

## Chapter 2: Business Services

### Question: 1

Select the proper option from the options given below and rewrite the completed sentence.

Overdraft facility is given to \_\_\_\_\_.

#### Options

- Savings account
- Current account
- Fixed account

#### Solution

Overdraft facility is given to **current account**.

#### Explanation:

A current account holder enjoys the overdraft facility. The term "overdraft facility" means that a temporary arrangement is made whereby a customer is allowed to withdraw an amount of money greater than his prevailing account balance. For this overdraft facility, the bank charges interest on the amount overdrawn.

### Question: 2

**Select the proper option from the options given below and rewrite the completed sentence.**

The account suitable for creating a saving habit is \_\_\_\_\_.

#### Options

- Current account
- Recurring deposit account
- Saving account

#### Solution

The account suitable for creating saving habit is **savings account**.

#### Explanation:

A savings account is an account that caters to the needs of those individuals

who wish to save a part of their incomes and earn interest on the amount saved. As this account does not allow customers to make frequent withdrawals from their accounts, it promotes the habit of saving among them.

**Question: 3**

**Select the proper option from the options given below and rewrite the completed sentence.**

There is no limit on the frequency of withdrawals from a \_\_\_\_\_.

**Options**

- Saving account
- Fixed account
- Current account

**Solution**

There is no limit on the frequency of withdrawals from a **current account**.

**Explanation:**

Current accounts are generally meant for business class people, as they make and receive a large number of business payments. These people often need to make huge payments on a regular basis; therefore, they use current accounts in which there are no restrictions on the number of withdrawals that can be made.

**Question: 4**

**Select the proper option from the options given below and rewrite the completed sentence.**

Principle of utmost good faith is applicable to \_\_\_\_\_.

**Options**

- Life insurance
- Marine insurance
- All types of insurance

**Solution**

The principle of utmost good faith is applicable to **all types of insurance**.

**Explanation:**

The principle of utmost good faith asserts that both parties—the insurer and the insured—must disclose all material facts clearly, completely and correctly. This implies that the insured as well as the insurer should be faithful towards each other. Trust and honesty are the two values that are needed in all types of insurance agreements. Thus, all insurance agreements must be made in utmost good faith.

**Question: 5**

**Select the proper option from the options given below and rewrite the completed sentence.**

Principle of indemnity is not applicable to \_\_\_\_\_.

**Options**

- Life insurance
- Fire insurance
- Marine insurance

**Solution**

Principle of indemnity is not applicable to **life insurance**.

**Explanation:**

According to the principle of indemnity, the insurer assures the insured that he/she will bring the insured back to the position he/she was in prior to the occurrence of an uncertain event. As in case of life insurance, the deceased person cannot be made alive again. Hence, the principle of indemnity is inapplicable here.

**Question: 6**

**Select the proper option from the options given below and rewrite the completed sentence.**

Insurable interest must exist in \_\_\_\_\_.

**Options**

- Life insurance contract only
- Marine insurance contract only
- Every insurance contract

**Solution**

Insurable interest must exist in **every insurance contract**.

**Explanation:**

Insurable interest is a financial benefit that the insured derives from the existence of the product that is insured. For example, a person would have insurable interest in his own car and not in his neighbour's car. This simply implies that the insured has an interest in the subject matter of insurance. This insurable interest is essential to all insurance contracts

**Question: 7**

**Select the proper option from the options given below and rewrite the completed sentence.**

Bonded warehouses are located at \_\_\_\_\_.

**Options**

- Railway station
- Villages
- Ports

**Solution**

Bonded warehouses are located at **ports**.

**Explanation:**

Bonded warehouses are located at or near ports. Imported goods are kept in these warehouses before the payment of the custom duty. They are operated by both the government and custom authorities

**Question: 8**

**Select the proper option from the options given below and rewrite the completed sentence.**

Perishable goods are stored in \_\_\_\_\_.

**Options**

- Bonded warehouses
- Duty paid warehouses
- Cold storage warehouses

**Solution**

Perishable goods are stored in **cold storage warehouses**.

**Explanation:**

Goods like fish, dairy products, fruits and flowers that are perishable in nature and that are likely to get destroyed easily are generally preserved in cold storage warehouses. These products are stored at low temperatures to protect them from getting spoilt.

**Question: 9**

**Select the proper option from the options given below and rewrite the completed sentence.**

Postal services are administered by \_\_\_\_\_.

**Options**

- Private companies
- Government of India
- Panchayat

**Solution**

Postal services are administered by **Government of India**.

**Explanation:**

Postal services come under the Ministry of Communication and Information Technology; they are administered by the Government of India. They provide services at rates easily affordable by everyone.

**Question: 10**

**Select the proper option from the options given below and rewrite the completed sentence.**

In case of urgency and to avoid delays \_\_\_\_\_ is sent.

**Options**

- Registered post
- Speed post
- Insured post

**Solution**

In case of urgency and to avoid delays, **speed post** is sent.

**Explanation:**

Speed post is the postal service provided by the Indian Post and Telegraph Department that delivers letters, parcels and as the name suggests, documents are sent very fast (within 24 to 72 hours). But since it offers various benefits, the charges for this service are relatively higher than the ordinary mail.

**Question: 12**

**Select the proper option from the options given below and rewrite the completed sentence.**

In India railways are owned and managed by \_\_\_\_\_.

**Options**

- Private companies
- Government
- Individuals

**Solution**

In India railways are owned and managed by **government**.

**Explanation:**

The Indian railways is supervised by the Ministry of Railways and is governed by the Government of India. Thus, it is fully owned by the Government and no private player is allowed to provide this service.

**Question: 13**

**Select the proper option from the options given below and rewrite the completed sentence.**

Door to door services is offered by \_\_\_\_\_.

**Options**

- Rail transport
- Road Transport
- Air transport

**Solution**

Door-to-door service is offered by **road transport**.

**Explanation:**

Road transport offers door-to-door services—that is, passengers or goods are picked up from a certain location and transported to the final destination. It is capable of reaching out to even those places where other modes of transportation cannot reach, for instance, hilly areas.

**Question: 14**

**Select the proper option from the options given below and rewrite the completed sentence.**

The costliest means of transport is \_\_\_\_\_.

**Options**

- Rail transport
- Water Transport
- Air transport

**Solution**

The costliest means of transport is **air transport**.

**Explanation:**

Air transport is the costliest mode of transportation of goods and passengers, mainly because of its expensive fuel and high operational costs. However, this mode is the most effective and time-saving, especially for long-distance transportation. It is also effective during situations of natural calamities like earthquakes and floods

**Question: 15**

**Select the proper option from the options given below and rewrite the completed sentence.**

Road transport is suitable for \_\_\_\_\_ distance.

**Options**

- Short
- Long
- Medium

**Solution**

Road transport is suitable for **short** distance.

**Explanation:**

Road transport is suitable for short distances, as its carrying capacity is limited. It also offers door to door service. Thus, it is not economical for long-distance transportation.

**Question: 16**

**Match the correct pairs:**

	<b>Group "A"</b>		<b>Group "B"</b>
a.	RBI	1	Recurring deposit account
b.	Overdraft	2	12 hours service
c.	Saving account	3	Withdrawals after fixed period of time
d.	ATM	4	Central Bank
e.	Fixed deposit account	5	Current Account
		6	Salaried people
		7	24 hours service
		8	Commercial bank
		9	Cash credit
		10	Withdrawal before fixed period of time.

