

BUSINESS STUDIES

Chapter 4: BUSINESS SERVICES



Important Questions

Multiple Choice Questions-

Question 1. _____ arrangement by which a bank allows its customer to borrow money up to the specified limit.

- (a) Cash Credits
- (b) Pass Book
- (c) Cash Book
- (d) Account Payee

Question 2. Insurance is a contract between _____ and _____

- (a) Insurer, insured
- (b) Agent, insurance
- (c) Insured, insurance
- (d) Insurer, family

Question 3. A person gets his stock worth Rs. 50,000 insured for Rs. 70,000. A fire occurs and the whole stock gets damaged. The Insurance Company admits a claim of Rs. 50,000 only and not Rs. 70,000. Identify the principle of insurance being applied?

- (a) Principle of Indemnity
- (b) Principle of Insurable Interest
- (c) Principle of Subrogation
- (d) Principle of Contribution

Question 4. In which year Insurance Act was amended in India?

- (a) 1940
- (b) 1928
- (c) 1938
- (d) 1945

Question 5. Which of the following is not applicable in life insurance contracts?

- (a) Indemnity contract
- (b) Unilateral contracts
- (c) Conditional Contracts
- (d) None of the above

Question 6. In which year Children's Money Back plan was introduced?

- (a) 1985
- (b) 1988

(c) 1995

(d) 1989

Question 7. It is a type of saving bank account in which excess of a particular limit gets automatically transferred to a fixed deposit account.

(a) Multiple deposit option account

(b) Current account

(c) Recurring deposit account

(d) Salary account

Question 8. _____ banks are included in the second schedule of RBI.

(a) Scheduled

(b) State

(c) Commercial

(d) Corporation

Question 9. Bankers are not only dealers of money but also leaders in

(a) Industry development

(b) Service development

(c) Trade development

(d) Economic development

Question 10. In which year Crop Insurance scheme was introduced in India?

(a) 1978-79

(b) 1985-86

(c) 1948-49

(d) 1990-91

Question 11. From the following which of these is covered under Marine Insurance?

(a) Whole Life policy

(b) Liability Insurance

(c) Endowment policy

(d) Act only

Question 12. The fee charged by the insurer on account of providing services is called

(a) Premium

(b) Profit

(c) Dividend

(d) Instalment

Question 13. Which of the following is covered under the life Assurance policy?

(a) Money Back Policy

(b) Declaration policy

(c) Act only

(d) Cargo Insurance

Question 14. Which of the following is not a function of General Insurance?

(a) Risk sharing

(b) Assist in capital formation

(c) Cattle insurance

(d) None of the above

Question 15. Which bank is known as Apex Bank of India?

(a) The Reserve Bank of India

(b) The State Bank of India

(c) The Central Bank

(d) The Bank of India

Very Short Questions –

Question 1 Mention the 5 I's of services?

Question 2 What is Insurance?

Question 3 Mention the name of two companies that offer DTH services in India.

Question 4 What is Banking?

Question 5 What are the types of insurance policies?

Question 6 Mention 6 functions of warehousing.

Question 7 What are the 3 significant types of insurance that are involved in Marine insurance?

Question 8 Expand RTGS and NEFT.

Question 9 What are the principles of insurance?

Question 10 What are the types of warehouses?

Short Questions –

1. Explain the need and benefits of services.

Question 2. What are the various types of financial services? Explain in brief.

Question 3. What are the various types of life insurance policies undertaken by the policyholders?

Question 4. Differentiate Life Insurance and Fire Insurance.

Question 5. Explain the term Double Insurance and Re-Insurance and differentiate the two.

Question 6. What is the role or advantages of insurance in business?

Question 7. What do you understand by the term Merchant Bankers? Mention in brief the services provided by Merchant Bankers.

Question 8. Define Reserve Bank of India and its important functions:

Question 9. Explain the term E-banking and the services of E-banking in today's economic world.

Question 10. Banking is the lifeblood of the economy. Mention the role or importance of Banking in the economy.

Long Questions –

Question 1. Define the term internet and its various benefits and uses in the modern world.

Question 2. Explain the various types of Banks?

Question 3. What do you understand by insurance? How is it facilitates business?

