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**FUNDAMENTALS OF BUSINESS
ECONOMICS AND MANAGEMENT**

CMA FOUNDATION

2nd Edition

Publisher:



VIVITSU
STRIVING TOWARDS KNOWLEDGE

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Reviewer®

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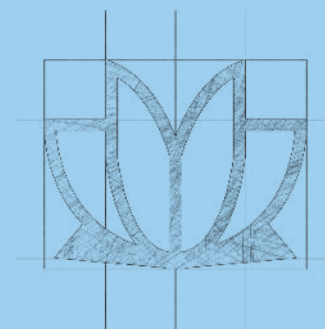
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To the one who's not just dreaming CMA —
but becoming it



CMA

Write your name here

What Matters in CMA?

1 CONCEPTUAL CLARITY

Business Economics is easy when you understand the ideas behind them — not just facts. *Focus on real-world logic* like demand-supply, markets, and business decisions.

This Reviewer gives you topic-wise MCQs so you *apply what you've learned right after studying*.

2 CONSISTENCY

Speed and accuracy are built slowly. Solving even 15–20 MCQs daily helps you *develop a strong rhythm*.

This chapter-wise structure helps you *practice regularly* without waiting for full syllabus completion, so you're always in touch with every topic.

3 CONFIDENCE

Accuracy matters more than guesswork. Confidence builds when you solve MCQs honestly and *recognise your weak spots early*.

The Reviewer includes tricky and exam-style MCQs, and the LDR section helps you sharpen your focus before the final day.

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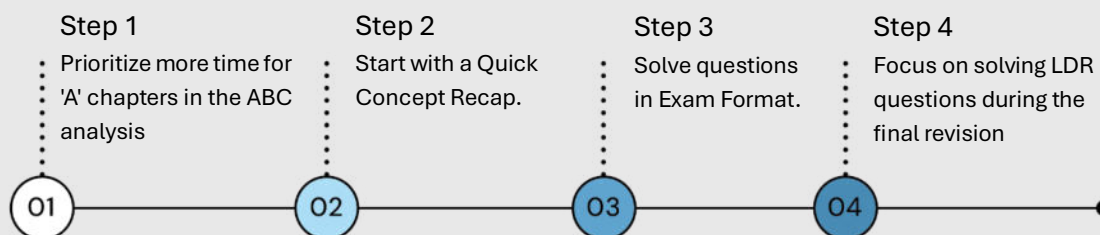
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Don't just study—study smart. Watch renowned professors solve the Vivitsu Reviewer with you on YouTube, breaking down every concept, question, and answer for better understanding and stronger retention.

60+ in BUSINESS ECONOMICS AND MANAGEMENT**Step 1: Prioritize your chapters**

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

**Step 2: Start with a Quick Concept Recap**

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

**Step 3: Practice in Exam Format**

Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

**Step 4: Last Day Revision (LDR)**

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

5 Ways Vivitsu Reviewer will help you CLEAR CMA FOUNDATION

SECTION A: FUNDAMENTALS OF BUSINESS ECONOMICS								IMP
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4	Economic and Business Environment							4.1 - 4.11
4.1	Political, Economic, Social, Technological, Environmental and	2	14	12	10		8	4.1 - 4.9
4.2								4.9 - 4.11
5								5.1 - 5.48
5.1								5.1 - 5.5

05

Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential



44. Who introduced the concept of the five functions

of management? (PYP 2 Marks Dec'20)

(a) Peter Drucker

(b) Frederick Taylor

(c) Henri Fayol

(d) Elton Mayo

Ans. (c)

5.2

STEWARDSHIP THEORY AND AGENCY THEORY OF MANAGEMENT

Quick Review of Important Concepts

04

Topic-wise Break up

Stewardship Theory

- Developed by Davis, Schoorman and Donaldson (2005).
- View: Managers are stewards of the organization's resources and are accountable to the shareholders for the growth, reputation, and financial performance of the organization.
- Conflict: Managers (agents) vs. Shareholders (principals).
- Problem: Information asymmetry, risk shifting, and asset substitution.
- Agency Costs: Monitoring costs, bonding costs, and residual loss.
- Goal: Maximization of shareholder wealth and satisfaction of multiple stakeholders.

Key Differences

Issue	Stewardship Theory	Agency Theory
Basic	Psychology and sociology	Economics
Model of Man	Self-actualizing	Economic
Behavior	Collective serving	Self-serving
Motivation	Interest, growth, responsibility	External (money, rewards)
Performance Focus	Stakeholder value	Shareholder value
Control	Self-control	External control
Objectives	Long-term	Short-term
Culture	Cooperative	Competitive
Time Frame	Long-term	Short-term
Approach to monitoring	Trust	Suspicion
Governance Role	Advice, advisory	Monitoring, control
Decision-making	Managers have discretion	Shareholders have control

Includes 100% coverage of SM + MCQ Bank + MQP + PYP

03

Multiple Choice Question (MCQ)

45. Agency theory suggests that managers are agents, particularly those of large, publicly

(a) Workers

(b) Shareholders

(c) Subordinates

(d) Employees

(SM, MCQ Bank, MQP [2] 2 Marks

Dec'25, June'26)



Quick Review of Important Concepts

Pricing Strategies

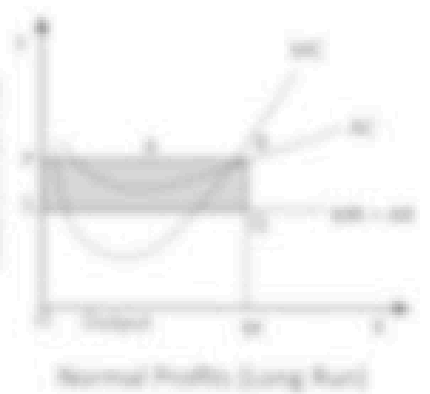
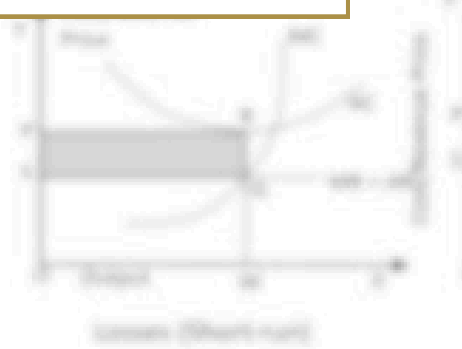
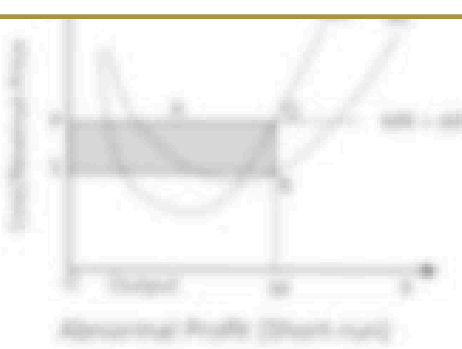
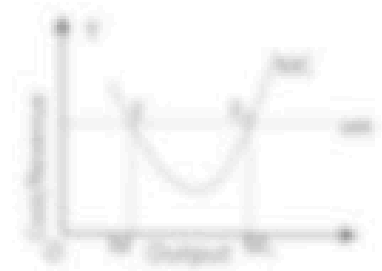
- ⇒ **Cost-plus pricing** – Add a profit % to production cost.
- ⇒ **Limit pricing** – Low price to prevent new entrants.
- ⇒ **Penetration pricing** – Low initial price to gain market share.
- ⇒ **Price discrimination** – Different prices for different segments.
- ⇒ **Psychological pricing** – Prices like ₹3.99 instead of ₹4.
- ⇒ **Dynamic pricing** – Flexible pricing via technology (common online).
- ⇒ **Price leadership** – Dominant firm sets price; others follow.
- ⇒ **Target pricing** – Price to achieve a specific ROI.
- ⇒ **Absorption pricing** – Cost + proportion of fixed costs.
- ⇒ **High-low pricing** – Regular high prices with discounts/promotions.
- ⇒ **Marginal-cost pricing** – Price = extra cost of producing one more unit.