**Solution**

	<b>Group "A"</b>		<b>Group "B"</b>
a.	RBI	4	Central Bank
b.	Overdraft	5	Current Account
c.	Saving account	6	Salaried people
d.	ATM	7	24 hours service
e.	Fixed deposit account	10	Withdrawal after a fixed period of time

\* In the book, for part (e), there is a mistake in the item 10. enlisted in Group B. It cannot be 'withdrawal before'. Indeed, it should be withdrawal after.

a) The Reserve Bank of India (RBI) is the central bank of India. It is the apex bank that supervises the monetary and banking system of India. It is



responsible for maintaining the economic stability of the country. It prints notes and lays down rules and regulations for commercial banks.

b) Overdraft facility is given to current account holders. It is a temporary arrangement whereby a customer is allowed to withdraw amount more than that prevailing in his/her account. For the overdraft facility, the bank charges interest on the amount overdrawn.

c) Savings accounts are basically meant for people who have fixed incomes (like salaried people). This type of account encourages the habit of saving among people.

d) An automatic teller machine (ATM) is an electronic machine that offers convenience to customers, as they can deposit or withdraw money from their accounts anytime without having the need to visit the branch of the bank. ATMs provides 24×7 service facility.

e) A fixed deposit account is an account in which deposits are kept for a fixed period of time. Also, deposits cannot be withdrawn from this account before maturity. More the time period, greater is the interest rate earned. The rate of interest is decided by the RBI.

**Question: 17**

**Match the correct pairs :**

	<b>Group "A"</b>		<b>Group "B"</b>
a.	Life Insurance	1	Claim made by insured
b.	Mitigation of loss	2	Perishable goods
c.	Premium	3	Insurable interest
d.	Cold storage	4	Maximum loss
e.	Warehousing	5	Transfer of goods from one place to other
		6	To minimise the loss
		7	Imported goods
		8	Principle of indemnity
		9	Storage of goods
		10	Payment made by policy holder

**Solution**

	<b>Group A</b>		<b>Group B</b>
a.	Life insurance	8	Principle of indemnity

b	Mitigation of loss	6	To minimise loss
c.	Premium	10	Payment made by policyholder
d.	Cold storage	4	Maximum loss
e.	Warehousing	9	Storage of goods

a. According to the principle of indemnity, the insurer assures the insured that he/she will bring the insured back to the position he/she was in prior to the occurrence of an uncertain event. Because in case of life insurance, there can obviously be no compensation for the life lost, the principle of indemnity is inapplicable here.

b. Mitigation is the principle that states that the insured must take all necessary measures and steps to control and minimise the loss. In other words, the insured should not remain inactive when an accident occurs.

c. A fixed, regular, periodic payment made by a policyholder for his/her insurance is called premium. The policyholder pays the premium periodically which covers him against the risk for a fixed period of time under a given insurance plan.

d. Cold storage is used to preserve goods that are perishable in nature, i.e., the goods that get destroyed easily. Fish, dairy products, fruits, flowers, etc., are generally kept in these storage warehouses at very low temperatures so that they can be preserved for a longer duration and used later on.

e. Some goods are produced in a specific period but are consumed or demanded throughout the year. These goods are stored in warehouses to ensure their regular supply in the market. Warehouses also perform various functions such as consolidation, bulk breaking and stock piling.

### Question: 18

**Match the correct pairs:**

	Group "A"		Group "B"
a.	Road transport	1	Government owned
b.	Rail transport	2	Co-operative societies
c.	Air transport	3	Self employed
d.	Postal department	4	Owned by private companies
e.	Courier services	5	Door to door service
		6	Owned by individuals
		7	Costliest means of transport

		8	Huge carrying capacity
		9	Difficulty in transport
		10	Cheapest means of transport

### Solution

	Group A		Group B
a.	Road transport	5	Door-to-door service
b.	Rail transport	8	Huge carrying capacity
c.	Air transport	7	Costliest means of transport
d.	Postal department	1	Government owned
e.		4	Owned by private companies

a. Road transport offers door-to-door service—that is, passengers or goods are picked up from a certain location and transported to the final destination. It is capable of reaching out to even those places where other modes of transport cannot reach, for instance, hilly areas.

b. The carrying capacity of rail transport is huge. Rail transport helps in carrying heavy and costly goods conveniently and safely, even to distant locations. It is a safe and secure means of transporting goods from one place to another.

c. Air transport is the costliest mode of transportation of goods and passengers, mainly because of its expensive fuel and high operational costs. However, this mode is the most effective and time-saving, especially for long-distance transportation. It is also effective during situations of natural calamities like earthquakes and floods.

d. The department comes under the Ministry of Communication and Information Technology and is administered by the Government of India. The department offers financial services, mail services and direct post services.

e. Courier services are governed and owned by private companies. Under these services, goods and mails are transported from one place to another. Courier companies ensure speedy and safe transmission of goods from one place to another. DHL, FedEx and TNT are examples of courier companies.

### Question: 19

**Write a word or phrase or a term which can substitute each one of the following:**

The account suitable for salaried people.

## **Solution**

The account suitable for salaried people - **Savings account**

### **Explanation:**

Salaried people have a fixed income; therefore, they want to save a part of their income to secure their future. They deposit their income in the savings accounts to earn interest on their savings. Thus, we can say that a savings account is suitable for salaried people.

### **Question: 20**

**Write a word or phrase or a term which can substitute the following:**

Overdraft facility is given to a certain definite account holder.

## **Solution**

Overdraft facility is given to a certain definite account holder. - **Current account holder**

### **Explanation:**

Overdraft facility is provided to current account holders. According to this facility, a current account holder can withdraw amount more than what he/she has in his/her account but interest is charged over the amount overdrawn.

### **Question: 21**

**Write a word or phrase or a term which can substitute the following:**

An account holder enjoys the privileges of any number of withdrawals.

## **Solution**

An account holder enjoys the privileges of any number of withdrawals- **Current account holders**

### **Explanation:**

Under current account, the holder can make any number of withdrawals. It is specially meant for the businesspersons who make and receive large number of business payments. However, they do not earn interest on the current account deposits.

### **Question: 22**

**Write a word or phrase or a term which can substitute the following:**

An account where fixed amount is kept for a specific period.

### **Solution**

An account where fixed amount is kept for a specific period- **Fixed account**

### **Explanation:**

In a fixed deposit account, an amount is deposited for a specific period. The amount deposited cannot be withdrawn before maturity. In case a person withdraws the amount before the expiry of the fixed period, the rate of interest that is to be paid becomes less than what was applicable.

### **Question: 23**

**Write a word or phrase or a term which can substitute the following:**

A bank, which is known as banker's bank.

### **Solution**

A bank, which is known as banker's bank - **Central Bank**

### **Explanation:**

The central bank is known as the banker's bank because it controls the working of commercial banks and also provides them guidance. The central bank accepts deposits from commercial banks and holds them as reserves for them.

### **Question: 24**

**Write a word or phrase or a term which can substitute the following:**

The type of insurance where the principle of indemnity is not applicable

### **Solution**

The type of insurance where the principle of indemnity is not applicable - **Life insurance**

### **Explanation:**

According to the principle of indemnity, the insurer assures the insured that he/she will bring the insured back to the position he/she was in prior to the occurrence of an uncertain event. Because in case of life insurance, there can obviously be no compensation for the life lost, the principle of indemnity is inapplicable here.

### **Question: 25**

**Write a word or phrase or a term which can substitute the following:**

The policy under which cargo is insured for a specific period & voyage.

## **Solution**

The policy under which cargo is insured for a specific period & voyage  
- **Mixed policy**

### **Explanation:**

Mixed policy is a combination of voyage policy and time policy. Voyage policy provides insurance for a particular voyage, irrespective of time. On the other hand, time policy is for a specific period of time.

## **Question: 26**

**Write a word or phrase or a term which can substitute the following:**

The principle of insurance under which the insurer and the insured must show complete faith towards each other

## **Solution**

The principle of insurance under which the insurer and insured must show complete faith towards each other - **Principle of utmost good faith**

### **Explanation:**

The principle of utmost good faith states that the insurer and the insured should have faith in each other and in the contract. Each should disclose all the necessary information related to the subject matter of the insurance. Complete faith towards each other is the prime condition of every contract.

## **Question: 27**

**Write a word or phrase or a term which can substitute the following:**

A device through which calls and messages can be sent and received

## **Solution**

A device through which calls and messages can be sent and received  
- **Mobile phone**

### **Explanation:**

A mobile phone enables a person to connect with anyone, anywhere. The device can be used to make and receive calls and send and receive messages. Companies like Nokia, Sony and Samsung produce mobile phones.

## **Question: 28**

**Write a word or phrase or a term which can substitute the following:**

An electronic letter through which the messages can be exchanged on the computer.

