

# ***General awareness Act***

## ***6 marks***

- Constitution of india: Right to constitutional remedies; provisions of union judiciary; provisions of high courts in the states
- Rights of workmen under labour laws
- Economy
- Financial markets
- Basic concepts of valuation
- Forensic Audit

# **Our Constitution**

# ***Features of Indian Constitution***

## ***Features of The Constitution of India***

1. Three –tier Government
  - a. Central Government
  - b. State Government
  - c. Panchayati Raj Government
2. Longhiest Written Constitution
  - i. Originally it consisted of a Preamble,395 articles (divided into 22 parts and 8 schedules as against the American Constitution which originally consisted of only 7 Articles.
3. Federal System with Unitary Bias  
Essential
  - (i) Minimum two tiers of government (India has 3 tiers of government).
  - (ii) Distribution of powers between the units forming the federation.
  - (iii) Supremacy of Constitution.
  - (iv) Written Constitution.
  - (v) Rigidity of Constitution.
  - (vi) Independent Judiciary.

- However, the Indian Constitution also contains a Large number of unitary or non-federal features viz. a strong Centre, single Constitution, single citizenship, all India services, emergency provisions and so on. Hence, the Indian Constitution has been variously described as federal in form but unitary in spirit. It is called quasi-federal by K.C. Where.

4. Parliamentary Form of Government Features of Parliamentary Government are:

- (i) Presence of nominal and real executives.
- (ii) Majority party rule.
- (iii) Collective responsibility of the executive to the Legislature.
- (iv) Leadership of the Prime Minister or the Chief Minister.
- (v) Dissolution of the Lower House (Lok Sabha).

5. Synthesis of Parliamentary Sovereignty and Judicial Supremacy.

6. Integrated and independent Judiciary.

7. Fundamental Rights & Fundamental Duties.

8. Directive Principles of State Policy.

9. Universal Adult Franchise & Single Citizenship.

10. Emergency Provisions

11. Draw From Various Sources

12. Blend of Rigidity and Flexibility

## **Unitary Features of Our Constitution**

1. The States do not have their own Constitution as In the USA and Australia where the States have their own Constitutions also.
2. Uniform and single citizenship (USA & Australia have double citizenship).
3. Parliament can change the territorial extent of a State without its consent.
4. Parliament has exclusive control over the union List subject as well as residuary power vests with the centre.
5. With the consent of two-third majority Rajyasabha can authorize Parliament to make laws c any State subject (Art. 249).
6. If there is national emergency, Parliament has the right to make laws with respect to State subject automatically (Art. 250).
7. On the request of two or more States, Parliament can legislate on particular State subject (Art 252).
8. Parliament can make laws on State Lists to comply with the international agreements (Art. 253).
9. In the case of President's rule in State all the powers of the State Legislature shift to the hand of the Parliament (Art. 356).

10. The Governor of a State is appointed by the President and the former is not responsible to the State (Art. 155).
11. Parliament can give some financial orders of ca order to reserve money bills passed by State (Art. 160)
12. Centre can give administration directions to the States (Art. 256)
13. The all India services official are appointed by Centre, but are paid and controlled by States. (Art. 312).
14. Judges of High Courts are appointed by the President under Art. 217, and States do not play any role in this.

# ***Important Dates***

- ❑ Finally signed
  - ❑ by the members of the Constituent Assembly
  - ❑ on-24<sup>th</sup> January, 1950 last day of the assembly
  
- ❑ Adopted by the Constituent Assembly on 26<sup>th</sup> November, 1949
- ❑ Effective Date: 26<sup>th</sup> January, 1950
- ❑ Parts-25
- ❑ Articles-448
- ❑ Schedules-12

# ***Salient Features of the Constitution***

- Size-Longest Ever

Type: Written

Rigid or Flexible : Combination of the two

Certain provisions can be amended by :

simple majority-Articles 2,3,4,169

2/3<sup>rd</sup> majority of members present there have been more than 100 and Voting and a majority of the total membership in each house-Articles 368

Ratification by not less than one half of the states besides special majority-???

The fact that there have been 104 Amendments till 25.01.2020 itself proves the flexibility of our constitution.



# ***Ratification Provisions:***

- Not all constitutional amendments in India require ratification by the states. Only constitutional amendments that seek to make any change in any of the provisions mentioned in the proviso to Article 368 of the Constitution of India, must be ratified by the Legislatures of not less than one-half of the States. These provisions relate to certain matters concerning the federal structure or of common interest to both the Union and the States viz., the election of the President (articles 54 and 55); the extent of the executive power of the Union and the States (Articles 73 and 162); the High Courts for Union territories (Article 241); The Union Judiciary and the High Courts in the States (Chapter IV of Part V and Chapter V of Part VI); the distribution of legislative powers between the Union and the States (Chapter I of Part XI and Seventh Schedule); the representation of States in Parliament; and the provision for amendment of the Constitution laid down in Article 368. Ratification is done by a resolution passed by the State Legislatures. There is no specific time limit for the ratification of an amending Bill by the State Legislatures. However, the resolutions ratifying the proposed amendment must be passed before the amending Bill is presented to the President for his assent.
- However, when the treaty terms are interfering with the powers exclusively applicable to states (State List), prior ratification of all applicable states are to be obtained per Article 252 of the Indian constitution before the ratification by the Parliament.