02

Concept Summary

Sharpen your memory with lightning-fast concepts recap before you hit the questions. Also perfect for the final 1.5-day revision!





Quick Review of Important Concepts

Meaning of Management

- Management = managing people tactfully to achieve goals.
- Provides leadership, coordination, and resource utilization.
- Without management → resources remain idle.

Definitions (Key Authors)

- **Agne Hasan Ali**: "Getting work done through people, but real management is developing people through work."
- **Henry Fayol**: Forecast, plan, organize, command, coordinate, control.
- **Bennis and O'Donnell**: Creation of environment for group efficiency.
- **Peter Drucker**: Manage business, managers, and workers.
- **George R. Terry**: Planning, organizing, actuating, controlling.

Nature of Management

1. Result oriented – aims at productivity and profits.	11. Multidisciplinary – draws from economics, sociology, psychology, etc.
2. Process driven – ongoing activity.	12. Goal oriented – aims at set objectives.
3. Science + Art – scientific knowledge + skills.	13. Managers + workers – ownership and management aspects.
4. System of authority – rules and compliance.	14. Intangible – results felt in performance and productivity.
5. Leadership – managers influence subordinates.	
6. Decision making – essential role of managers.	
7. Dynamic – adapts to social and business changes.	
8. Levels – top, middle, lower management.	

Management: Science vs Art

As Science	Practical knowledge and personal skill
• Universally accepted principles. • Cause-effect relations. • Based on observation, experiments. • Predictability and validity.	• Creativity and innovation. • Perfection through practice. • Goal oriented. • Practical knowledge and personal skill.
• Conclusion: Management = Knowledge + application.	

Scope of Management

- **Economic Resource** – customer base, labour, capital, entrepreneur.
- **System of Authority** – ensures rules and compliance.
- **Class/Class** – managerial class as a distinct group with values.

Management as a Profession

- Features of profession: body of knowledge, formal training, consultancy, association, code of conduct, societal service.
- Management partially qualifies as a profession, efforts ongoing.

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ABC Analysis



Very Important,
Read on priority



Moderately
Important



Less critical but still
essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

WHAT DOES REVIEWER INCLUDE?

This Reviewer offers 100% coverage, including all questions from:

- SM: ICMAl Study Material Questions
- MCQ Bank
- PYP: Past Year Papers
- MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)

CHAPTER 1: BASIC CONCEPTS



LDR Questions

Q 1, Q22, Q 49, Q 51, Q53, Q 143, Q146, Q 217, Q222, Q 225

1.1

THE FUNDAMENTALS OF ECONOMICS

Quick Review of Important Concepts

Definition of Economics

Economics is a social science that studies human activities related to earning and spending money. The central problem is: Unlimited human wants but Limited resources. This creates the problem of choice (deciding what to produce, how to produce, and for whom)

Subject Matter (4 parts)

1. **Consumption** → Using goods/services to satisfy wants.
2. **Production** → **Creating** utility using factors:
 - Land, Labour, Capital, Organisation.
3. **Exchange** → Trading **goods** (Barter → Money system).
4. **Distribution** → Sharing income as Rent, Wages, Interest, Profit.

Economist	Definition	Focus	Criticism
Adam Smith (1776)	Wealth definition	Economics = science of wealth	Ignored welfare
Alfred Marshall (1870)	Welfare definition	Economics = study of mankind in ordinary business of life	Ignored goods not linked to welfare
Lionel Robbins (1932)	Scarcity definition	Economics = choice under scarcity	Not universal, ignores growth
Samuelson (1948)	Growth definition	Economics = resource allocation now and future (dynamic)	Most accepted modern definition

Aspect	Microeconomics	Macroeconomics
Meaning	Study of individual units (consumer, firm, industry).	Study of aggregate economy (nation as a whole).
Focus	Price of goods, wages, individual incomes.	National Income, employment, output, inflation.
Also called	Price Theory	Income and Employment Theory
Founder/Developer	Alfred Marshall	J. M. Keynes, Ragnar Frisch

Aspect	Positive Economics	Normative Economics
Meaning	Describes "what is"	Suggests "what ought to be"
Nature	Objective, fact-based.	Subjective, value-judgment based.
Key Economist	Lionel Robbins	Alfred Marshall

Aspect	Economics as Science	Economics as Art
Meaning	Systematic body of knowledge (laws, theories).	Practical application of economics (policy, planning).
Nature	Theoretical, cause-effect.	Applied, rule based.
Key Point	"To Know"	"To Do"

Central Economic Problems

1. **What to produce?** Consumer goods vs Capital goods.
2. **How to produce?** Labour-intensive vs Capital-intensive techniques.
3. **For whom to produce?** Distribution among rich and poor (decided by government policies).



Multiple Choice Question (MCQ)



1. Who was the father of Economics (SM, MCQ Bank, MQP(1) 2 Marks-Dec'23 and June' Dec'24, Jun'23, Dec'25, PYP 1 Mark, Dec'17, MQP (2) 2 Marks June'26)
- (a) Marshall (b) Adam Smith
(c) Robbins (d) Keynes
Ans. (b)
2. Normative Economic theory deals with (SM, MCQ Bank, MQP (2) 2 Marks Dec'25, MQP (2) 2 Marks June'26)
- (a) What to produce
(b) How to produce
(c) Whom to produce
(d) How the problem should be solved
Ans. (d)
3. Microeconomics theory deals with. (SM, MCQ Bank, PYP 2 marks Jun'15, Jun'23, Jun'16, Jun'18, MQP (2) 2 Marks Dec'25)
- (a) Economy as a whole
(b) Individual units
(c) Economic growth
(d) all the above
Ans. (b)
4. Human wants are (SM, MCQ Bank, PYP 2 Mark Sep'15, Jun'16, Dec'23, Jun'24, MQP [1] 2 Marks Dec'25)
- (a) limited (b) unlimited
(c) undefined (d) None
Ans.(b)
5. The book "Principles of Economics" was written by _____ (SM)
- (a) Adam Smith (b) A. Marshall
(c) L. Robbins (d) J.B.Say
Ans. (b)
6. What is the central problem of all economies (SM)
- (a) What to produce?
(b) How to produce?
(c) Whom to produce?
(d) All the above.
Ans. (d)
7. Which is not the scope of macroeconomics. (SM)
- (a) Theory of Economic welfare
(b) Theory of Inflation
(c) Theory of Economic Growth
(d) Theory of Trade cycles.
Ans. (a)
8. Deductive method is also called (SM, MCQ Bank) (MQP(2) June'25_ 2 Marks)
- (a) Prior method (b) Abstract Method
(c) Analytical Method (d) All the above
Ans. (d)
9. Which of the following is an objective of business? (MQP(1) 2 Marks-June'23 and Dec'23)
- (a) Sales maximization
(b) Customer Satisfaction
(c) Financial Solvency
(d) All of the above
Ans. (d)
- 10.What does "Y" represent in the equilibrium equation $Y = C + I$? (MQP(1) 2 Marks-June'25)
- (a) Consumption demand
(b) National income (or output)
(c) Investment demand
(d) Savings
Ans. (b)
- 11.According to Adam Smith invisible hands are also called (MQP [1] 2 Marks Jun'25)
- (a) Price mechanism
(b) Demand-supply equilibrium
(c) Self-regulating market system
(d) Competitive market forces
Ans. (a)
- 12.In a Mixed Economy which sector is found? (PYP 1 Mark Sep'14, Dec'15)
- (a) Private only (b) Public sector only
(c) None (d) Both (a) and (b)
Ans.(d)
- 13.Economics cannot be given the status of science because (PYP 1 Mark Mar'16, Mar'15)
- (a) Of non-uniformity of opinion and approach of economist
(b) Economic behaviour of human being is unpredictable
(c) Measuring rod of money is unstable
(d) All the three
Ans.(d)
- 14.The central problem of how to produce is resolved by: (PYP 1 mark Mar'15)
- (a) Demand and supply of factor inputs
(b) Demand and supply of goods
(c) Relative prices and availability of factors of production
(d) Government intervention.
Ans.(c)
15. Economic resources are: (PYP 1 mark Jun'15)
- (a) Unlimited
(b) Limited in supply and use
(c) Limited in supply but has alternative uses
(d) Unproductive
Ans.(c)