Question 4. What is Business Finance? Explain the various types of business finance and their uses in business.

Question 5. Explain the various types of banks and their important functions:

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.

Case Study Questions –

1. Direction: Rohan Mishra after completing his graduation in Telecommunications from a reputed Engineering College came back to his native town in Bhilwara, Rajasthan. He decided to help his father who owns a textile mill in Gulabpura, Bhilwara but he did not find it interesting. He wanted to do something in the telecom sector. His father did not know much about such services so, Rohan explained him about various telecom services available.

(a) Telecom service that utilizes any type of network equipment connected through fiber optic cables laid across length and breadth of the country.

(b) Type of mobile telecom services including voice and non-voice messages and data service.

(c) Linkages and switched services within a licensed area of operation to operate media services.

(d) Satellite based media service provided by cellular companies through dish antenna and a set top box.

(e) Satellite based communication services which can be used to provide innovative applications such as online newspaper, tele-education, etc

On the basis of above paragraph, answer the following questions.

(i) Which of the following is not an example of telecom services?

- a) Postal services
- b) Mobile services
- c) Cable services
- d) Radio paging services

(ii) Identify the telecom service indicated in point (a) given above.

- a) Cellular mobile services
- b) Fixed-line services
- c) Radio paging services
- d) Cable services

(iii) "Linkages and switched services within a licensed area of operation to operate media services." This best suits to which of the following options:

- a) Cellular mobile services
- b) Direct to Home services
- c) Radio paging services
- d) Cable services

(iv) "Linkages and switched services within a licensed area of operation to operate media services." Q. Satellite based communication services which can be used to provide innovative applications such as online newspaper, tele-education, etc. This is _____ services.

- a) VSAT services
- b) Direct to Home services
- c) Cellular Mobile services
- d) Cable services

2. Direction: Read the following text and answer the questions that follow:

Shipra Oswal is a software professional working in T.K.Industries Ltd. at Kerala. Her parents are residing in Agra. Due to family emergency, her father asked her to send ` 4 lakhs in his saving bank account in SBI at the earliest. Shipra is having her bank account with Bank of Baroda but she has not opted for digital payment system or e-banking services. She approached her bank manager Mr. Vivek Mishra, for remittance of the amount to her father's account. He told her that she can adopt Electronic Fund Transfer options: RTGS or

NEFT. He advised her to apply for virtual banking services enlisting its benefits and started her mobile banking services from the same day. Shipra successfully transferred the amount to her father using RTGS.

(i) '...her to apply for virtual banking services'.

Which of the following is not true about Virtual banking?

- a) Banking using electronic media
- b) No face to face interaction of customer with bank employees
- c) A customer can transfer funds using Bank Draft
- d) Payment of bills using personal digital assistant

(ii) Which of the following is not the method of digital payment?

- a) Debit card
- b) Credit card
- c) ATM
- d) Cash credit

(iii) What is the full form of RTGS?

- a) Real Time Great Solution
- b) Rupee Transfer Gross Settlement
- c) Real Time Gross Settlement
- d) Regular Transfer Gross Settlement

(iv) The reason why Shipra chose RTGS, not NEFT is:

- a) Minimum transaction value of NEFT is ₹ 5 lakhs
- b) In RTGS, payment is not subjected to any waiting period
- c) RTGS operates on deferred Net Settlement
- d) In NEFT, payment is not subjected to any waiting period

MCQ Answers –

1. Answer: (a) Cash Credits
2. Answer: (a) Insurer, insured
3. Answer: (a) Principle of Indemnity
4. Answer: (c) 1938
5. Answer: (a) Indemnity contract
6. Answer: (c) 1995
7. Answer: (a) Multiple deposit option account
8. Answer: (a) Scheduled

9. Answer: (d) Economic development
10. Answer: (b) 1985-86
11. Answer: (b) Liability Insurance
12. Answer: (a) Premium
13. Answer: (a) Money Back Policy
14. Answer: (c) Cattle insurance
15. Answer: (a) The Reserve Bank of India

Very Short Answers –

1. Answer: Inconsistency, Inventory, Intangibility, Involvement and Inseparability
2. Answer: Insurance is a contract, embodied by policy, in which an individual or entity receives financial security or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.