**Solution**

An electronic letter through which the message can be exchanged on the computer- **E-mail**

**Explanation:**

An e-mail enables the exchange of messages electronically using internet on the computer. The messages are delivered to the recipient instantly.

**Question: 29**

**Write a word or phrase or a term which can substitute the following:**

A warehouse where the goods can be stored after the payment of import duty

**Solution**

A warehouse where the goods can be stored after the payment of import duty- **Duty paid warehouse**

**Explanation:**

Duty paid warehouses are public warehouses available to all importers. In this kind of warehouse, goods can be stored only after the payment of import duty. These warehouses provide facilities like sorting and repacking to importers.

**Question: 30**

**Write a word or phrase or a term which can substitute the following:**

The type of warehouse where perishable goods are stored.

**Solution**

The type of warehouse where perishable goods are stored - **Cold storage warehouse.**

**Explanation:**

In cold storage warehouses, perishable goods like fish, dairy products, fruits and flowers are stored under very low temperatures. The basic purpose of these warehouses is to store and preserve perishable goods so that they can be used later on.

**Question: 31**

**Write a word or phrase or a term which can substitute the following:**

The costliest mode of transport.

**Solution**

The costliest mode of transport - **Air transport**

**Explanation:**

Air transport is the costliest mode of transportation of goods and passengers, mainly because of its expensive fuel and high operational costs. However, this mode is very effective and time-saving, especially for long-distance transportation. It is also effective during situations of natural calamities like earthquakes and floods.

**Question: 32**

**Write a word or phrase or a term which can substitute the following:**

Means of transport carrying bulk and heavy goods for international trade.

**Solution**

Means of transport carrying bulk and heavy goods for international trade- **Water Transport**

**Explanation:**

Water transport is most suitable for the transportation of bulky and heavy goods for international trade purposes. It is more economical than air transport.

**Question: 33**

**Write a word or phrase or a term which can substitute the following:**

Mode of transport which helps to get goods and passengers at their door.

**Solution**

Mode of transport which helps to get goods and passengers at their door - **Road transport**

**Explanation:**

Road transport facilitates the movement of goods and people from one place to another by means like car, cycle, truck and bus. Road transport offers door-to-door service, as it is the transport of goods and people from one place to another via roads.

**Question: 34**



**Distinguish between the following:**

Current account &amp; Savings account

**Solution**

<b>Basis of Difference</b>	<b>Current Account</b>	<b>Saving Account</b>
<b>Meaning</b>	It is opened by businesspersons and others who do regular banking transactions.	It is opened by individuals who wish to save some part of their income
<b>Restriction on number of withdrawals</b>	There are no restrictions on the number of withdrawals till the balance in the customer's account is more than that required.	There are certain restrictions on the number of withdrawals.
<b>Mode of withdrawing money</b>	It is done through cheques	It is done through cheques or withdrawal slips.
<b>Preferred by</b>	It is preferred by businesspersons, firms and different institutions	It is preferred by salaried people.
<b>Interest given</b>	No interest is given	Interest is given, but the rate is very low.
<b>Overdraft facility</b>	Overdraft facility is available.	Overdraft facility is not available.

**Question: 35****Distinguish between the following:**

Savings account &amp; Fixed account

**Solution**

<b>Basis of Difference</b>	<b>Savings Account</b>	<b>Fixed Account</b>
<b>Meaning</b>	It is opened by individuals who wish to save some part of their income.	It is an account in which a definite sum of money is deposited for a fixed period.
<b>Mode of withdrawing money</b>	It is done through cheques or withdrawal slips.	The customer can withdraw the amount only after the expiry of the fixed period.
<b>Preferred by</b>	It is preferred by	It is preferred by people who

	salaries people.	have idle cash.
<b>Interest given</b>	Low rate of interest is given.	High rate of interest is given.
<b>Restriction on number of withdrawals</b>	There are certain restrictions on the number of withdrawals	There are restrictions in the sense that the customer can withdraw the amount only after the expiry of the fixed period.
<b>Nature of account</b>	It is continuous in nature.	90% of the amount is given as loan.

### Question: 36

#### Distinguish between the following:

Current account & Recurring deposit account

#### Solution

<b>Basis of Difference</b>	<b>Current Account</b>	<b>Recurring Account</b>
<b>Meaning</b>	It is opened by business persons and others who do regular banking transactions.	In this type of account, people save a fixed amount regularly for a specific period.
<b>Mode of withdrawing money</b>	Withdrawal is made through cheques.	The customer cannot withdraw the money before the expiry of the fixed period.
<b>Preferred by</b>	It is preferred by businesspersons, firms and institutions.	It is preferred by fixed income group class.
<b>Restriction on number of withdrawals</b>	There are no restrictions on the number of withdrawals till the balance in the customer's account is more than that required.	The customer can receive the amount only after the expiry of the specified period.
<b>Interest rate</b>	No interest is given.	Interest rate is comparatively higher than that given in the savings account but less than that given in the fixed

		deposit account.
<b>Overdraft facility</b>	Overdraft facility is given.	Overdraft facility is not given.

**Question: 37**

**Distinguish between the following:**

Cheque & Bank Overdraft

**Solution**

<b>Sr. No.</b>	<b>Basis of Difference</b>	<b>Cheque</b>	<b>Bank Overdraft</b>
<b>1.</b>	<b>Meaning</b>	It is an unconditional order directing the bank to pay a mentioned amount to a certain person.	It is a facility given to a current account holder to withdraw amount more than what he/she has in his/her account.
<b>2.</b>	<b>Charges</b>	There are no charges	Interest is charged
<b>3.</b>	<b>Eligibility</b>	All account holders are eligible for this facility.	Only current account holders can enjoy this facility.
<b>4.</b>	<b>Dishonour</b>	It can be dishonoured	It can never be dishonoured.
<b>5.</b>	<b>Fee</b>	No fee is charged on the issue of a cheque.	A small amount of fee is charged on the issuance of draft.
<b>6.</b>	<b>Reliability</b>	A cheque might not get cleared due to numerous reasons like mismatch of signature and unavailability of funds.	As it is issued only after the receipt of payment, it is more reliable.
<b>7.</b>	<b>Aim</b>	It aims at facilitating businessman for effecting local payments.	It aims at facilitating immediate outstation payments.
<b>8.</b>	<b>Drawer</b>	The drawer is the account holder of the bank.	A draft is the bank itself.
<b>9.</b>	<b>Facility</b>	Cheque facility is	A draft facility is extended to

<b>extended to</b>	extended to account holders of the bank only.	both account holders of the bank as well as outsiders.
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**Question: 38**

**Distinguish between the following:**

Loan & Overdraft

**Solution**

<b>Basis of Difference</b>	<b>Loan</b>	<b>Overdraft</b>
<b>Meaning</b>	In the case of loan, a certain amount is advanced for a specific purpose and a specific period.	It is a facility given to a current account holder to withdraw amount more than what he/she has in his/her account.
<b>Eligibility</b>	Any account holder can get a loan from a bank.	Only current account holders can enjoy this facility.
<b>Rate of interest</b>	Comparatively low interest rate is charged.	A high interest rate is charged.
<b>Duration</b>	It is meant for a long period.	It is meant for a short period.
<b>Amount</b>	The amount given as a loan is high.	The amount of an overdraft is comparatively smaller.
<b>Separate account</b>	Separate account is required.	Separate account is not required.

**Question: 39**

**Distinguish between the following:**

Commercial bank & Central bank

**Solution**

<b>Basis of Difference</b>	<b>Commercial Bank</b>	<b>Central Bank</b>
<b>Objective</b>	The main objective of a commercial bank is to make profits.	The main objective of the central bank is to regulate and control the functioning of other banks.
<b>Issue of notes</b>	It cannot issue currency notes and coins.	It has the exclusive right to issue currency notes and coins.
<b>Deposits</b>	It accepts deposits from the	It does not accept deposits

	general public.	from the general public.
<b>Public dealings</b>	It directly deals with the general public.	It does not directly deal with the general public.
<b>Ownership</b>	It can be owned by private players or the Government.	There is only one central bank in India, i.e., RBI.
<b>Number</b>	There are many commercial banks in India.	There is only one central bank in India, i.e., RBI.
<b>Monetary Policy</b>	The commercial banks do not frame any monetary policy.	The Central bank frames the monetary policy and credit policy.
<b>Monitoring</b>	The commercial bank does not keep check on the Central bank.	The Central bank keeps a check on the working of the commercial banks.
<b>Printing of currency</b>	The commercial bank cannot print currency notes.	The central bank can print currency notes.
<b>Function</b>	The main function is to accept deposits from public for lending to industry and others.	The main function of the central bank (RBI) is to regulate money supply in the country.