16. Which of the following is not a central problem of a society? (PYP 1 mark Jun'15)

- (a) What to produce
- (b) How to produce
- (c) For whom to produce
- (d) What to eat

Ans.(d)

17. Which of the following is a central problem of every economy? (PYP 1 Mark Sep'15)

- (a) Abundance of resources
- (b) Scarcity of economic resources
- (c) Poverty
- (d) Moral and ethical

Ans.(b)

18. The Terms Microeconomics and Macroeconomics were coined by:

(PYP 1 Mark, Dec'15)

- (a) Professor A Samuelson
- (b) Griffen
- (c) Prof. Ragnar Frisch
- (d) Eagle

Ans.(c)

19. The famous book "An enquiry into the nature and causes of wealth of nation" was published in:

(PYP 1 Mark, Dec'15)

- (a) 1776
- (b) 1750
- (c) 1850
- (d) 1886

Ans.(a)

20. The terms "micro" is derived from the word which means (PYP 1 Mark, Jun'16)

- (a) Latin, Small
- (b) Greek, Small
- (c) English, Tiny
- (d) Roman, Small

Ans.(b)

21. Which of the following issue relates to micro-economic? (PYP 1 Mark, Jun'16)

- (a) Impact of crude price hike on inflation
- (b) Impact of change in bank rate on bank saving and investment
- (c) Impact of information technology on economics growth
- (d) Impact of shortage of wheat production on wheat prices

Ans.(d)



22. _____ defined "Economics as a science which inquired into the nature and cause of wealth of Nations". (PYP 1 Mark, Dec'16, Jun'17, SM, PYP 1 Mark Mar'15, Sep'15, Jun'16, Dec'18, Jun'26, MQP (1) 2 Marks June'26)

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Robbins
- (d) Paul. A Samuelson

Ans.(a)

23. _____ changed the name of the subject from political economy to Economics.

(PYP 1 Mark, Dec'16)

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Robbins
- (d) Paul. A Samuelson

Ans.(b)

24. _____ economics is also called as Income and Employment Theory. (PYP 1 Mark, Jun'17)

- (a) Macro
- (b) Micro
- (c) Both
- (d) None

Ans.(a)

25. Macro-economic studies the economy as a _____ unit. (PYP 1 Mark, Dec'17)

- (a) Whole
- (b) Double
- (c) Triple
- (d) Quadruple

Ans.(a)

26. The 'Welfare definitions' of Economics was introduced by (PYP 1 Mark, Jun'18, Jun'24'Jun'19)

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Lionel Robbins
- (d) Jerick's

Ans.(b)

27. _____ goods are known as scarce goods. (PYP 1 Mark, Dec'18)

- (a) Economic
- (b) Durable
- (c) Free
- (d) Consumer

Ans.(a)

28. The subject matter of economics is distributed into parts (PYP 1 Mark, Dec'19)

- (a) 2
- (b) 3
- (c) 4
- (d) 5

Ans.(c)

29. Which is not a characteristic of human wants? (PYP 2 Mark Jun'24)

- (a) Satisfiable
- (b) Recurring
- (c) Limited
- (d) Competitive

Ans.(c)

30. Which one of the following is a central problem of an economy? (PYP 2 Mark Dec'25)

- (a) When to produce?
- (b) Where to produce?
- (c) How much to produce?
- (d) None of the above

Ans. (d)

31. The Savings always equal to (MQP (1) 2 Marks June'26)

- (a) Income
- (b) Investment
- (c) Profits
- (d) Consumption

Ans. (b)



32. Which one of the following points does not support "Economics as a positive science"? (PYP 2 Mark Jun'26)

- (a) It explains "What it is".
- (b) It explains about the things as they are.
- (c) It does not relate to value judgements.
- (d) It deals with right and wrong.

Ans. (d)

33. The subject matter of economics includes _____ types of distribution. (PYP 2 Mark June'26)

- (a) 4
- (b) 3
- (c) 5
- (d) 2

Ans. (a)

1.2

UTILITY, WEALTH, PRODUCTION

Quick Review of Important Concepts

Utility: Satisfaction from consuming a good/service.

Wealth is the stock of transferable goods owned at a point of time

- **Personal wealth** → Owned by an individual (houses, land, cash, shares).
- **National wealth** → Owned by the nation (roads, parks, hospitals, natural resources).
- ⌘ Govt. bonds = personal wealth (asset for citizen, liability for govt.).

Welfare means well-being; more wealth may increase welfare but only if it is well-distributed and does not harm health or peace.

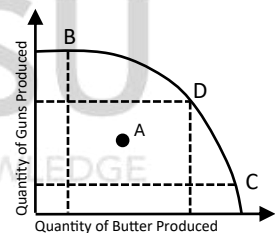
Wealth vs Income: Wealth is a stock at a point of time, while Income is a flow over time. Wealth is accumulated from past savings of income.

Production

- Creation of goods/services for sale.
- **Factors of Production (Inputs):** Land, Labour, Capital, Organization.
- **Outputs** = goods/services produced from inputs.

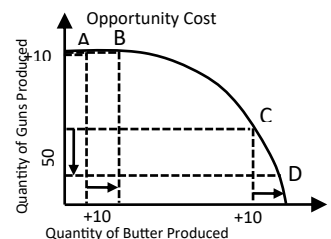
Production Possibility Curve (PPC):

- Definition: Shows maximum combinations of two goods with given resources and technology.
- Shape: Downward sloping, concave to origin (due to increasing opportunity cost).
- Slope: Marginal Rate of Transformation (MRT) = opportunity cost.
- Positions: On PPC = efficient use, inside = unemployment, outside = unattainable.
- Shift: Outward shift = economic growth.
- Special case: Straight line PPC = constant opportunity cost.



Money

- Anything widely accepted in exchange of goods/services.
- **Forms:** Rupee notes, coins, credit cards, traveller's cheques.
- Replaced barter due to indivisibility and double coincidence of wants problem.



Income, Saving and Market

- **Income:** Net inflow of money over time (daily, monthly, yearly).
- **Saving:** Income – Consumption.
- **Market:** System enabling exchange of goods/services (not just a place).
 - * **Functions:** Price determination, quantity determination.
 - * **Market mechanism:** Interaction of all markets determining prices and quantities

Capital Stock and Investment

- **Capital stock** = total productive capacity (e.g., no. of machines).
- **Investment** = increase in capital stock.

Types:

- Real Investment → machines, raw materials, buildings.
- Portfolio Investment → new shares (but not resale).

Relationship with Savings and National Income:

In macroeconomic equilibrium, total output (Y) equals aggregate demand (AD), which is consumption (C) plus investment (I):

$$Y = C + I$$



Aggregate supply (AS) equals consumption plus savings (S):

- $Y = C + S$

Equilibrium condition: $C + S = C + I$ or $S = I$

Note: Savings may not always equal investment due to different motives of households and businesses. Foreign investment can also disrupt the $S = I$ equality.