Also Check: Important Question for Emerging Modes of Business

3. Answer: Tata Sky and Airtel are the two companies that offer DTH services in India.
4. Answer: A bank is a financial institution authorised to receive deposits and make loans. Banks may also give financial services, such as currency exchange, wealth management, and safe deposit boxes. There are two types of banks. Namely, commercial/retail banks and investment banks.
5. Answer: There are 5 types of insurance policies. Namely,
 - Whole life policy
 - Joint life policy
 - Annuity policy
 - Endowment life assurance policy
 - Children's endowment policy
6. Answer: Functions of warehousing:
 - Consolidation
 - Stockpiling
 - Value-added services
 - Price stabilisation
 - Financing
 - Break the bulk
7. Answer:
 - Ship or hull insurance
 - Freight insurance

- Cargo insurance

8. Answer:

RTGS – Real Time Gross Settlement

NEFT – National Electronic Funds Transfer

9. Answer: 7 principles of insurance are,

- Utmost good faith
- Insurable interest
- Indemnity
- Proximate cause
- Subrogation
- Contribution
- Mitigation

10. Answer:

- Private warehouse
- Public warehouse
- Bonded warehouse
- Government warehouse
- Cooperative warehouse

Short Answers –

1. Answer: The need for Service Sector: Modern trade is the symbol of modern civilization. It has crossed every barrier and reached even the distant and remote parts of the world. It has touched every man. The economic welfare of mankind has been made possible by trade. The physical distribution of goods requires series of interrelated activities, which help in the flow of goods from the producer to the final consumer.

Service sector ensures the smooth supply of goods and services. The service sector consists of a series of interrelated activities concerned with producers to consumers. Service facilities help ensure the supply of the right quantity of the right products to the right place at the right time.

Benefits of Services:

1. Quick and economical services to customers: Efficient service to customers is the only way to have an edge over the competitors. Customer satisfaction can be gained by providing quick, economical, and efficient services to consumers.
2. Minimisation of cost: The distribution costs are part of the price of goods. The costs of transportation, insurance, warehousing, and financing increase the price of the commodities. The efficient and cheap supply of these services minimizes the cost, which is

beneficial to consumers.

3. Additional sales volume: The service sector through its efficient transportation, communication, warehousing, and advertising facilities helps increase demand and supply of sales. These services provide knowledge about the commodity and also help in their distribution. Services improve the faith and loyalty of customers.

4. Stabilisation of prices: Transportation helps in the transfer of goods from areas of abundant supply to the areas of scarcity, so the price remains almost the same everywhere. Warehousing adjusts the supply according to demand to avoid violent fluctuations in prices.

5. Removal of time and place barrier- There is a time gap between the production and consumption of the commodities. The warehousing services keep the commodity in their safe custody for the period between production or purchases and sale. This service protects goods from damage and destruction. Modern transport facilities have enabled the movement of commodities from one place to other places.

2. Answer: Types of Financial Services: In addition to the traditional financial services of Banking and Insurance the following new financial services have emerged.

1. Merchant Banking: Services of intermediary regarding the issue, management, underwriting corporate restructuring are referred to as merchant banking. They provide growth of the capital market and help in developing an investment climate in the country.

2. Loan Syndication: The approach of borrowers to several banks willing to syndicate a loan, specifying the amount, and the tenure of the loan is termed as loan syndication.

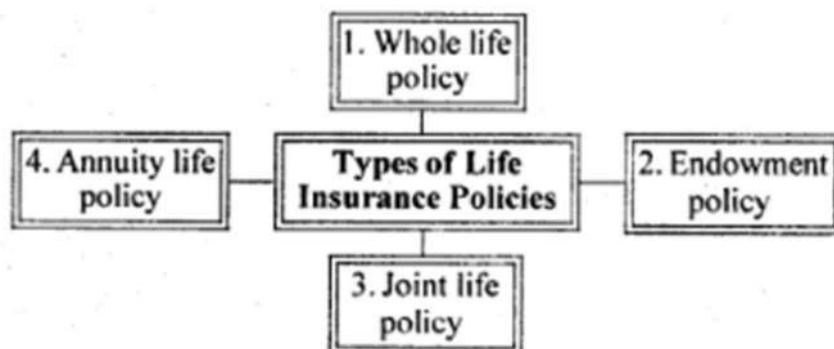
3. Venture Capital: Subscribing the equity shares of borrowers in return for part of ownership.