**Question: 40**

**Distinguish between the following:**

Life insurance & Fire insurance

**Solution**

<b>Basis of Difference</b>	<b>Life Insurance</b>	<b>Fire Insurance</b>
<b>Compensation</b>	Compensation is paid either at the time of the death of the insured or at the maturity.	Compensation is paid only in the event of loss due to fire. Nothing is paid otherwise.
<b>Duration</b>	The duration of life insurance is long; it is typically from 5 years to more than 25 years.	It does not generally exceed 1 year.
<b>Indemnity</b>	The principle of indemnity does not apply here, as the life of the insured cannot be compensated.	Compensation is based on the principle of indemnity.

<b>Insurable interest</b>	Insurable interest must exist at the time of taking the policy and not necessarily at the time of receiving the claim.	Insurable interest must exist at the time of taking the policy and also at the time of receiving the claim.
<b>Subject matter</b>	The life of the insured is the subject matter.	The goods and property of the person make the subject matter.
<b>Measurement of loss</b>	Loss incurred cannot be measured.	Loss incurred can be measured.

**Question: 41**

**Distinguish between the following:**

Fire Insurance & Marine Insurance

**Solution**

<b>Basis of Difference</b>	<b>Fire Insurance</b>	<b>Marine Insurance</b>
<b>Compensation</b>	Compensation is paid only in the event of loss due to fire. Nothing is paid otherwise.	Compensation is paid only in the event of loss due marine perils. Nothing is paid otherwise.
<b>Duration</b>	It does not generally exceed one year.	It is generally done for one year or for the period of voyage.
<b>Subject matter</b>	The goods and property of the person make the subject matter.	The goods in ship, cargo and freight make the subject matter.
<b>Insurable interest</b>	Insurable interest must exist at the time of taking the policy and also at the time of receiving the claim.	Insurable interest must exist at the time of receiving the claim or at the time of loss only.

**Question: 42**

**Distinguish between the following:**

Road transport & Rail transport

**Solution**

<b>Sr.</b>	<b>Basis of</b>		

No.	Difference	Road Transport	Rail Transport
1.	<b>Speed</b>	Road transport has limited speed due to bad road conditions, accidents, etc.	It has considerable speed since it runs on tracks which rarely get disturbed.
2.	<b>carrying capacity</b>	<b>It has limited carrying capacity.</b>	<b>It has huge carrying capacity.</b>
3.	<b>Cost of construction and maintenance</b>	It requires limited capital investment in terms of construction of road, vehicles and their maintenance.	The cost of construction of trains, railway tracks is high. Also the maintenance of trains, tracks and stations is high.
4.	<b>Distance</b>	Recommended for short distance.	Recommended for both short and long distance.
5.	<b>Transport charges</b>	Transport charges are not fixed but are high due to increased fuel prices.	Transport charges are relatively low and are fixed according to the distance.
6.	<b>Door to door service</b>	It provides door to door service.	It does not provide door to door service.
7.	<b>Means of transport</b>	It uses animal's carts, motor-cycles three and four wheelers.	It uses passenger and goods train.
8.	<b>Ownership</b>	Ownership is in the hands of private parties.	Ownership is in the hands of the government.
		It provides limited	Goods are kept in locked

<b>9.</b>	<b>Safety</b>	safety to goods from sun, rain, wind, etc.	wagons which provides protection against sun, wind, rain etc.
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**Question: 43**

**Distinguish between the following:**

Rail Transport & Air Transport

**Solution**

<b>Basis of Difference</b>	<b>Rail Transport</b>	<b>Air Transport</b>
<b>Speed</b>	It is not as fast as air transport.	It is the fastest mode of transport.
<b>Carrying capacity</b>	It has a huge carrying capacity.	Its carrying capacity is limited.
<b>Transport charges</b>	Transport charges are comparatively low.	It is the costliest mode of transport.
<b>Ownership</b>	It is owned by the government.	It is owned by both public and private sectors.
<b>Distance</b>	It is suitable for both short and long distances.	It is suitable for long distances.
<b>Means of transport</b>	Passenger and goods trains	Aeroplanes, helicopters, jets, etc.

**Question: 44**

**Distinguish between the following:**

Road transport & Water transport

**Solution**

<b>Basis of Difference</b>	<b>Road Transport</b>	<b>Water Transport</b>
<b>Speed</b>	Speed is more compared to water transport. Also, it is suitable for both short and long distances.	It is the slowest mode of transport. Also, it is suitable for long distances, especially international ones.
<b>Transport charges</b>	Transport charges	Transport charges are



	are relatively high.	the lowest among all modes of transport.
<b>Carrying capacity</b>	Carrying capacity is comparatively less.	Carrying capacity is comparatively huge.
<b>Safety</b>	Safety of goods is less, as they are exposed to bad weather conditions sometimes.	Goods in transit are packed with utmost care. Hence, they are comparatively more safe
<b>Ownership</b>	It is owned by private parties.	It is owned by both private and public sectors.
<b>Door-to-door service</b>	It provides door-to-door service.	It does not provide door-to-door service.

**Question: 45**

**Distinguish between the following:**

Bonded Warehouse & Duty Paid Warehouses

**Solution**

<b>Basis of Difference</b>	<b>Bonded Warehouse</b>	<b>Duty Paid Warehouse</b>
<b>Meaning</b>	It is a warehouse where imported goods for which the import duty has not been paid are stored.	It is a warehouse where imported goods for which the import duty has been paid are stored.
<b>Location</b>	It is located within the dock area.	It is located outside the dock area.
<b>Supervision</b>	Supervision is done by custom authorities.	Supervision is done by port authorities.
<b>Delivery</b>	Goods are delivered only after the payment of import duty.	Goods are delivered only after the payment of rent charged by the warehouse.
<b>Ownership</b>	It is owned by private people or dock authorities.	It is owned by public authorities.
<b>Markets</b>	The imported goods stored here are mostly re-exported.	The imported goods stored here are mostly for the domestic markets.

<b>Purpose</b>	Main purpose would be either the importer needs to re-export the goods or the importer may not be in a position to pay import duty.	Main purpose would be that the importer does not have suitable warehousing facility. Also, he may not require immediate delivery of goods.
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### Question: 46

#### Write Short Note on the following:

Nature of business services

#### Solution

The following points highlight the nature of business services:

- i. Intangible-** Business services are intangible in nature—that is, they cannot be seen or touched but can only be experienced.
- ii. Heterogeneity-** Business services are heterogeneous in nature. As the person delivering the business services may differ, the kind or quality of service will also be different.
- iii. Non-transferability-** Because business services are non-transferable. In other words, the ownership of business services cannot be transferred from person to person.
- iv. Inventory-** Business services cannot be stored for future sales. They need to be provided to the service users as and when they ask for them

### Question: 47

#### Write Short Note on the following:

Types of business services

#### Solution

The following are the various types of business services:

- i. Banking services -** Finance is the most important input needed to run any business. An efficient banking facility ensures easy and ready availability of cheap credit to businessmen and traders; thus, it acts as an auxiliary to trade.
- ii. Insurance services -** Insurance acts as a protection against these risks. On the payment of a nominal premium, the loss suffered by a business can be recovered from the insurance company concerned.
- iii. Transport services -** They enable a producer to purchase raw materials and other inputs from various places and sell the final product in different

regions. They facilitate the transfer of goods and labour from one place to another.

**iv. Warehousing services** - They provide the facility of storage of goods. These services help businesses to store goods and also facilitate the availability of goods when required.

