency.**

SDG (Sustainable Development Goal) Vertical

Vision and Mission

The SDG Vertical, in collaboration with Union Ministries and States/ UTs, is the nodal agency for coordinating and monitoring the Sustainable Development Goals. Through the approach of cooperative and competitive federalism, the Vertical works towards accelerated adoption, implementation, and monitoring of the SDG framework and related initiatives at the national and sub-national levels.

The Vertical works closely with key stakeholders—including the Government, civil society, private sector, academia, think tanks, research organisations, and multilateral organisations—to fast-track the achievement of SDGs in the country.

Core Functions

Progress Monitoring

Monitoring progress achieved under the SDG framework at the global, national, and sub-national levels is the core function of the Vertical. NITI Aayog prepares and presents India's Voluntary National Review (VNR) at the High-Level Political Forum (HLPF) on Sustainable Development at the United Nations. For national and sub-national progress monitoring, the Vertical has developed the SDG India Index and Dashboard, the official and principal SDG progress monitoring tool of the country.

SDG Localisation

The States and UTs play a pivotal role in the achievement of SDG targets at the national level. The Vertical

works closely with the State/UT Governments and supports them in a range of initiatives for SDG localisation—including the State and District Indicator Frameworks, review mechanisms, and capacity building.

Private Sector Engagement

The targets under the SDG framework are not meant to be achieved by Government action alone. It requires commitment and solid action by the private sector. The Vertical drives initiatives to improve the participation of the private sector in SDG efforts. Key collaborative outputs in this area include SDG Investor Map and private sector integration for SDGs.

SDG Costing and Financing

Estimating the cost to achieve the SDGs and developing and implementing the tools to attract SDG-related finance and investments are key requirements for the timely achievement of the ambitious targets under the SDG framework. The initiatives of the SDG Vertical in this area include SDG costing exercise for key SDGs and an online platform to facilitate SDG-linked investments.

Multidimensional Poverty Measurement and Reduction

The SDG framework specifically targets ending poverty in all its forms, thereby raising the stakes on accelerated multidimensional poverty reduction. The Vertical steers the development of India's national Multidimensional Poverty Index (MPI) and the reform action plan to reduce multidimensional poverty.

The different verticals of NITI provide the requisite coordination and support framework for NITI to carry out its mandate. The list of verticals is as below:

1. Administration
2. Agriculture and allied sectors
3. Data Management and Analysis, and Frontier Techniques
4. E-Mobility
5. Energy
6. Education
7. Economics and Finance Cell
8. Governance and Research
9. Governing Council Secretariat and Coordination
10. Health and Family Welfare
11. Industry-I
12. Industry-II
13. Infrastructure Connectivity
14. Managing Urbanisation
15. MSME
16. Natural Resources and Environment, and Island Development
17. NGO Darpan

18. Project Appraisal and Management Division
19. Public-Private Partnerships
20. Rural Development
21. Science and Technology
22. Social Development Division
23. Skill Development, Labour and Employment
24. State Finances and Coordination
25. Sustainable Development Goals
26. Tourism and Culture
27. Water and Land Resources
28. Women and Child Development

PROJECT SATH-E

Project SATH-E, 'Sustainable Action for Transforming Human Capital-Education', was launched in 2017 to identify and build three 'role model' States for the school education sector. After an elaborate selection process, Jharkhand, Odisha and Madhya Pradesh were chosen.

The first phase of SATH-E was completed in March 2020. Significant strides were made in learning enhancement programmes (remediation), governance reforms, teacher training, recruitment, assessment and accountability, school consolidation, IT-enabled monitoring of schools, coaching of academic coordinators (BRCs/CRCs), among others.

A few of the achievements are as follows:

1. Learning enhancement programme/remedial teaching with workbook support for approximately 2.3 crore students implemented.
2. Academic monitoring of schools and students streamlined, with nearly 1.5 lakh inspections carried out every month.
3. Comprehensive rewards and recognition programmes, including external certifications, initiated.
4. Assessment reforms, including spot testing and learning tracking formats, introduced.
5. Multiple rounds of teacher training undertaken.
6. In Madhya Pradesh, 30% of the students moved from lower-level foundational literacy, numeracy learning cohorts to the highest learning level for grades 3–8 in two years of the 'Dakshta Unnayan' learning enhancement programme.
7. In Odisha, average improvement of 10–15% observed in learning outcomes due to the 'Ujjwal-Utthan' learning enhancement programme.
8. In Jharkhand, 12% improvement across most competencies was recorded through the 'Gyan Setu' learning enhancement programme.
9. With the onset of the Covid-19 pandemic, SATH-E adapted itself as 'Digi-SATH' to provide undeterred support via digital mediums.