4. Factoring: The practice of selling accounts receivable to other companies or agencies for raising funds is termed factoring.

5. Leasing: The legal agreement by which the user of an asset may make payment of lease rent to the owner of the asset in return of use. At the end of the agreement, the lessee takes possession of the assets.

6. Mutual Funds: A company that pools funds from individuals to invest in shares or debentures and in short-term securities.

3. Answer: Types of Life Insurance Policies: The life insurance corporation has got different policies suiting to the needs of different persons. These policies are as Under:



1. Whole life policy: This policy reins throughout the whole life of the assured. The sum assured becomes payable to the beneficiary only after the death of the insured. The amount of premium is comparatively lesser in this policy. The period of the policy is indefinite. Its payment is made to the dependents of the insured only.
2. Endowment policy: This policy is for a fixed amount and specified period. If the policyholder survives for the period of the policy he is paid the specified amount of the policy with a bonus. An endowment policy provides both protection as well as savings for old age.
3. Joint life policy: This life policy is taken by two or more persons jointly. These persons may be partners of the firm, employees of an organization, members of the family, etc. According to the terms of the policy, the premium is paid jointly. On the death of anyone member of the group, the entire amount of the policy or the amount as per agreement is paid.
4. Annuity life policy. In this policy, the amount of the policy is paid before the maturity of the policy after one year or the year or the expiry of the fixed period. The entire amount of the policy is paid on the death of the policyholder or after the expiry of the period of the policy, whichever is earlier.

4. Answer: Difference between Life Insurance and Fire Insurance:

Points of difference	Life Insurance	Fire Insurance
1. Element of safety/investment	It has got both the the element of safety and investment.	It has got an element of safety only.
2. Surrender value	The assured can surrender the policy before its maturity.	The insured cannot surrender the policy.
3. Contract of indemnity	It is not a contract of indemnity.	It is a contract of indemnity.
4. Number of years	The life insurance policy is taken for many years.	Fire insurance policy is taken for one year. It has to be renewed after one year if it has to be continued.

5. Insurable interest	It must be present at the time of the contract	It must be present both at the time taking policy and at the time of loss.
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5. Answer: Double Insurance: Any person is free to take more than one insurance policy for the same property or goods. But he cannot recover more than the amount of loss actually suffered because a contract of insurance is a contract of indemnity.

Reinsurance: When an insurer risks that are beyond his control, he may get the whole or a part of his risk reinsured with other insurers. This is known as reinsurance.

Points of difference	Double Insurance	Reinsurance
1. Meaning	Ensuring the same risk with two or more companies is Double Insurance.	It is a contract of sub-insurance between the insurer and the reinsurer.
2. Filing Claim	A claim can be filed with all insurers but restricted to an actual loss in case of fire and marine policies.	The insured will claim compensation from the original insurer, who will claim compensation from reinsurers.
3. Contribution	The contribution will be made by each insurer in proportion to the sum insured.	Reinsurers are not directly required to contribute to losses.

6. Answer:

Role/Advantages Of Insurance In The Business: The future is always uncertain. Uncertainties in the business make plans futile and investments valueless. In order to minimize risk different types of insurance policies are taken. Insurance policies are advantageous in the following respects:

Role/Advantages of Insurance in the Business:

1.	Protection
2.	Indemnity
3.	Diffusion of Risk
4.	Social utility
5.	Industrial Development

1. Protection: Insurance provides protection against the risk of loss. In case of life insurance the loss of an individual cannot be compensated but the receipt of the insured amount from Life Insurance Corporation helps him in standing. Insurance enables the businessman to carry on business with confidence and peace of mind.

2. Indemnity: The loss caused by fire and other mishappenings is compensated by the insurance company. Insurance, as such is the protection against losses and businessman feels secured and free from anxiety.