**v. Communication services** - It is through communication that different parties seek information about various products and services. Communication services are also used for placing orders, registering complaints, making suggestions, etc

### **Question: 48**

#### **Write Short Note on the following:**

Types of banks

#### **Solution**

The following are the different types of banks:

**i. Commercial banks** - These banks are governed by the Indian Banking Regulation Act (1949). They provide credit to the general public.

**ii. Co-operative banks** - These banks are governed by the provisions of the State Cooperative Societies Act. They provide cheap credit to their members only.

**iii. Specialised banks** - These banks provide credit to industrial units and export–import units.

**iv. Central bank** - This is the apex financial institution that regulates and controls the activities of all banks and financial institutions in the country.

**v. Development banks** - These banks provide financial assistance to business houses so that they can meet their capital requirements.

**vi. Regional rural banks** - These banks were established in 1975 to extend banking facilities to the rural areas and to provide credit to small traders, farmers, etc.

**vii. Exchange banks** - These banks remit money from one country to another, discount foreign bills, finance export and import of goods, etc.

**viii. Indigenous banks** - These are domestic banks carrying out banking activities in the country through generations. These banks mainly deal in "Hundis" (i.e., native bill of exchange) and promissory notes.

**ix. Savings banks** - These banks accept small deposits from the public having a fixed income. The main objective of these banks is to inculcate the habit of saving in people.

**Question: 49**

**Answer the following question in short:**

State the primary functions of banks.

**Solution**

The following are the primary functions of commercial banks:

**a. Accepting deposits** - Banks accept various types of deposits from the public such as savings account deposits, current account deposits and fixed account deposits and pay interest on them. They are indebted to repay the depositor the amount deposited by him or her. The following are some of the types of deposits accepted by these banks:

**i. Savings account deposits** - This type of account promotes the habit of saving in people having a fixed income. These deposits are chequeable deposits.

**ii. Fixed account deposits** - Fixed account deposits (also known as time deposits) refer to the deposits that are held for a fixed (specific) period of time (called maturity).

**iii. Current account deposits** - Current account deposits (also known as demand deposits) refer to the deposits that provide the depositor the liberty to withdraw money at any point in time.

**b. Granting loans and advances** - Banks grant loans and advances on the basis of the total deposits available with them. The interests charged on these loans are a major source of profits for banks. The following are the different types of loans and advances offered by commercial banks:

**i. Cash credit** - Under this system, the bank first estimates the value of the assets held by the borrower. Based on this estimation, the bank decides the credit limit of the borrower. The borrower is liable to pay interest on the amount he/she actually withdraws.

**ii. Overdraft** - This facility is provided to current account holders wherein they can withdraw amount in excess of the credit balance in the account. The bank charges interest on the amount overdrawn.

**iii. Discounted bills** - A bill of discount is a negotiable instrument where

the payment is made by the bank on behalf of the customer to the vendor before the due date.

**Question: 50**

**Answer the following question in short:**

What are the agency functions of banks?

**Solution**

The agency functions of commercial banks can be defined as the functions in which these banks act as an agent to their customers. The following are the agency functions of commercial banks:

- a. They collect cheques, dividends and interest on behalf of the customers and credit the amount in their accounts.
- b. They pay rent, insurance, premium, etc., on behalf of customers and deduct the amount from their accounts
- c. They buy and sell foreign exchange.
- d. They buy and sell different securities like shares and debentures.
- e. They receive travel tickets and letters and book vehicles on behalf of their customers.
- f. They act as a trustee, executor of will, attorney, etc.
- g. They help the customers in filing tax returns.
- h. They provide the facility of bank draft that helps in remitting money from place to another.
- i. They act as an underwriter on behalf of a company.
- j. They provide the facility of dematerialised accounts to people dealing in shares and debentures.

**Question: 51**

**Write Short Note on the following:**

Utility functions of commercial banks

**Solution**

The following are some of the utility functions of commercial banks:

- i. These banks provide locker facility to their customers. In this facility,

customers can keep their valuable things like jewellery and important documents in bank lockers.

ii. These banks issue travellers' cheques to their customers, because of which customers need not carry money with them while travelling (domestically or internationally). They can encash the travellers' cheques at any branch worldwide.

iii. These banks provide information to their customers regarding business conditions, payment rules, etc., of businesses in other countries.

iv. These banks also provide the facility of gift cheque to the general public.

### **Question: 52**

#### **Answer the following question in short:**

What is e-banking?

#### **Solution**

E-banking means electronic banking (also known as online banking or virtual banking). Through e-banking, a customer can perform banking transactions such as transferring money from one account to another, checking account balance, making payments and applying for loans. These services are provided by commercial banks to their account holders so that they can easily perform banking transactions online from anywhere and at any time.

The following are some of the ways in which e-banking can be done:

**i. Automated teller machines (ATMs)** - These are automatic money vending machines that enables the user to conduct financial transactions without the need of human cashier. The bank customers can withdraw money anytime from the ATMs.

**ii. Credit cards** - They allow the card holders to make purchases through borrowings from banks, without making any deposits to banks. They are also known as plastic money.

**iii. Debit Cards** - With the help of a debit card, a person can make a purchase and instruct the bank to automatically transfer the money to the seller's account.

**iv. Electronic funds transfer (EFT)** - Under this facility, funds can be electronically transferred from one bank account to another.

**v. Core banking** - Core banking solution (CBS) is a network of branches that enables customers to operate their accounts and use banking services from any branch of the bank on the CBS network. The customer is no more

the customer of a single branch. He/she becomes the bank's customer.

**vi. Internet banking** - This facility permits the customers to perform banking transactions on the internet. Through internet banking, the customers can transfer money, make fixed deposits, collect bills, etc without visiting bank.

### **Question: 53**

#### **Write Short Note on the following:**

Types of life insurance policies

#### **Solution: 1**

The following are the various types of life insurance policies:

**a. Whole life policy** - Under this policy, the assured sum is paid to the beneficiaries only after the death of the insured.

**b. Endowment life assurance policy** - Under this policy, the assured sum is paid either at the time of the death of the insured or at the expiry of the contract, whichever comes first.

**c. Term insurance policy** - This policy is taken for a fixed period of time. The premium of this policy is fixed and is lower than any other life insurance policy. In case of untimely death, the amount is paid to the dependents of the deceased person, subject to conditions of the policy.

**d. Money-back policy** - Under this policy, the insured is paid a fixed percentage of the insured amount during the life of the policy. In addition to this, full insurance amount is paid to the dependents in case of the death of the insured before maturity.

**e. Joint life policy** - This is a special type of policy that secures the life of two or more individuals against the payment of a fixed premium by those individuals or any one of them.

**f. Annuity policy** - This is a type of policy in which the insured is paid the amount due in monthly, quarterly or annual instalments after he or she reaches a certain age.

**g. Pension plan policy** - This policy does not offer any kind of life insurance to the insured. Instead, it assures a fixed amount to be paid to the insured either for a lifetime or for a fixed period.

**h. Unit Linked Insurance Policy (ULIP)** - This insurance policy combines the benefits of life insurance policy and mutual funds. A part of the amount

invested in the policy is invested in equity shares, bonds or debt funds, while the remaining part is used for life insurance

### **Solution: 2**

The following are some of the various types of life insurance policies:

**i. Whole life policy** - Under this policy, the assured sum is paid to the beneficiaries only after the death of the insured.

**ii. Endowment life assurance policy** - Under this policy, the assured sum is paid either at the time of the death of the insured or at the expiry of the contract, whichever comes first.

**iii. Money-back policy** - Under this policy, the insured is paid a fixed percentage of the insured amount during the life of the policy. In addition to this, full insurance amount is paid to the dependents in case of the death of the insured before maturity.

**iv. Joint life policy** - This is a special type of policy that secures the life of two or more individuals against the payment of a fixed premium by those individuals or any one of them.

### **Question: 54**

#### **Write Short Note on the following:**

Types of marine insurance policies

### **Solution: 1**

The following are some of the various types of marine insurance policies:

**i. Voyage policy** - In this policy, the subject matter is insured for a particular journey, irrespective of the time involved in the journey.