10. Under the Digi-SATH initiative, MP's 'Hamara Ghar Hamara Vidyalaya' and 'Digi-LEP' (or 'Digital Learning Enhancement Programme'), Odisha's 'Shiksha Sanjog' and 'Shiksha Sampark', and Jharkhand's 'Hamara Doordarshan Hamara Vidyalaya' have been providing online education and teacher training.

MINISTRY OF CORPORATE AFFAIRS

The Ministry is primarily concerned with the administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law. The Ministry is also responsible for administering the Competition Act, 2002 to prevent practices having an adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers through the commission set up under the Act. Besides, it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India (ICAI), Institute of Company Secretaries of India (ICSI) and the Institute of Cost Accountants of India (ICAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions concerned. The Ministry also has the responsibility of carrying out the functions of the Central Government relating to administration of Partnership Act, 1932, the Companies (Donations to National Funds) Act, 1951 and Societies Registration Act, 1980.

The affiliated offices of Ministry of Corporate Affairs are as under:

- (i) *Serious Fraud Investigation Office* : The Government in the backdrop of major failure of non-banking financial institutions, phenomenon of vanishing companies, plantation companies and the recent stock market scam had decided to set up Serious Fraud Investigation Office (SFIO), a multi-disciplinary organization to investigate corporate frauds. The Organization has been established and it has started functioning since 1st October, 2003.
- (ii) *Competition Commission of India* : The Competition Commission of India (CCI) was established under the Competition Act, 2002 for the administration, implementation and enforcement of the Act, and was duly constituted in March 2009. The following are the objectives of the Commission.
 1. To prevent practices having adverse effect on competition
 2. To promote and sustain competition in markets
 3. To protect the interests of consumers and
 4. To ensure freedom of trade.

Consequent upon a challenge to certain provisions of the Act and the observations of the Hon'ble Supreme Court, the Act was amended by the Competition (Amendment) Act, 2007. The Monopolies and Restrictive Trade Practices Act, 1969 [MRTP Act] repealed and is replaced by the Competition Act, 2002, with effect from 01st September, 2009 [Notification Dated 28th August, 2009].

- (iii) *Indian Institute Of Corporate Affairs* : IICA has been established by the Indian Ministry of Corporate Affairs for capacity building and training in various subjects and matters relevant to corporate regulation and governance such as corporate and competition law, accounting and auditing issues, compliance management, corporate governance, business sustainability through environmental sensitivity and social responsibility, e-Governance and enforcement etc.

One of the wings of IICA, the ICLS Academy, has the responsibility for conducting the Induction & Advanced Training for Probationary Officers (POs) belonging to the Indian Corporate Law Service recruited through the Common Exam of Civil Services Examination conducted by UPSC.

The Institute has been designed with an eye on the future to provide a platform for dialogue, interaction and partnership between governments, corporate, investors, civil society, professionals, academicians and other stakeholders in the emerging 21st century.

For Data & Reports of the Ministry of Corporate Affairs, please refer: <https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/annual-reports/companies-2013.html>

SECURITIES AND EXCHANGE BOARD OF INDIA

Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations. SEBI was founded on April 12, 1992, under the SEBI Act, 1992. Headquartered in Mumbai, India, SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmadabad along with other local regional offices across prominent cities in India.

The objective of SEBI is to ensure that the Indian capital market works in a systematic manner and provide investors with a transparent environment for their investment. To put it simply, the primary reason for setting up SEBI was to prevent malpractices in the capital market of India and promote the development of the capital markets.

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as:

“...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto.”

Functions of SEBI

SEBI has the following functions

1. Protective Function
2. Regulatory Function
3. Development Function

The aforesaid functions of SEBI are discussed briefly as under:

Protective Function : The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants. The protective function includes the following activities.

- a. *Prohibits insider trading* : Insider trading is the act of buying or selling of the securities by the insiders of a company, which includes the directors, employees and promoters. To prevent such trading SEBI has barred the companies to purchase their own shares from the secondary market.
- b. *Check price rigging* : Price rigging is the act of causing unnatural fluctuations in the price of securities by either increasing or decreasing the market price of the stocks that leads to unexpected losses for the investors. SEBI maintains strict watch in order to prevent such malpractices.
- c. *Promoting fair practices* : SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.
- d. *Financial education provider* : SEBI educates the investors by conducting online and offline sessions that provide information related to market insights and also on money management.