Gross vs Net Investment:

- Gross Investment = Fixed + Inventory investment.
- Net Investment = Gross Investment – Depreciation

Multiple Choice Question (MCQ)

34. In economics goods includes material things which ... (MCQ Bank PYP 1 Mark Jun'15 Jun'16)

- (a) can be transferred
- (b) can be visible
- (c) both A and B
- (d) None

Ans. (c)

35. The stock of the goods under the ownership of a person is called. (SM)

- (a) International wealth
- (b) National wealth
- (c) Social wealth
- (d) Personal wealth

Ans. (d)

36. The Savings are accumulated into _____ (SM)

- (a) Income
- (b) Wealth
- (c) Investment
- (d) None

Ans. (b)

37. The Purchasing of new shares of a company is called (SM)

- (a) Real Investment
- (b) Net Investment
- (c) Portfolio investment
- (d) Total investment

Ans. (c)

38. PPF is negative sloped due to (PYP 1 Mark Jun'15)

- (a) Scarcity of production resources
- (b) Unlimited wants
- (c) Improvement in technology
- (d) Increasing opportunity cost.

Ans. (a)

39. Which event will shift the butter/guns production possibilities frontier outward? (PYP 1 Mark Mar'16)

- (a) An increase in the production of guns
- (b) A reduction in the production of butter
- (c) A new and superior method of producing butter
- (d) A decrease in the resources devoted to the production of investment goods.

Ans. (c)

40. Production possibility curves show maximum combinations of products. (PYP 1 Mark Jun'16)

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

Ans. (b)

41. Income minus Savings is equal to _____. (PYP 1 Mark Jun'17)

- (a) Consumption
- (b) Production
- (c) Investment
- (d) Demand

Ans. (a)

42. _____ is an act to use the goods or service to satisfy the wants. (PYP 1 Mark Dec'17)

- (a) Production
- (b) Consumption
- (c) Savings
- (d) Distribution

Ans. (b)

43. The Production Possibility Curve (PPC) shows: (PYP 2 Mark Dec'22)

- (a) The various combinations of two commodities that can be produced by an economy
- (b) The maximum production of goods
- (c) Both (a) and (b)
- (d) None of the above

Ans. (a)

44. Production Possibility Curve is _____. (PYP 2 Mark Dec'25)

- (a) Downward sloping and convex to the origin
- (b) Downward sloping and concave to the origin
- (c) Upward sloping and convex to the origin
- (d) Upward sloping and concave to the origin

Ans. (b)

CHAPTER 2: FORMS OF MARKET



LDR Questions

Q 1, Q 5, Q 6, Q 7, Q 9, Q 16, Q 26, Q 109

2.1

PRICING OF PRODUCTS AND SERVICES IN VARIOUS FORMS OF MARKETS – PERFECT COMPETITION, DUOPOLY, OLIGOPOLY, MONOPOLY, MONOPOLISTIC COMPETITION

Quick Review of Important Concepts

Pricing Strategies

- ⇒ **Cost-plus pricing** – Add a profit % to production cost.
- ⇒ **Limit pricing** – Low price to prevent new entrants.
- ⇒ **Penetration pricing** – Low initial price to gain market share.
- ⇒ **Price discrimination** – Different prices for different segments.
- ⇒ **Psychological pricing** – Prices like ₹3.99 instead of ₹4.
- ⇒ **Dynamic pricing** – Flexible pricing via technology (common online).
- ⇒ **Price leadership** – Dominant firm sets price; others follow.
- ⇒ **Target pricing** – Price to achieve a specific ROI.
- ⇒ **Absorption pricing** – Cost + proportion of fixed costs.
- ⇒ **High-low pricing** – Regular high prices with discounts/promotions.
- ⇒ **Marginal-cost pricing** – Price = extra cost of producing one more unit.

Meaning and Classification of Market

Market: Place or mechanism where buyers and sellers exchange goods/services.

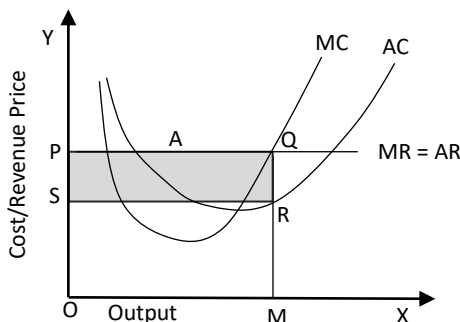
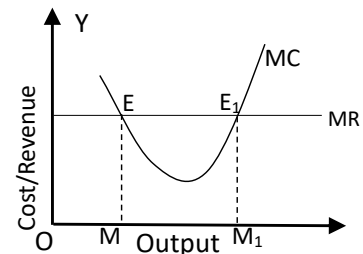
By Area: **Local:** Sold within same locality (e.g., vegetables). **National:** Sold across the country (e.g., wheat, sugar). **International:** Sold in multiple countries (e.g., gold, cotton).

By Time: Very short, short, long period markets.

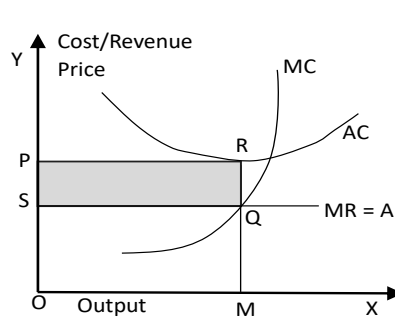
By Competition: Perfect and Imperfect Competition.

Perfect Competition

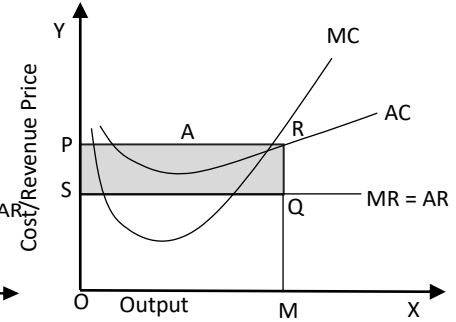
- Many buyers and sellers, homogeneous products, free entry/exit.
- **Price taker:** Single firm cannot control price.
- **Features:** Large number of sellers, mobility of factors, perfect knowledge, no transport costs.
- **Equilibrium:**
 - $MC = MR$ and MC cuts MR from below.
 - Short-run: abnormal profits or losses.
 - Long-run: normal profits ($TR = TC$).



Abnormal Profit (Short-run)



Losses (Short-run)



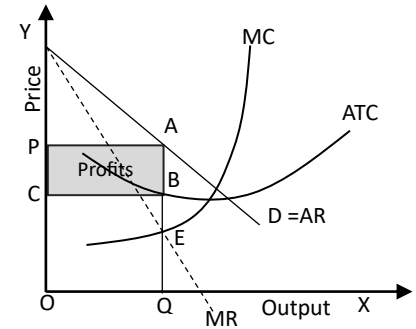
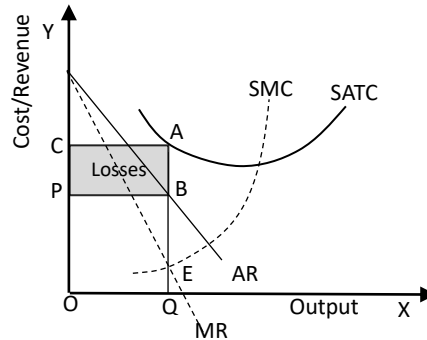
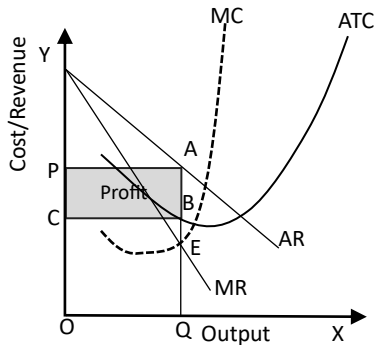
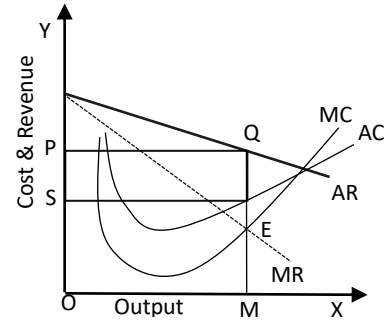
Normal Profits (Long Run)