**ii. Time policy** - In this policy, the subject matter is insured for a given time period. The policy may contain a continuation clause, according to which the insurance can be extended till the voyage is completed or till the ship arrives at the port.

**iii. Mixed policy** - This policy is a combination of the time policy and the voyage policy. It provides protection against sea perils for a particular voyage and for a fixed period of time.

**iv. Valued policy** - In this policy, the insurance is of a fixed amount as agreed upon by the insurer and the insured.



## **Solution: 2**

The following are the various types of marine insurance policies:

- i. Voyage policy** - In this policy, the subject matter is insured for a particular journey, irrespective of the time involved in the journey.
- ii. Time policy** - In this policy, the subject matter is insured for a given time period. The policy may contain a continuation clause, according to which the insurance can be extended till the voyage is completed or till the ship arrives at the port.
- iii. Mixed policy** - This policy is a combination of the time policy and the voyage policy. It provides protection against sea perils for a particular voyage and for a fixed period of time.
- iv. Valued policy** - In this policy, the insurance is of a fixed amount as agreed upon by the insurer and the insured.
- v. Floating policy** - In this policy, several shipments are insured under one insurance contract. The policy holds valid till the time the entire amount of insurance is exhausted.
- vi. Blanket policy** - In this policy, the maximum amount for which the insurance is required is estimated. In addition to this, the premium for this policy is paid in advance.
- vii. Port risk policy** - This policy covers the risk against the damage caused to the vessel while it is being anchored at the port for a given time period.
- viii. Composite policy** - This policy is taken by more than one individual. There is more than one insured in this kind of insurance policy. These insured have a separate and distinct liability.

## **Question: 55**

### **Write Short Note on the following:**

Functions of warehousing

## **Solution: 1**

The following are some of the functions of warehousing:

- i. Consolidation** - The foremost function of a warehouse is to pool goods or raw materials from different plants and dispatch them, at the same time, to different customers in one shipment.

**ii. Bulk breaking** - Warehouses often receive goods or materials in bulk from production plants. These goods are then divided into smaller quantities and delivered to different customers according to their requirements.

**iii. Stockpiling** - Warehouses facilitate the storage of goods and raw materials that are not required for immediate sale or manufacturing.

**iv. Offering value-added services** - Warehouses offer various value-added services to producers such as the grading, packaging and labelling of goods.

### **Solution: 2**

The following are some of the functions performed by warehousing:

**i. Consolidation** - The foremost function of a warehouse is to pool goods or raw materials from different plants and dispatch them, at the same time, to different customers in one shipment.

**ii. Protection of goods** - Warehouses store the goods or materials in bulk and thus help in protecting them from any kind of damage such as due to wind, dust or insects.

**iii. Stockpiling** - Warehouses facilitate the storage of goods and raw materials that are not required for immediate sale or manufacturing.

**iv. Offering value** - added services - Warehouses offer various value-added services to producers such as the grading, packaging and labelling of goods.

**v. Financing** - The owner of the goods and raw materials stored in a warehouse can use the warehouse receipt as a security against which he/she can borrow money from banks or other financial institutions.

### **Question: 56**

**Write Short Note on the following:**

Role of transport

### **Solution: 1**

**Introduction:** -In India, transport plays an important role in nation's economy. Since the economic liberalization of the 1990's, development of infrastructure within the country has progressed at a rapid pace and today there is a wide variety of modes of transport by Land, Water and Air are available in India.

Transportation is the movement of people, animal and goods from one location to another. Transport infrastructure consists of the fixed

installations necessary for transport, and may be roads, railways, airways, waterways, canals and pipelines and terminals such as airports, railway stations, bus stations, trucking terminals and seaports. India's rail network is the 4th largest and most heavily used system in the world, transporting over **6 billion** passengers and over 350 million tons of goods annually.

1. **Helps in production:** -Transport system helps the **manufacturer** to take the raw materials and other requirements quickly from the places, where it is available to the production centers. It helps the movement of the labour from their houses to the place of their work. It also makes possible quick dispatch and distribution of finished goods to the centers of consumption.
2. **Expanding Markets:** -It reduces the gap between the producers and consumers. It helps to cover the wider area of market places by making the goods available, whenever need arises. Transport plays an important role in distribution and marketing of goods. Air transport plays an important role in the success of an international trade.
3. **Create Place Utility:** -Transport is useful for carrying the goods from the place of its availability to the place of its requirement. Only, because of transport, it has been possible for the people staying at far places to get the benefit of goods, which are not available near to them. E.g. apples from Kashmir are transported throughout the country's Mangoes from India are exported to different countries, etc.
4. **Stability of Prices:** -Transport helps to maintain the prices of the goods by providing the goods at the proper time and satisfying the consumer demand for the goods. It helps to maintain balance between the demand and supply of goods, which ensures stability of prices.
5. **Creates Employment:** -Transport provides direct employment to transport owners, drivers, mechanics, helpers and so on. It also provides indirect employment by facilitating the movement of goods and people from one place to another. So, it provides direct and indirect employment to the number of people.
6. **Improves standard of Living:** -Transport helps people to enjoy a better standard of living by providing them with goods of their choices from faraway places or places of its availability. As transport creates employment, it gives an opportunity to people to earn good amount of income. E.g. imported cars can be transported from foreign countries.
7. **Cost Reduction:** -The cost of production and distribution can be reduced with the help of efficient, cheap and quick means of transport. The goods can be sold at low prices which in turn will increase demand and expand market.

8. **Provides help during emergency:** -People are badly affected during natural calamities like floods, earthquakes, landslides, etc. and also during riots, bomb blasts, accidents, fire, etc. transport helps **the** people by providing them with the necessities like food, water, medicines, etc. and also helps them to travel to their destinations.
9. **National Defense:** -Transport plays an important and special role in the defense of the country. An efficient transport network system ensures quick movement of troops, arms and ammunitions from one place to another.
10. **Economic development:** -Economic development of a country depends on a good network of transport system and industrial development. Good transport system also provides employment opportunity; new industries are established where there is a good network of transport. This all gives rise to economic development of a nation.

## **Solution: 2**

Transport plays a major role in our lives. It facilitates the movement of goods, raw materials and labour from one place to another. Some important functions of transport are as follows:

**i. Aids in the production process** - Transport helps traders or manufactures to procure raw materials from far-off places and from places where they are available at the cheapest rate. Hence, it helps in procuring raw materials for production.

**ii. Helps in the expansion of markets** - Through transportation, sellers or traders can sell their goods in the markets that are far-off. Thus, it aids in the expansion of markets as well.

**iii. Stabilises prices** - Transportation helps in making the goods available whenever and wherever they are in demand. Thus, it helps in maintaining price stability.

**iv. Creates employment** - Transportation creates direct employment. It employs drivers, mechanics, helpers, etc., in the process.

**v. Improves standard of living** - It improves the standard of living of the people by making a wide variety of goods available to them and by creating employment opportunities for them.

## **Question: 57**

**Answer the following question:**

Define bank. Explain different types of banks.

**Solution**

Banks are financial institutions that deal in money and credit. They accept deposits from the general public and extend loans for various purposes such as consumption and investment. They offer a rate of interest on the deposits (borrowing rate) and charge a rate of interest on the amount they lend (lending rate). The following are the different types of banks:

**i. Commercial banks** - These banks are governed by the Indian Banking Regulation Act of 1949. They provide credit to the general public. Commercial banks are of three types:

**a. Public sector banks** - These are the banks in which the majority of the stake is held by the Government of India or Reserve Bank of India. State Bank of India and Bank of Baroda are the examples of public sector banks.

**b. Private sector banks** - These are the banks in which the majority of the stake is held by private parties. Bank of Rajasthan and ING Vysa Bank are the examples of public sector banks.

**c. Foreign sector banks** - These banks are registered in foreign countries. Their headquarters are also located in foreign countries. HSBC and American Express are examples of foreign sector banks.

**ii. Co-operative banks** - These banks are governed by the provisions of the State Co-operative Societies Act. They provide cheap credit to their members only. They are of three types:

**a. Primary credit banks** - These are formed by the members of one locality such as a village or town. The borrowers and depositors all belong to the same society.