3. Diffusion of Risk: The burden of loss is distributed among a large number of persons through insurance. The impact of loss on one industry is not unduly heavy, that can be transferred by the insurance company to others.

4. Social utility: Insurance provides safety to the common man. It is a means of social security. It also generates employment opportunities.

5. Industrial Development: The insurance companies collect a huge amount as a premium. These funds are invested in industrial ventures and cause industrial development.

7. Answer: Merchant Bankers: Merchant bankers or lead managers undertake the management of new capital issues of companies. A merchant banker helps the company intending to raise fresh capital in drafting the prospectus (or statement in lieu of prospectus), the arrangement of underwriters, selection of brokers, publicity, the appointment of the registrar to the issue, etc. In India, several banks have specialized divisions or subsidiaries for offering merchant banking services.

Merchant bankers provide a wide variety of financial services to the corporate sector. They look into various legal and procedural aspects involved in the issue of securities and the raising of loans. They also provide consultancy in matters of investment, capital restructuring, valuation, merger, acquisition, etc.

8. Answer: Reserve Bank of India: It was incorporated on April 1, 1935 as a shareholders' bank. The majority of shares were held by the central government. After independence, the Reserve Bank of India was nationalized on April 1, 1949. Reserve bank of India performs the following important functions:

Functions Of Reserve Bank Of India:

A. Primary functions:

1. Issuing currency notes (except one rupee note, which is issued by the ministry of finance)
2. Bank of the government
3. Working as the banker of banks
4. Controlling bank rate or rate of interest
5. Controlling exchange rate.

B. Subsidiary functions:

1. Dealing in foreign exchange
2. Discounting bills of different banks
3. Dealing in government securities
4. Accepting deposits without interest
5. Managing clearing houses
6. Managing agricultural credit
7. Extending short-term loans to banks and financial institutions
8. Regulating developmental, industrial, and commercial activities in India.

9. Answer:

E-Banking (Electronic Banking): Many banks have introduced electronic banking services for their customers. Like IDBI Bank, UTI Bank, Global Trust Bank, Citibank, State Bank of India, etc. They make use of computers and satellites for the transfer of funds and communication. E-banking includes the following services:

1. EFT (Electronic Fund Transfer System): It is a cost-saving scheme for the convenience of customers. Under the schemes company may transfer wages and salaries from its bank account to the personal accounts of its employees. Similarly, a company can distribute dividends to its shareholders electronically. This is a very safe method of transfer of money as compared to banker's draft, traveler's cheque, etc.
2. ATMs (Automated Teller Machines): Many banks have installed ATMs in big cities. An ATM renders a teller's job 24 hours a day. It is a self-service terminal that renders the facility of withdrawal and deposit of money to the bank customers. Each customer is given a separate plastic card to avail of the services at the ATM.

The customer has to insert the plastic card into the terminal and enter his identification code. The machine would then respond to the customer's instruction of giving cash, taking a deposit, and handling other banking transactions.

3. Credit Card: The card issued to selected customers to enable them to make payment of

credit bills of the credit limit. It is also called plastic money as it allows the credit cardholder to withdraw money without making any deposit into the bank. It allows an overdraft facility to the customer up to a specified limit. The cardholder can use the card for making payments for goods and services to the suppliers having Internet service is provided in India by many companies like VSNL, Bharti Telecom, and MTNL known as Internet Providers.

Any individual or organization can open an account with any Internet Service Provider who will give an account number for a monthly or yearly charge. Then the user may have access to the internet and the e-mail through it.

4. Debit Card: This is the card issued to the holder of a bank account against the balance amount in the account to facilitate and simplify the payment, withdrawal, and transfer of money any time, anywhere through the computer is known as a debit card.

10. Answer:

Role/Importance Of Banking In National Economy:

As capital is the lifeblood of trade, commerce, and industry, so banking, in the same way, is the lifeblood of the economy. The importance of banking can be justified on the following grounds:

The modern economy is helpless without banking services. Banking as the lifeblood of the economy has assumed the following significance.