Imperfect Competition

Monopoly:

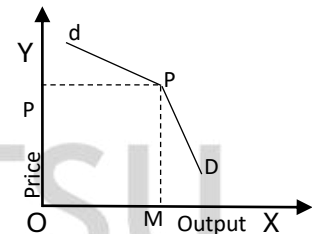
Single seller, no close substitutes, high barriers to entry, price maker, AR and MR curves slope downward, Can practice **price discrimination**. Pricing and Output: Monopolist sets output where $MR = MC$; price is determined by AR curve. Abnormal profits possible ($AR > AC$).



Duopoly: Two firms dominate; special case of oligopoly.

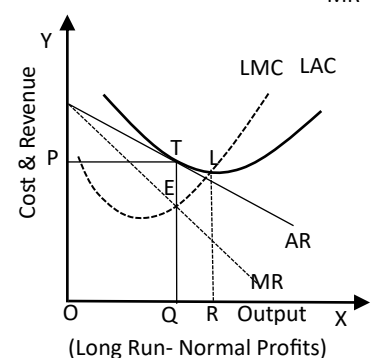
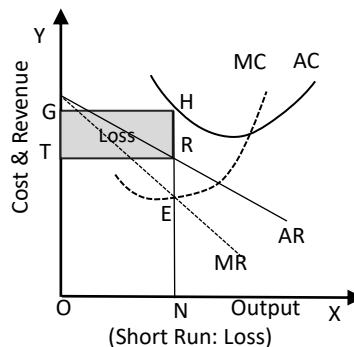
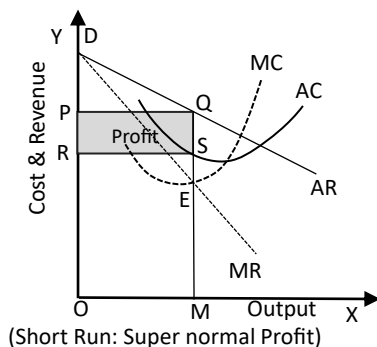
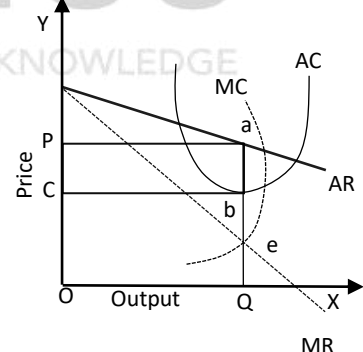
Oligopoly

- ⇒ Few firms; products may be homogeneous/differentiated.
- ⇒ **Features:** Interdependence, selling costs, price rigidity, uncertainty.
- ⇒ **Models:** Cournot, Stackelberg, Bertrand, Edgeworth, Collusive (cartels, e.g., OPEC).



Monopolistic Competition

- Many firms, differentiated products, free entry/exit.
- Firms spend on **advertising/selling costs** to highlight differences.
- **Equilibrium:**
 - * Short-run: abnormal profits possible.
 - * Long-run: normal profits, **excess capacity** exists.
- **Selling costs** create product preference and inelastic demand.





Multiple Choice Question (MCQ)



1. Which of the following is/are an essential feature of the market (SM, MCQ Bank) (MQP(1) 2 Marks-June'24, PYP 2 Marks June'23, MQP (2) 2 Marks June'26)

(a) Buyers (b) Sellers
(c) Price (d) All the three

Ans. (d)

2. In the long run price is governed by (SM, MCQ Bank, MQP Dec'23, Jun'23, MQP[1]2Marks Jun'24, June'26)

(a) Cost of Production
(b) Demand supply forces
(c) Marginal utility
(d) None

Ans. (a)

3. In the long run a firm in perfect competition earns (SM, MCQ Bank) (MQP(1) 2 Marks-June'23 and Dec'23 and June'24, June'26, PYP 2 Marks Dec'18, Dec'23, MQP (2) 2 Marks Dec'25, June'26)

(a) Normal profit only
(b) Abnormal profit
(c) Average profit of past five years
(d) 12.33% profits on capital employed

Ans. (a)

4. A firm faces the shut down situation when (SM, MCQ Bank, MQP (2) 2 Marks Dec'25, June'26)

(a) Price is less than average variable cost
(b) Price is more than the average variable cost
(c) Price is equal to fixed cost
(d) Price is more than the average fixed cost

Ans. (a)



5. A firm that makes profit in excess of normal profit is earning (SM, MCQ Bank, MQP [1] 2 Marks Dec'23, Jun'23, Dec'25 MQP[2] 2 Marks Jun'25, PYP 2 Mark Dec'14, June'23)

(a) Economic profit (b) Costing profit
(c) Normal profit (d) Super normal profit

Ans. (d)



6. The market state that satisfy all the essential features of a perfect competitive market except identity of product is known as (SM, MCQ Bank, MQP(1) 2 Marks-June'23 and Dec'23 and June'24, Dec'25, PYP 2 Marks June'15, June'23, June'24, MQP (2) 2 Marks June'26)

(a) Oligopoly
(b) Duopoly
(c) Monopoly
(d) Monopolistic competition

Ans. (d)



7. In the short run if the price is above the average total cost in a monopolistic competitive market, the firm makes (SM, MCQ Bank) (MQP(1) 2 Marks-Dec'24, Dec'25 and MQP(2) 2 Marks-June'25, PYP 2 Marks Dec'23)

(a) Profits and new firms join the market
(b) Profit and bar entry to new firms
(c) Makes losses and exit the market
(d) Quick profit and disappears

Ans. (a)

8. Which of these is associated with a monopolistic competitive market.

(SM, MCQ Bank) (MQP(1) 2 Marks-June'23 and Dec'23 and June'24, June'26, PYP 2 Marks Dec'23, Dec'22)

(a) Product differentiation
(b) Homogeneous Product
(c) Normal in short run
(d) Single buyer

Ans. (a)



9. In a competitive market is the price maker (SM, MCQ Bank, MQP 2 Marks Dec'23, Jun'23 MQP[2] 2 Marks Dec'24, PYP 2 Marks Sep'15, June'17, Dec'23, MQP [1] 2 Marks Dec'25, June'26)

(a) Firm (b) Industry
(c) Consumer (d) Trade association

Ans. (b)

10. A Monopoly demand curve is (SM, MCQ Bank) (MQP(1) 2 Marks-June'23 and Dec'23 and June'24 and Dec'24, June'26, PYP 2 Marks Dec'23)

(a) Same as its average revenue curve
(b) Same as its supply curve
(c) Same as marginal cost curve
(d) None of these

Ans. (a)

11. Which is the first order condition for the profit of a firm be maximum? (SM, MQP[1] 2 Marks Jun'25, PYP 1 Mark June'19, MQP (2) 2 Marks June'26)

(a) $AC=MR$ (b) $MC=MR$
(c) $MR=AR$ (d) $AC=AR$

Ans. (b)