**b. District central co-operative banks** - These banks have their operations at the district level and they act as a link between primary credit societies and state co-operative societies.

**c. State co-operative banks** - These banks have their operations in a state. They mobilise savings from the depositors and channelise them to various sectors.

**iii. Specialised banks** - These banks provide credit to industrial units and export-import units. They are classified into three types:

● **Export-Import Bank of India (EXIM Bank)** - The bank provides funds for setting up an export or import business. Small Industries Development

● **Bank of India (SIDBI)** - It was set up to provide direct and indirect financial assistance under different schemes. It caters to the credit and finance requirements of small-scale enterprises.

● **National Bank for Agricultural and Rural Development (NABARD)** - It was established in 1982 with the main objective of promoting rural development and integrating efforts in this direction.

**iv. Central bank** - This is the apex financial institution that regulates and controls the activities of all banks and financial institutions in the country. The Reserve Bank of India (RBI) is the central bank of India.

**v. Development banks** - These banks provide financial assistance to business houses so that they can finance their capital requirements, expansion and modernisation. State Financial Corporation's (SFCs) and Industrial Financial Corporation of India (IFCI) are examples of development banks.

**vi. Regional rural banks** - These banks were established in 1975 to extend banking facilities to the rural areas. The main objective of these banks is to provide credit to small traders, farmers, etc.

**vii. Exchange banks** - These banks remit money from one country to another, discount foreign bills, finance export and import of goods, etc. Bank of Tokyo and Bank of America are examples of exchange banks.

**viii. Indigenous bankers** - These are domestic bankers that carry out banking activities in the country. These banks mainly deal in "Hundis" and promissory notes. Also, the rate of interest charged by the banks is very high.

**ix. Savings bank** - These banks accept small deposits from the public having a fixed income. The main objective of these banks is to encourage the habit of saving in people.

### **Question: 58**

#### **Answer the following question:**

What is commercial bank? Explain its primary functions.

#### **Solution**

A commercial bank is a financial institution that accepts deposits from the general public and extends loans to the general public for various purposes such as consumption and investment. Commercial banks offer a rate of interest on the deposits (borrowing rate) and charge a rate of interest on the amount they lend (lending rate). The following are the primary functions

of commercial banks:

**i. Accepting deposits** - Banks accept various types of deposits from the public such as savings account deposits, current account deposits and fixed account deposits and pay interest on them. They are indebted to repay the depositor the amount deposited by him or her. The following are the various types of deposits accepted by these banks:

**a. Savings account deposits** - Frequent withdrawals are restricted from the savings account. This type of account promotes the habit of saving in people having a fixed income. These deposits are chequeable deposits—that is, cheques can be issued against such deposits. Interest is credited to the depositor's account once in every six months.

**b. Fixed account deposits** - Fixed account deposits (also known as time deposits) refer to the deposits that are held for a fixed (specific) period of time (called maturity). These deposits cannot be withdrawn before maturity; hence, they are not payable on demand. Interest paid on these deposits is comparatively higher than that paid on savings account deposits.

**c. Current account deposits** - Current account deposits (also known as demand deposits) refer to the deposits that provide the depositor the liberty to withdraw money at any point in time. This type of bank account is usually held by businesspersons. The depositor can withdraw the required amount from the account through a cheque. No interest is paid on these deposits.

**d. Recurring deposit account** - This account carries higher interest rate than that carried by the savings account. A fixed amount is deposited in this account at regular intervals. That amount can be withdrawn only after maturity.

**e. Multiple option deposit account** - This account is a combination of the savings, current and fixed accounts. The interest is the same as that earned on a fixed account and the account is as liquid as a savings or current account. In this type of account, the amount is automatically transferred to the fixed deposit account once it crosses a specified amount. In case insufficient amount is available when a cheque is presented, the amount is deducted from the fixed deposit account and added to the savings account.

**ii. Granting loans and advances** - Banks grant loans and advances on the basis of the total deposits available with them. These loans and advances can be in the form of overdrafts, discounted trade bills, cash or consumer credits, etc. The interests charged on these loans are a major source of profits for banks. The following are the different types of advances offered by commercial banks:

**a. Cash credit** - Under this system, the bank first estimates the value of

the assets held by the borrower. Based on this estimation, the bank decides the credit limit of the borrower. The borrower is liable to pay interest on the amount he/she actually withdraws.

**b. Overdraft** - This facility is provided to current account holders wherein they can withdraw amount in excess of the credit balance in the account. The bank charges interest on the amount overdrawn.

**c. Discounted bills** - A bill of discount is a negotiable instrument where the payment is made by the bank on behalf of the customer to the vendor before the due date. The bank collects the money from the customer on the arrival of the due date. The bank deducts some fee before making the payment to the vendor.

### **Question: 59**

#### **Answer the following question:**

Describe the secondary functions of commercial banks.

#### **Solution**

In addition to primary functions, commercial banks perform secondary functions. The secondary functions are divided into:

**i. Agency functions** - The agency functions of commercial banks can be defined as the functions in which these banks act as an agent to their customers. The following are the agency functions of commercial banks:

- a. They collect cheques, dividends and interest on behalf of the customers and credit the amount in their accounts.
- b. They pay rent, insurance, premium, etc., on behalf of customers and deduct the amount from their accounts.
- c. They buy and sell foreign exchange.
- d. They buy and sell different securities like shares and debentures.
- e. They receive travel tickets and letters and book vehicles on behalf of their customers.
- f. They act as a trustee, executor of will, attorney, etc.
- g. They help the customers in filing tax returns.
- h. They provide the facility of bank draft that helps in remitting money from place to another.
- i. They act as an underwriter on behalf of a company.
- j. They provide the facility of dematerialised accounts to people dealing in shares and debentures.

**ii. Utility functions** - A commercial bank performs various general utility functions for its customers. While performing these functions, a commercial bank does not act as an agent to its customers. The following are the utility functions of commercial banks:



- a. These banks provide locker facility to their customers. In this facility, customers can keep their valuable things like jewellery and important documents in bank lockers.
- b. These banks issue travellers' cheques to their customers, because of which customers need not carry money with them while travelling (domestically or internationally). They can encash the travellers' cheques at any branch worldwide.
- c. These banks also prepare letters of credit on the request of importers; these letters help in making international trade payments.
- d. These banks provide information to their customers regarding business conditions, payment rules, etc., of businesses in other countries.
- e. These banks also provide the facility of gift cheque to the general public.

### **Question: 60**

#### **Answer the following question:**

Define insurance. Explain the various principles of insurance.

#### **Solution**

Insurance is the service that provides protection from certain types of risks that arise out of uncertain events. It gives individual an assurance by promising a certain sum of money in case of death or damage to personal property. The insured needs to pay a premium in return for this assurance. The following are the principles of insurance on which insurance contracts are based:

**i. Utmost good faith** - Both the insurer and the insured should have faith in each other and in the contract signed by them. **Example:** Rahul who is a heart patient should inform his insurance company about his health issues while buying a life insurance policy.

**ii. Insurable interest** - It implies that the insured should have some interest vested in the object being insured by him/her.

**Example:** A businessperson has an insurable interest in his or her land, house and other property.

**iii. Indemnity** - According to the principle of indemnity, the purpose of an insurance contract is to bring back the insured to the financial position he or she was in before the loss occurred to him or her (because of a mishap).

**Example:** If an individual suffers a loss of Rs 1 lakh in a fire accident, then the insurance company will accept a claim of up to Rs 1 lakh and not more.

**iv. Proximate cause** - This principle states that the reason for the loss or damage of the insured object should be related to the subject matter of the

contract.

**Example:** If an individual suffers a loss in a fire accident, then this should already be a part of the contract so that the person can claim the insurance amount.

**v. Subrogation** - Once the compensation is paid, the right of ownership of the damaged property passes on to the insurer. The insured cannot sell the damaged property to make profits.

**Example:** If a person receives Rs 1 lakh for his or her damaged stock, then the ownership of the stock will be transferred to the insurance company and the person will hold no control over the stock.

**vi. Contribution** - If an individual buys more than one insurance policy for the same object, then the insurer will contribute to compensate the insured for the actual amount of loss.