1. Credit creation: Banks accept deposits, retain a nominal percentage of the deposit as a cash reserve, and the best major part is lent to trade, industry and commerce at a higher rate of interest. It is known as credit creation.
2. Mobilisation of savings: Banking accept surplus savings and return together with interest, whenever required. It inculcates the habit of savings among people. It is responsible for capital formation.
3. Safe custody of valuables: The banks provide locker services and keep our valuables like ornaments, notes, documents, etc. safe, we can take them from banks whenever required.
4. Promotion of foreign trade: Finance is the lifeblood of all trading activities, even foreign trade. Banks are the source of funds, help in the payment and transfer of money, provide foreign exchange, issue letter of credit, and provide assistance to foreign trade in many ways.
5. Social and national welfare: Surplus funds of the people are accepted as deposits by banks and lent to trade, commerce, and industry for productive purposes. It promotes the welfare of the people.

Long Answers –

1. Answer:

Internet is a worldwide or global network of computers, connected through telephone lines and other high-speed links. It is a facility of communicating and sharing information with millions of people all over the World Internet Service is provided in India by many companies like VSNL, Bharti Telecom, and MTNL, known as internet service providers.

Any individual or organization can open an account with any internet service provider who will give an account number for a monthly or yearly charge. Then the user may have access to the internet and the e-mail through its information in a variety of forms.

Benefits/Uses of the Internet: Nowadays the internet is being used in every place and every sphere of life, whether it is a share market, shopping complex, companies, organization, departments, or Government understandings. There are a lot of buyers and sellers who use the internet as their buying and selling market. A newspaper or magazine can be read out through it. Seminars, conference, workshop, meeting, the conversation is also possible on the internet.

Thus, the benefits/uses of the internet can be classified as follows:

1. **Sharing information:** The first and foremost use of the internet is to share information. Company employees and many other people can share research and business data among colleagues and like-minded individuals
2. **Communication-** Internet facility is also used for communication Through the internet individuals can make communicate directly in various “chat-sessions” and E-mail facilities. With the help of modern technology people can talk face-to-face with the help of a Digital Camera which is possible only with the internet.
3. **Marketing of products:** Various Multinational Companies (MNC’s), departmental stores, shopping complexes, manufacturers, organizations, etc. used the internet for selling their products. Buyers also used interest to buy different kinds of goods from different corners of the world.
4. **Entertainment:** The Internet is a good source of entertainment. It offers a lot of entertainment programs as you can play any game by downloading it on your computers. You can come to know the latest Hollywood and Bollywood information about your favorite stars and films. You can hear songs and see films on the internet.
5. **Making of queries:** The Internet provides the facility to make queries regarding various places, products, films, books, personalities, institutions, etc. That’s why. a high and suitable institute, college, or school with its features and co-curricular activities can be approached.
6. **Feedback and suggestions:** Through the internet, many institutions and governments can take feedback and suggestions about their decisions and orders (e.g. Daily voting regarding decisions in Hindustan Times and Aaj Ki Baat).
7. **Other uses:** The Internet facility is also used to find out vacancies and provide opportunities. It can also be used for matrimonial and many more things.

2. Answer:

Banks can be classified into the following:

- Commercial Banks
- Cooperative Banks
- Specialized Banks
- Central Banks

1. Commercial Banks: These banks perform all kinds of banking business. They accept deposits from the public and provide short term loans and advances to customers. They act as financial intermediaries or dealers in debt. Commercial banks are regular banks.

In India, there are three types of commercial banks:

1. Public Sector Commercial Banks
2. Private sector commercial banks
3. Foreign Banks

2. Cooperative Banks: These banks are formed and set up the principles of cooperations. They are registered under Cooperative Societies Act. They provide credit and other facilities to their members. The members may be farmers, small scale traders, etc. They accept deposits from the members and grant loans to them at low rates of interest.

3. Specialised Banks: Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities. They provide financial aid to industries, heavy turnkey projects, and foreign trade.

4. Central Bank: Central bank is the apex institution that supervises and controls the entire banking system of the country. Every country has a central bank. The Reserve Bank of India is the central bank of our country. A central bank does not deal directly with the public and its aim is not to earn profits. It also acts as a government banker. It controls and coordinates the currency and credit policies of any country. It maintains the exchange rate. It is the custodian of foreign currency reserves of the country.