12. The AR curve and industry demand curve are identical (SM, MQP(2) 2 Marks-Dec'24, PYP 1 Mark June'19)

(a) In case of monopoly
(b) In case of oligopoly
(c) In case of monopolistic competition
(d) In case of perfect competition

Ans. (a)



13. OPEC is an example of _____ (SM, MQP(1) 2 Marks-Dec'24, PYP 1 Mark June'19, MQP (2) 2 Marks June'26)

- (a) Perfect competition
- (b) Monopolistic competition
- (c) Monopoly
- (d) Cartel

Ans. (d)

14. _____ Means absence of competition (SM, MQP[2] 2 Marks Jun'25)

- (a) Perfect Competition
- (b) Monopoly
- (c) Imperfect Competition
- (d) Discrimination

Ans. (b)

15. Oligopoly means (SM, MQP(2) 2 Marks-Dec'24, June'26, PYP 2 Marks Dec'18, June'24)

- (a) Single seller
- (b) Few sellers
- (c) Large numbers of sellers
- (d) No buyers

Ans. (b)

16. Penetration Pricing is adopted by following a (SM, MQP(2) 2 Marks-June'25, Dec'25, MQP(1) 2 Marks-June'25, PYP 2 Marks Dec'18, June'24)

- (a) Low Price
- (b) High Price
- (c) Dual Price
- (d) Support Price

Ans. (a)

17. On the basis of area, markets are classified into _____ types (SM, PYP 1 Mark June'18, MQP (2) 2 Marks Dec'25, June'26)

- (a) 2
- (b) 3
- (c) 4
- (d) 5

Ans. (b)

18. Which of the following does not characterize monopolistic competition? (SM, MQP(2) 2 Marks-June'25, PYP 1 Mark June'18, Dec'19)

- (a) Product differentiation
- (b) Many producers
- (c) Absence of advertising
- (d) Partial control over price

Ans. (c)

19. When the firm is in the long period equilibrium it gets only : (MCQ Bank, MQP[2] 2 Marks Dec'24)

- (a) Normal profit
- (b) No loss no profit
- (c) Super normal profit
- (d) Loss

Ans. (a)

20. Equilibrium of the firm under perfect Market means ,when (MCQ Bank, MQP[2] 2 Marks Dec'24, MQP [1] 2 Marks Dec'25)

- (a) MR curve cuts the MC curve from below
- (b) MC curve cuts the MR curve from below
- (c) MC curve cuts the MR curve from above
- (d) AR curve is Equal to MC curve

Ans. (b)

21. Penetration pricing means. (MCQ Bank, MQP [1] 2 Marks Dec'24, June'24, June'26)

- (a) price will reduce after gaining market share
- (b) reduce price when losing market share
- (c) price will be raised later after gaining market share
- (d) None of these

Ans. (c)

22. One of the examples of Oligopoly market is : (MCQ Bank, MQP [1] 2 Marks Dec'25, June'26)

- (a) Cosmetic industry
- (b) Cartel
- (c) Automobile industry
- (d) Technology

Ans. (c)

23. Excess profits earned by each firm during short time would attract (MCQ Bank)

- (a) New firms to enter into the market
- (b) Market share of each firm will be less
- (c) Firm will be less there is no barrier on the entry into the market
- (d) All of the above

Ans. (d)

24. In monopoly market there is. (MCQ Bank, MQP[1] 2 Marks Jun'24, Dec'25, June'26)

- (a) A single firm ,single product
- (b) A single firm, many substitute identical product
- (c) A single product , many firm
- (d) None of the above

Ans. (a)

25. The concept of monopolistic competition market was introduced by

(MCQ Bank, MQP[1] 2 Marks Jun'24, June'26)

- (a) Alfred Marshall
- (b) Prof. Chamberlin
- (c) Karl Marx
- (d) John Rbinson

Ans. (b)

26. Perfect competition and monopolistic competition are having a common assumption. Find out which one of the following is the appropriate common Assumption (MQP (2) 2 Marks June'23, Dec'23, June'25)

- (a) The product is homogeneous
- (b) Perfect knowledge
- (c) Existence of selling cost
- (d) Free entry and free exit

Ans. (d)



27. Which one of the following oligopolistic model insists on co-operation?

(MQP 2 Marks Dec'23, Jun'23)

- (a) Cournot's model
- (b) Bertrand model
- (c) Collusive oligopoly model
- (d) Edgeworth model

Ans. (c)

28. In imperfect market, When the seller wants to increase the sales he must reduce the price. When the price is decreased, then the average revenue and marginal revenue are

(MQP(1) 2 Marks-Dec'24)

- (a) Decreased
- (b) Increased
- (c) Equal
- (d) No change

Ans. (a)

29. In a Collusive Oligopoly, firms form a cartel to:

(MQP(1) 2 Marks-June'25)

- (a) Fix the price and output to maximize joint profit
- (b) Increase market share by undercutting each other's prices
- (c) Engage in non-price competition to attract consumers
- (d) Compete aggressively and lower prices

Ans. (a)

30. Which type of market does a firm typically have excess production capacity in the long run?

(MQP(1) 2 Marks-June'25)

- (a) Perfect competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly

Ans. (c)

31. In which market structure do firms have no control over the price and are considered price takers? (MQP(1) 2 Marks-June'25, Dec'25, PYP 2 Mark Dec'22)

- (a) Monopoly
- (b) Oligopoly
- (c) Monopolistic Competition
- (d) Perfect Competition

Ans. (d)

32. What are the two key conditions that a firm in a monopolistic market must satisfy to reach equilibrium? (MQP(1) 2 Marks-June'25)

- (a) Marginal Cost = Marginal Revenue and Average Cost = Marginal Revenue
- (b) Marginal Cost = Marginal Revenue and MC curve cuts MR curve from Below
- (c) Marginal Cost = Marginal Revenue and MC curve cuts MR curve from Above
- (d) Marginal Cost = Average Revenue and MC curve cuts MR curve from below

Ans. (b)

33. In the Bertrand Duopoly Model, each producer can always lower the price until:

(MQP(1) 2 Marks-June'25) (PYP 2 Marks Jun'26)

- (a) Price is equal to the competitive price
- (b) Price is equal to the cost of production
- (c) Price is higher than the rival's price
- (d) Price is equal to the monopoly price

Ans. (b)

34. Automobile industry, Gas industry is an example of market (MQP(1) 2 Marks-June'25, PYP 2 Marks Jun'26)

- (a) Perfect competition
- (b) Monopoly
- (c) Oligopoly
- (d) Monopolistic competition

Ans. (c)

35. Long-run equilibrium price is known as (MQP(2) 2 Marks-Dec'24)

- (a) Market Price
- (b) Reserve Price
- (c) Normal Price
- (d) Support Price

Ans. (c)

36. Cartel is one form of (MQP[2] 2 Marks Dec'24, PYP 1 Mark Dec'19)

- (a) Monopoly
- (b) Duopoly
- (c) Collusive oligopoly
- (d) Non-collusive oligopoly

Ans. (c)

37. Price rigidity is the feature of which market? (MQP[2] 2 Marks Jun'25, PYP 2 Marks Dec'23, PYP 1 Mark Dec'15)

- (a) Monopoly
- (b) Oligopoly
- (c) Monopolistic Competition
- (d) Perfect Competition

Ans. (b)

38. The demand for monopoly product is elastic (MQP[2] 2 Marks Jun'25)

- (a) Perfectly
- (b) Less
- (c) More
- (d) Unitary

Ans. (b)

39. Monopolists: (PYP 1 Mark Sept'14)

- (a) Are guaranteed at least a zero economic profit
- (b) Are guaranteed more than a normal profit
- (c) Are guaranteed an economic profit
- (d) None of the above is correct

Ans. (d)

40. For the perfectly competitive firm, the profit maximising level of output is where:

(PYP 1 Mark Sept'14)

- (a) Marginal revenue equals price
- (b) Marginal revenue equals marginal cost
- (c) Price equals average variable cost
- (d) Price equals average total cost

Ans. (b)

CHAPTER 5: FUNDAMENTALS OF MANAGEMENT



LDR Questions

Q 2, Q 12, Q 38, Q 65, Q 67, Q 68, Q 70, Q 72, Q 79, Q 84, Q 167, Q 182, Q 269, Q 283, Q 339, Q 355, Q 359, Q 370, Q 371, Q 491, Q 492, Q 508

5.1

INTRODUCTION TO MANAGEMENT

Quick Review of Important Concepts

Meaning of Management

- Management = **managing people tactfully to achieve goals.**
- Provides **leadership, coordination, and resource utilization.**
- Without management → resources remain idle.