**Example:** If A insures his or her house for Rs 2 lakh with insurer B and for Rs 1 lakh with another insurer, say, C, then, in case of a loss of Rs 90,000, insurer B and insurer C will together pay A Rs 90,000 and not more.

**vii. Mitigation** - The insured should take care of the insured object in the same way as he or she would have in the absence of the insurance.

**Example:** If a person has insured his house against fire, then he or she should take all possible measures to minimise the damage to the property in case of a fire in the same way he or she would have done in the absence of the insurance.

### **Question: 61**

#### **Answer the following question:**

What is warehousing? Explain different types of warehouses.

#### **Solution**

Warehousing involves storing of goods in a scientific and organised manner to maintain their value and quality for a longer period of time. The place where goods are stored is known as a warehouse. Warehouses not only provide storage services but also logistical services by providing the right place for the right quantity at the right time and at the right cost. Warehouses can be classified into the following categories:

**i. Private warehouses** - These warehouses are owned, operated and managed by companies for the storage of their goods. The facilities provided by such warehouses are customised and based on the type of product being stored.

**ii. Duty paid warehouses** - These warehouses are usually used by the importers as and when they face problem with the transportation of goods. They provide various services like protection of goods, re-packaging, etc.

**iii. Bonded warehouses** - These are government-licensed warehouses. They are used to store imported goods till the custom duties are paid. Such warehouses are generally used by importers and exporters and are often located at areas near ports.

**iv. Government warehouses** - These warehouses are owned and managed by the government with the help of public sector enterprises. Some agencies maintaining government warehouses are Central Warehousing Corporation of India and Food Corporation of India.

**v. Co-operative warehouses** - These warehouses are owned and operated by co-operative societies for storing goods belonging to their members. They provide warehousing facilities at cheap rates and are often located in rural areas

### **Question: 62**

#### **Answer the following question:**

Describe mail services & specialised mail services of the postal department

#### **Solution**

The following are the mail services & specialised mail services of the postal department:

**i. Mail services** - Following are the mail services offered by a post office:

**a. Post card** - The message can be written on both the sides of the card; it is the cheapest mode of written communication.

**b. Inland letter card** - It is same like post card. The message is written on a piece of paper, which can be folded and sealed. This way, confidentiality can be maintained.

**c. Envelope** - It is a paper packet in which confidential papers like resume and account statements can be packed. This is mainly used for transition of documents safely and securely. Confidentiality is also maintained.

**d. Parcel post** - This service helps in transferring goods with certain weight and size from one place to another. Goods like clothes and passport can be transferred via parcel post.

**e. Telegram** - The message is written by the sender and is communicated

in the same form to the receiver. In a telegram service, charges are based on the number of words written in a telegram.

**f. Telephone** - Telephone services were started by post office. It is the best mode for quick communication.

**ii. Specialised services** - They are similar to mail services, but they offer extra benefits like faster distribution of mails, certainty in the delivery of letters and parcels and compensation in case of loss or damage to mails during transit. The following are some specialised mail services offered by post offices:

**a) Under Post Certificate (UPC)** - It is the certificate issued to the sender of a letter on payment of a nominal fee. It acts as evidence for the letter posted.

**b) Insured post** - Under this special service, the sender can get his/her letter or parcel insured. In other words, the sender can protect himself/herself against any damage while the parcel is in transit.

**c) Poste restante** - When the exact address of the receiver is not known to the sender, the letter is sent as poste restante where the postmaster of the local area takes care of the delivery.

**d) Value payable by post (VPP)** - This is for the person who makes the payment on the receipt of the article.

**e) Registered post** - Registered post ensures that the mail registered is properly delivered to the addressee or returned to the sender in case it is not delivered.

**f) Speed post** - It ensures a speedy delivery of letters or parcels (usually within 24 hours) from one place to another.

### **Question: 63**

#### **Answer the following question:**

Explain the functions of warehousing.

#### **Solution**

Some of the functions of warehouses are:

**i. Consolidation** - The foremost function of a warehouse is to pool goods or raw materials from different plants and dispatch them, at the same time, to different customers in one shipment.

**ii. Bulk breaking** - Warehouses often receive goods or materials in bulk

from production plants. These goods are then divided into smaller quantities and delivered to different customers according to their requirements.

**iii. Stockpiling** - Warehouses facilitate the storage of goods and raw materials that are not required for immediate sale or manufacturing.

**iv. Protection of goods** - Warehouses store the goods or materials in bulk and thus help in protecting them from any kind of damage such as due to wind, dust or insects.

**v. Price stabilisation** - In situations of varying demand and supply of goods, warehouses balance the supply and demand of goods. Thus, they help in stabilising the prices of goods in the economy.

**vi. Offering value-added services** - Warehouses offer various value-added services to producers such as the grading, packaging and labelling of goods.

**vii. Financing** - The owner of the goods and raw materials stored in a warehouse can use the warehouse receipt as a security against which he/she can borrow money from banks or other financial institutions.

#### **Question: 64**

##### **Answer the following question:**

Describe the role of transport in modern times.

##### **Solution: 1**

Transport plays a major role in our lives. It facilitates the movement of goods, raw materials and labour from one place to another. Some important functions of transport are as follows:

**i. Aids in the production process** - Transport helps traders or manufactures to procure raw materials from far-off places and from places where they are available at the cheapest rate. Hence, it helps in procuring raw materials for production.

**ii. Helps in the expansion of markets** - Through transportation, sellers or traders can sell their goods in the markets that are far-off. Thus, it aids in the expansion of markets as well.

**iii. Stabilises prices** - Transportation helps in making the goods available whenever and wherever they are in demand. Thus, it helps in maintaining price stability.

**iv. Creates employment** - Transportation creates direct employment. It employs drivers, mechanics, helpers, etc., in the process.

**v. Improves standard of living** - It improves the standard of living of the people by making a wide variety of goods available to them and by creating employment opportunities for them.

**vi. Helps during emergency** - Transportation plays a vital role during a crisis. It helps in delivering basic necessities like food, shelter and medical help to the people during an emergency.

### **Solution: 2**

Transport plays a major role in our lives. It facilitates the movement of goods, raw materials and labour from one place to another. Some important functions of transport are as follows:

**i. Aids in the production process** - Transport helps traders or manufactures to procure raw materials from far-off places and from places where they are available at the cheapest rate. Hence, it helps in procuring raw materials for production.

**ii. Helps in the expansion of markets** - Through transportation, sellers or traders can sell their goods in the markets that are far-off. Thus, it aids in the expansion of markets as well.

**iii. Stabilises prices** - Transportation helps in making the goods available whenever and wherever they are in demand. Thus, it helps in maintaining price stability.

**iv. Creates employment** - Transportation creates direct employment. It employs drivers, mechanics, helpers, etc., in the process.

**v. Improves standard of living** - It improves the standard of living of the people by making a wide variety of goods available to them and by creating employment opportunities for them.

**vi. Helps during emergency** - Transportation plays a vital role during a crisis. It helps in delivering basic necessities like food, shelter and medical help to the people during an emergency.

### **Solution: 3**

Transport plays a major role in our lives. It facilitates the movement of goods, raw materials and labour from one place to another. Some important functions of transport are as follows:

**i. Aids in the production process** - Transport helps traders or manufactures to procure raw materials from far-off places and from places

where they are available at the cheapest rate. Hence, it helps in procuring raw materials for production.

**ii. Helps in the expansion of markets** - Through transportation, sellers or traders can sell their goods in the markets that are far-off. Thus, it aids in the expansion of markets as well.

**iii. Stabilises prices** - Transportation helps in making the goods available whenever and wherever they are in demand. Thus, it helps in maintaining price stability.

**iv. Creates employment** - Transportation creates direct employment. It employs drivers, mechanics, helpers, etc., in the process.

**v. Improves standard of living** - It improves the standard of living of the people by making a wide variety of goods available to them and by creating employment opportunities for them.

**vi. Helps during emergency** - Transportation plays a vital role during a crisis. It helps in delivering basic necessities like food, shelter and medical help to the people during an emergency.