3. Answer:

Insurance is a means of spreading risks. It involves the pooling of risks. A group of people who are subject to an insurable risk contributes regularly and the fund so created is utilized to compensate those unfortunate few members of the group who actually suffer a loss due to some unexpected density:

In other words, Insurance is a social device for pooling and dividing risks among a large number of persons.

Importance of Insurance: Insurance plays a very important role in business. It provides the following advantages of businessman:

1. Protection against risks: It provides protection against risks of loss. By providing security against heavy risks and losses, insurance stimulates the expansion of trade and industry.
2. Division of labor- It facilitates the division of labor. A businessman can concentrate fully on his own business because his risks are taken over by an insurance company that is a specialist in risk-bearing.
3. Ability to face competition- It helps in improving the efficiency of business because an insured businessman feels more safe and active. Insurance contributes to the survival and continuity of business.
4. Better utilization of capital: In absence of insurance facilities businessmen will have to maintain large reserves to face risks due to loss. Insurance avoids the need for such reserves

and the fund so released can be invested to generate additional wealth.

5. Facility for loan: Insurance companies provide loans and underwriting facilities to businessmen and also invest in industrial securities. After insuring his goods, the creditworthiness of the businessman increases.

4. Answer:

Business Finance:

Ours is a developing economy. Agriculture is the dominant source of income. The 11m citations of agriculture here and the exploding population results in mass unemployment and non-Litilisation of resources. The remedy lies in the rapid growth of the business. consisting of trade, industry, and commerce. The establish is out. nursing and growth of the trade, industry, and commerce owe to the finance. It is rightly said that finance is the lifeblood of business.

The ancient business was very small in size, so own funds and loans from friends and relatives were sufficient to carry on business activities. Modem business has assumed a large size. It has become complicated and complex. Mechanization, specialization, and tough competition are their common features. Own funds are incapable of meeting present financial requirements. This is why, we have developed new sources of finance such as shares, debentures, public deposits, and institutional finance.

Types of Business Finance: Finance is required at every stage of the business. We need different types of finance for different purposes. On the basis of purpose the finance can be classified as under:

Manufacturers require long term finance more than the traders, who purchase and sell goods for-profit motive. More long-term finance will be required if the size of the business is larger.

Special features of long term finance:

1. Finance required for a period of more than 5 years is known n as long-term finance. According to certain authorities, finance for a period exceeding ten years is known as long term finance.
2. Long-term finance is required for making investments in fixed assets, such as land, building, plant, machinery, vehicles, equipment, furniture, etc.
3. Long term finance meets the long term financial needs of the business. These needs are the permanent needs of the business.
4. Fixed assets purchased out of long term finance are revenue-generating.
5. Long term finance once invested in the business cannot be taken without dissolving the business or scaling down the business.
6. Long-term finance is acquired through the issue of shares, debentures, or loans from specialized financial institutions.

(2) Medium Term Finance:

Medium-term finance, also known as medium-term capital is required for a period ranging

between 2 to 5 or 2-10 years (The period of finance depends upon the nature and purpose of the business).

Medium-term finance is required for the following business activities:

1. Introduction of a new product.
2. Expenses on the modernization of business.
3. Advertising campaign.
4. Investment in permanent working capital.
5. Adopting new methods and techniques of production.

Medium-term finance is raised through debentures, banks, public deposits, and financial institutions. Medium-term finance is required by manufacturing industries more than trading industries. Medium-term expenditures are also treated as capital expenditure because it is supposed to be revenue-generating.

3. Short Term Finance: Short term finance, also known as, short term capital or working capital is required for a period not exceeding one year. It is required to meet the day-to-day needs of the business. Short term finance is used again and again in the business, so it is also known as circulating capital.

Uses of Short Term Finance:

The short term finance is required for the following business activities:

1. Meeting short-term financial needs of the business.
2. Purchase of raw material.
3. Payment of direct expenses i.e. expenses on acquiring and manufacturing goods i.e. carriage, freight, wages, power and manufacturing expenses, etc.
4. Payment of selling, distribution, and administrative expenses. Trading concerns require more short term finances than manufacturing concerns. Lesser short term finance will be required if the gap between production and sale is lesser. Small factories need lesser short term finance than a large manufacturing enterprise.