Definitions (Key Authors)

- **Agha Hasan Abedi:** “Getting work done through people, but real management is developing people through work.”
- **Henry Fayol:** Forecast, plan, organize, command, coordinate, control.
- **Koontz and O'Donnell:** Creation of environment for group efficiency.
- **Peter Drucker:** Manages business, managers, and workers.
- **George R. Terry:** Planning, organizing, actuating, controlling.

Nature of Management

1. Result-oriented – aims at productivity and profits.	2. Humane approach – done through people.
3. Process-centric – ongoing activity.	4. Universal – applies in business, politics, education, etc.
5. Science + Art – principles (science) + skills/creativity (art).	6. Group activity – not individual-based.
7. System of authority – rules and compliance.	8. Decision-making – essential role of managers.
9. Leadership – managers influence subordinates.	10. Dynamic – adapts to social and business changes.
11. Multidisciplinary – draws from economics, sociology, psychology, etc.	12. Levels – top, middle, lower management.
13. Goal-oriented – aims at set objectives.	14. Intangible – results felt in performance and productivity.
15. Managers ≠ owners – ownership and management separate.	

Management: Science vs Art

As Science	Practical knowledge and personal skill
• Universally accepted principles.	• Creativity and innovation.
• Cause-effect relations.	• Perfection through practice.
• Based on observation, experiments.	• Goal-oriented.
• Predictability and validity.	• Practical knowledge and personal skill.
• Conclusion: Management = (knowledge + application)	

Scope of Management

- **Economic Resource** – optimizes land, labour, capital, entrepreneur.
- **System of Authority** – ensures rules and compliance.
- **Class/Elite** – managerial class as a distinct group with values.

Management as a Profession

- Features of profession: body of knowledge, formal training, consultants, association, code of conduct, societal service.
- Management **partially qualifies** as a profession, efforts ongoing.



Multiple Choice Question (MCQ)

1. Which of the following statements is not correct? *(SM, MCQ Bank) (MCQ Bank) (MQP(1) 2 Marks-June'24, Dec'25, MQP (2) 2 Marks June'26)*

- (a) Management is a goal-oriented process
- (b) Management is a universal process
- (c) Management is a continuous process
- (d) Management is a rigid process

Ans. (d)



2. Which of the following is not a function of managers? *(SM, MCQ Bank) (MQP(1) 2 Marks-June'23 and Dec'23 and June'24, MQP (2) 2 Marks June'26)*

- (a) Designing
- (b) Organizing
- (c) Leading
- (d) Planning

Ans. (a)

3. Which of the following does not corroborate the concept of 'Management as a Science'? *(SM, MCQ Bank) (MCQ Bank) (MQP(2) 2 Marks-june'25, June'26, MQP [1] 2 Marks Dec'25)*

- (a) Cause and Effect Relationship
- (b) Test of Validity
- (c) Personal Skill
- (d) Experimentation and Observation

Ans. (c)

4. Management is what a manager does *(SM, MCQ Bank, PYP 1 Mark June'23)*

- (a) Peter F. Drucker
- (b) Terry
- (c) Louis Allan
- (d) Henry Fayol

Ans. (c)

5. Management is the art and science of decision making and leadership. *(SM, MCQ Bank)*

- (a) Harold Koontz.
- (b) Donald J. Clough.
- (c) Louis Allan.
- (d) Terry

Ans. (b)

6. In the context of management, what is the "Class or Elite" scope referring to? *(MQP (1) 2 Marks-June'25)*

- (a) A group of subordinates responsible for execution of tasks
- (b) The owners of the company who make critical decisions
- (c) A collective group of individuals performing managerial activities who form a distinct class
- (d) The employees responsible for non-managerial tasks

Ans. (c)

7. Which of the following is NOT one of the three broad groups of the scope of management according to Herbison and Myres? *(MQP (1) 2 Marks-June'25)*

- (a) Organizational Structure
- (b) Economic Resource
- (c) System of Authority
- (d) Class or Elite

Ans. (a)

8. Scientific management focuses on an approach to motivation. *(PYP 1 Mark Sept'14, Dec'15)*

- (a) Social economic
- (b) Human
- (c) Rational economic
- (d) None of the above

Ans. (c)

9. Henry Fayol divided all activities of industrial undertakings into group *(PYP 1 Mark Sept'15)*

- (a) Technical final
- (b) Security Psychological
- (c) Financial Security
- (d) Accounting, Managerial

Ans. (c)

10. Taylor's thoughts are based on studies at:

- (a) The Arsenal
- (b) The Watertown Steel Corporation
- (c) The Bethlehem Steel Corporation
- (d) The American Steel Arsenal

Ans. (c)

11. Which organization is characterized by very formal rules, centralized authority, and narrow spans of control? *(PYP 1 Mark June'16)*

- (a) Boundary less
- (b) Matrix
- (c) Virtual
- (d) Bureaucracy

Ans. (d)



12. Who proposed "bureaucratic structure" is suitable for all organizations?

(PYP 2 Mark June'16, June'17, Dec'22)

- (a) Elton Mayo
- (b) Henry Fayol
- (c) F.W. Taylor
- (d) Max Weber

Ans. (d)

13. Which of the following is part of the 14 principles of management identified by Henry Fayol? *(PYP 1 Mark June'16)*

- (a) Scalar Chain
- (b) Innovation
- (c) Efficiency
- (d) Motivation

Ans. (a)



14. Taylor put forward the idea of ?

(PYP 1 Mark June'16)

- (a) Purposeful foremanship
- (b) Motivational foremanship
- (c) Functional foremanship
- (d) Social foremanship

Ans. (c)

15. The book "Principles of Scientific Management" was written by (PYP 1 Mark Dec'16)

- (a) F.W. Taylor
- (b) Henry Fayol
- (c) Max Weber
- (d) Simon

Ans. (a)

16. Henry Fayol classified industrial activities into groups. (PYP 1 Mark Dec'16, June'17)

- (a) 2
- (b) 3
- (c) 4
- (d) 6

Ans. (d)

17. _____ is called as the father of management. (PYP 1 Mark Dec'16, Dec'17, June'18)

- (a) F.W. Taylor
- (b) Henry Fayol
- (c) Max Weber
- (d) Simon

Ans. (b)

18. The concept of 'Management by Objectives' was introduced by

(PYP 1 Mark June'17, June'18, Dec'19)

- (a) Frederick Herzberg
- (b) F.W. Taylor
- (c) Elton Mayo
- (d) Peter F. Drucker

Ans. (d)

19. Under Fayol's 14 Principles of Management, which one of the following factor is related to Esprit de Corps? (PYP 1 Mark June'17, June'19)

- (a) Division of Work
- (b) Team Work
- (c) Personal Ability
- (d) Personal Interest

Ans. (b)

20. According to Fayol's 14 Principles of Management, Division of Work is necessary: (PYP 1 Mark June'17)

- (a) To enjoy the benefits of specialization
- (b) To give orders to subordinates
- (c) To receive orders from superior
- (d) To ask for obedience

Ans. (a)

21. Management is a: (PYP 1 Mark June'17)

- (a) Discreet process
- (b) Continuous process
- (c) One-way process
- (d) Two-way process

Ans. (b)

22. Which one of the following is not a function of management? (PYP 1 Mark June'17, Dec'18)

- (a) Grouping
- (b) Planning
- (c) Staffing
- (d) Leading

Ans. (a)

23. _____ has been accepted as the Father of Scientific Management.