Regulatory Function : Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

- a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.
- b. Regulating the process of taking over of a company.
- c. Conducting inquiries and audit of stock exchanges.
- d. Regulates the working of stock brokers, merchant brokers.

Developmental Function : Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.
2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.
3. By making the underwriting an optional system in order to reduce cost of issue.

For Annual Reports and Statistics of SEBI, please refer: <https://www.sebi.gov.in/reports-and-statistics.html>

Powers of SEBI

Securities and Exchange Board of India has the following three powers:

Quasi-Judicial : With this authority, SEBI can conduct hearings and pass ruling judgements in cases of unethical and fraudulent trade practices. This ensures transparency, fairness, accountability and reliability in the capital market. SEBI PACL case is an example of this power.

Quasi-Legislative : Powers under this segment allow SEBI to draft rules and regulations for the protection of the interests of the investor. One such regulation is SEBI LODR (Listing Obligation and Disclosure Requirements). It aims at consolidating and streamlining the provisions of existing listing agreements for several segments of the financial market like equity shares. This type of regulation formulated by SEBI aims to keep any malpractice and fraudulent trading activities at bay.

Quasi-Executive : SEBI is authorised to file a case against anyone who violates its rules and regulation. It is empowered to inspect account books and other documents as well if it finds traces of any suspicious activity.

RESERVE BANK OF INDIA (RBI)

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India

and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."

Main Functions of RBI

Monetary Authority

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability while keeping in mind the objective of growth.

Regulator and supervisor of the financial system

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

- Manages the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public an adequate quantity of supplies of currency notes and coins of good quality.

Developmental role

- Performs a wide range of promotional functions to support national objectives.

Regulator and Supervisor of Payment and Settlement Systems

- Introduces and upgrades safe and efficient modes of payment systems in the country to meet the requirements of the public at large.
- Objective: maintain public confidence in payment and settlement system

Related Functions

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.

Other Significant Facts

- Has 27 regional offices, most of them in state capitals and 04 Sub-offices.
- Deposit Insurance and Credit Guarantee Corporation of India (DICGC), Bharatiya Reserve Bank

Note Mudran Private Limited (BRBNMPL), Reserve Bank Information Technology Private Limited (ReBIT), Indian Financial Technology and Allied Services (IFTAS) are fully owned subsidiaries of Reserve Bank of India.

- Has six training establishments- Three, namely, RBI Academy, College of Agricultural
- Banking and Reserve Bank of India Staff College are part of the Reserve Bank.

Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (IBBI)

The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates and amends the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

It is a unique regulator: regulates a profession as well as processes. It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities. It writes and enforces rules for processes, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. It has been tasked to promote the development of, and regulate, the working and practices of, insolvency professionals, insolvency professional agencies and information utilities and other institutions, in furtherance of the purposes of the Code. It has also been designated as the 'Authority' under the Companies (Registered Valuers and Valuation Rules), 2017 for regulation and development of the profession of valuers in the country.

NATIONAL COMPANY LAW TRIBUNAL (NCLT)

The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 (18 of 2013) w.e.f. 01st June 2016. In the first phase the Ministry of Corporate Affairs has set up eleven Benches, one Principal Bench at New Delhi and ten other Benches at New Delhi, Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai. These Benches are headed by the President Chief Justice (Retd.) Ramalingam Sudhakar and comprises of sixteen Judicial Members and nine Technical Members at different locations. Subsequently, more Benches at Cuttack, Jaipur, Kochi, Amravati, and Indore have been setup and new members have joined.

NATIONAL COMPANY LAW APPELLATE TRIBUNAL (NCLAT)

National Company Law Appellate Tribunal (NCLAT) was constituted under Section 410 of the Companies Act, 2013 for hearing appeals against the orders of National Company Law Tribunal(s) (NCLT), with effect from 1st June, 2016.

NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by NCLT(s) under Section 61 of the Insolvency and Bankruptcy Code, 2016 (IBC), with effect from 1st December, 2016. NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.

NCLAT is also the Appellate Tribunal to hear and dispose of appeals against any direction issued or decision made or order passed by the Competition Commission of India (CCI) – as per the amendment

brought to Section 410 of the Companies Act, 2013 by Section 172 of the Finance Act, 2017, with effect from 26th May, 2017.

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