5. Answer:

1. Commercial Banks: These banks perform all types of the banking business. They accept deposits from the public and provide short-term loans and advances to customers. They act as financial intermediaries. State bank of India is the largest commercial bank in India. These banks have been established to assist trade commerce and industry.

2. Agricultural Banks: Agriculture needs both short-term and long-term loans. Short-term loans are required for purchasing seeds, manure, tractor, cattle, and tube wells, etc. These short-term needs are met by cooperative banks. Long-term financial needs are regarding the purchase of a land, tractor, other equipment and for installation of tube wells., Long-term financial needs are met by land mortgage banks also known as an agricultural bank. These banks are very helpful for the farming community.

3. Industrial Banks: These banks provide long-term funds, so their requirement cannot be

effectively met by commercial banks. They assist in the promotion of new industrial units. Unfortunately in India, we do not have a sufficient number of industrial banks. In place of industrial banks, we have the industrial development bank of India and various financial corporations to meet the financial needs of industrial enterprises. In western countries like the UK and the USA, there is a large number of industrial banks.

4. Exchange Banks: These banks provide finance for foreign trade. Many Indian commercial banks provide exchange services also. Most foreign banks work as exchange banks in India. These banks are City banks, Bank of Tokyo, Grindlays Bank, Chartered Bank, etc. These banks deal in foreign exchange and assist importers and exporters.

5. Indigenous Banks: Before independence financial needs of farmers and small business units were met by indigenous banks in rural areas. These are money lenders who accept deposits and grant loans. The working of these banks is so simple that farmers and borrowers may approach them at any time. Borrowers have to pledge their ornaments, land, and valuables for borrowing funds.

These banks are virtually exploiter of poor rural people. In spite of our development in financial fields by establishing big banks and financial corporations, indigenous banks are still serving the needs of the poor masses.

Special features of Indigenous banks:

1. Loans can be granted for any purpose.
2. Loans are granted at a higher rate of interest.
3. Loans may be granted without security and a pledge.
4. (They are easily accessible.
5. Their method of work is simple.
6. They may not observe business rules and regulations.
7. Central Bank: Reserve Bank of India: Every country has a central bank responsible for the overall control of cash and credit money in the economy. In India, the Reserve Bank of India works as the Central Bank of the country.

Case Study Answers –

1.

(i) a) Postal services

Solution: Telecommunication means transferring signals over a distance. Services that offer voice, internet, television, networking, and data services over a large area are known as telecom services. They can either be wired or wireless. Postal services is not an example of telecom services.

(ii) b) Fixed-line services

Solution: A fixed-line can be seen as a connection to an end customer, by means of a cable, through which a user can make phone calls or connect to the Internet. Fixed-lines are clearly

separate from the mobile phone network, by which end users are connected to the network via wireless transmission technologies.

(iii) d) Cable services

Solution:

Cable services are referred to in the above paragraph. A subscription television service that uses cables to carry signals between local distribution antennas and the subscriber's location.

(iv) a) VSAT services

Solution: Satellite based communication services which can be used to provide innovative applications such as online newspapers, tele-education, etc. This is VSAT services.

2.

(i) c) A customer can transfer funds using Bank Draft

Solution: A customer can transfer funds using Bank Draft is not true about Virtual banking. A virtual bank works when a customer, first of all, opens an account with the virtual bank.

(ii) d) Cash credit

Solution: Cash credit is not the method of digital payment. Cash credit is a type of short-term working capital loan extended by financial institutions, which allows the borrowers to utilise money without holding a credit balance in an account.

(iii) c) Real Time Gross Settlement

Solution:

- RTGS: Real Time Gross Settlement.
- The term real-time gross settlement (RTGS) refers to a funds transfer system that allows for the instantaneous transfer of money and/or securities. RTGS is the continuous process of settling payments on an individual order basis without netting debits with credits across the books of a central bank.

(iv) b) In RTGS, payment is not subjected to any waiting period

Solution: The reason why Shipra chose RTGS, not NEFT is that In RTGS, payment is not subjected to any waiting period.