(PYP 1 Mark Dec'17)

- (a) Frederick Herzberg
- (b) F.W. Taylor
- (c) Elton Mayo
- (d) Peter F. Drucker

Ans. (b)

24. Which one of the following was suggested by Fayol? (PYP 1 Mark Dec'17)

- (a) Management by Exception
- (b) Unity of Direction
- (c) Delegation of Authority
- (d) Centralisation

Ans. (b)

25. Management is the art of (PYP 1 Mark June'18)

- (a) Managing customers
- (b) Making super-normal profit
- (c) Keeping competitors under pressure
- (d) Getting things done by groups of people

Ans. (d)

26. Scientific Management is concerned with _____. (PYP 1 Mark June'18)

- (a) Co-operation, not individualism
- (b) Increased production through long experience
- (c) Application of scientific principles to the management of production
- (d) Increased sales

Ans. (c)

27. The elements of the management process are known as the _____ of (PYP 1 Mark June'18)

- (a) Functions
- (b) Nature
- (c) Concept
- (d) Scope

Ans. (a)

28. Administrative function is the managerial function. (PYP 1 Mark Dec'18)

- (a) Top-level
- (b) Middle-level
- (c) Lower-level
- (d) Supervisory-level

Ans. (a)



29. _____ forms the basis for the functioning of an organisation. (PYP 1 Mark Dec'18)

- (a) Profits (b) Objectives
- (c) Policies (d) Strategies

Ans. (b)

30. _____ defines management as the process of getting things done by and through others (PYP 1 Mark Dec'18, PYP 2 Marks June'24)

- (a) Hicks (b) Massie
- (c) Fayol (d) Drucker

Ans. (a)

31. Which one of the following is not included in Scientific Management technique? (PYP 1 Mark June'19)

- (a) Division of labour
- (b) Scientific selection
- (c) Training and placement of workers
- (d) Hierarchical structure

Ans. (d)

32. Scalar Chain denotes: (PYP 1 Mark Dec'19)

- (a) Production Process
- (b) Appraisal Process
- (c) Span of the Management
- (d) Authority from the highest to the lowest ranks

Ans. (d)

33. Which one of the following elements is odd with Weber's Six Major Principles? (PYP 1 Mark Dec'19)

- (a) Hierarchical Structure
- (b) Unity of Command
- (c) "In-focused" Mission
- (d) Technical Qualifications

Ans. (d)

34. Which one of the following characteristics signifies Management as an Art? (PYP 1 Mark Dec'22)

- (a) Experimentation and observation
- (b) Universally accepted principles
- (c) Test of validity
- (d) Perfection through practice

Ans. (d)

35. Operative level comprises of: (PYP 1 Mark Dec'22)

- (a) Middle-level and Lower-level management
- (b) Top-level and Lower-level management
- (c) Top-level and Middle-level management
- (d) Only Lower-level management

Ans. (a)

36. The idea of 'Management as a Science' focuses on: (PYP 1 Mark June'23)

- (a) Personal skill (b) Experimentation
- (c) Intuition (d) None of the above

Ans. (a)

37. Laws to be considered by a business organisation are: (PYP 1 Mark June'23)

- (a) Employment laws
- (b) Copyright and patent laws
- (c) Health and safety laws
- (d) All of the above

Ans. (b)



38. "Management is a multi-purpose organ that manages a business and manages managers and manages workers and work". This definition of management was given by (PYP 1 Mark Dec'23)

- (a) Schulze (b) Drucker
- (c) Massie (d) Wheeler

Ans. (b)

39. The idea of 'Management as an Art' focuses on (PYP 1 Mark Dec'23)

- (a) Observation
- (b) Individual skill
- (c) Cause-effect relationship
- (d) None of the above

Ans. (b)

40. What is the process of completing tasks efficiently and effectively by and through people? (MQP [1] 2 Marks Dec'25)

- (a) Organizing (b) Coordination
- (c) Management (d) Leadership

Ans. (c)

41. Which of the following is not a characteristic of management? (MQP [1] 2 Marks Dec'25)

- (a) Goal-oriented (b) Continuous
- (c) Universal (d) One-time activity

Ans. (d)

42. Which level of management is responsible for formulating organizational policies? (MQP [1] 2 Marks Dec'25)

- (a) Top-level (b) Middle-level
- (c) Lower-level (d) Operational-level

Ans. (a)

43. Which one of the following statements is correct? (PYP 1 Mark Dec'25)

- (a) Management is a goal-oriented process
- (b) Management is a continuous process
- (c) Management is a dynamic process
- (d) All of the above

Ans. (b)



44. Who introduced the concept of the five functions of management? (PYP 1 Mark Dec'25)

- (a) Peter Drucker (b) Frederick Taylor
(c) Henri Fayol (d) Elton Mayo

Ans. (c)

5.2

STEWARDSHIP THEORY AND AGENCY THEORY OF MANAGEMENT

Quick Review of Important Concepts

Stewardship Theory

- ⇒ **Developed by:** Davis, Schoorman and Donaldson (1997).
- ⇒ **View:** Managers are **stewards** → trustworthy, collectivist, motivated by growth, recognition, responsibility.
- ⇒ **No conflict** between owners and managers; both work towards **organizational success**.
- ⇒ **Governance:** Favors autonomy for managers, more executive directors, less need to separate CEO and Chairman roles.
- ⇒ **Motivation:** Intrinsic (achievement, responsibility, altruism).
- ⇒ **Outcome:** Maximization of **shareholders' wealth** and satisfaction of multiple stakeholders.

Agency Theory

- **Developed by:** Alchian and Demsetz (1972), Jensen and Meckling (1976).
- **View:** Managers are **agents** → self-interested, opportunistic, may misuse resources.
- **Conflict** between owners (principals) and managers (agents).
- **Problems:** Information asymmetry, risk aversion, opportunism.
- **Agency Costs:**
 - Monitoring (by owners), || ▪ Bonding (by agents), || ▪ Residual loss (inefficiency).
- **Governance:** Needs strict monitoring, independent directors, incentive contracts.
- **Motivation:** Extrinsic (money, promotions, sanctions).

Key Differences

Issue	Stewardship Theory	Agency Theory
Basis	Psychology and Sociology	Economics
Model of Man	Self-actualizing	Economic
Behaviour	Collective-serving	Self-serving
Motivation	Intrinsic (growth, responsibility)	Extrinsic (money, security)
Performance Focus	Stakeholder value	Shareholder value
Owner–Manager Relation	Goal alignment	Goal conflict
Objective	Collectivism	Individualism
Culture	Low power distance	High power distance
Time Frame	Long-term	Short-term
Approach to Uncertainty	Trust	Distrust
Governance Role	Advice, autonomy	Monitoring, control
Decision-making	Managers have discretion	Shared/checked by owners

Multiple Choice Question (MCQ)

45. Agency theory suggests that managers (the agents), particularly those of large, publicly-owned firms, may have different objectives from those of the: (SM, MCQ Bank, MQP [2] 2 Marks Dec'25, June'26)

- (a) Workers (b) Subordinates
(c) Shareholders. (d) Employees

Ans. (c)