# ***Salient Features -Contd***

- Federal or Unitary:

It is a combination of both . The Supreme Court has mentioned it as Federal ,Quasi –Federal , Amphibian(Federal/Unitary) at different points of time.

Examples:

The Union Parliament can invade the State List-Article 249.

The Union may take over the executive and legislative powers of the state in case the constitutional machinery of the state fails-356

During the Proclamation of Emergency , the Executive and legislative powers of the union extend to matters even in the state list.-Article 352-360

New States may be formed and areas/Boundaries/names of existing states may be altered by the Union Parliament by simple majority.-Articles 2,3,4

## ❑ Parliament or Presidential System

India is a republic and the head is the President in whom all the executive power vests and in whose name it is exercised.

Supreme Commander of the armed forces.

However the President is only a nominal or Constitutional Head. He acts only on the aid and advice of the real political executive which is the council of Ministers.

## ❑ Parliamentary Sovereignty VS Judicial Supremacy

Powers and functions of every organ are defined . Both Parliament and Supreme Court are supreme in their respective spheres.

# ***The Preamble***

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN SOCIALIST  
SECULAR DEMOCRATIC REPUBLIC and to secure to all its citizens  
JUSTICE, social, economic and political;  
LIBERTY of thought, expression, belief, faith and worship;  
EQUALITY of status and of opportunity;  
and to promote among them all FRATERNITY  
assuring the dignity of the individual and the unity and integrity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this 26th day of November 1949, do HEREBY  
ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

The Supreme Court Found that the Preamble contained some of the basic features  
of the Constitution

which could not be altered even by an amendment of the Constitution under  
article 368.

PS: Words like Socialist, Secular need to be defined

# ***Part-1,Articles 1-4***

- The Union and its Territory

A few Facts:

Reorganization of States redrawing the map of India

Linguistic Lines:????

Much larger number of smaller states ???

Article-1-India that is Bharat shall be a Union of States

Article-2-Admission or establishment of new states

Article-3-Jod/Tod of States and Union Territories

Article-4-Jod/Tod not to be considered as an amendment of Constitution under Article 368

# Part II-Articles 5-11

- Citizenship
- Article-5 to 8 confer Citizenship based on historyArticle-6
- Article-9-Forfeiture of Indian Citizenship on Voluntary Acquisition of Citizenship of another Country

Article-10-Once a deemed citizen always a deemed citizen

Article-11-Power of Parliament to regulate right of Citizenship

# ***Part III-Articles 12 to 35***

Fundamental Rights

How to Memorize Articles 12-32

Memorizing Articles in overall

एक बन्दे को पता चलता है की इलेक्शन वाले शराब बाँट रहे हैं वो अपने दोस्त को कहता है

.....

सत्ते ला एंटीक्रिटी फ्री में एक्सपीरियंस मिल रहा है रेलिश करते हैं कल कौन देखता है

State-Article 12- सत्ते

Law-Article 13 ला

Equality एंटीक्रिटी

Freedom फ्री में

Exploitation एक्सपीरियंस मिल रहा है

Religious freedom रेलिश करते हैं

Cultural and Educational Rights कल

Constitutional remedies कल कौन देखता है

Article 12 : Definition of State

Article 13 : Laws inconsistent with or in derogation of the fundamental rights

Article 31 : Compulsory acquisition of property {...}

Article 31A : Saving of laws providing for acquisition of estates, etc.

# ***How to Memorize 14-18 Please Don't eat unwrapped toffees.***

P-Protection

D-Discrimination

E-Employment

U-Untouchability

T-Titles

Article 14 : Equality before law (Protection)

Article 15 : Prohibition of discrimination on grounds of religion, race, caste, sex or place of birth

Article 16 : Equality of opportunity in matters of public employment

Article 17 : Abolition of Untouchability

Article 18 : Abolition of titles



# How to memorize Articles 19-24

एक प्रोफेसर बाजार में है उसकी स्टूडेंट लिली मिल जाती है। दूकानदार देखता है प्रोफेसर साहेब बातों में व्यस्त हैं तो वो सड़े आम डालने लगता है इस पर प्रोफेसर साहेब कहते हैं सड़े आम रहने दे प्रोफेसर बन के गलती कर दी LIL - एडुकेटेड अरेस्ट हो रहे हैं trafficking में - बच्चे काम कर रहे हैं

6 Rights-Speech, Assembly, Association ,Movement, Residence ,Profession

Offences

Life and Liberty

Education

Arrest

Traffic in Human Beings and Forced labour

Employment of Children

Article 19 : Protection of certain rights regarding freedom of speech, etc.

Article 20 : Protection in respect of conviction for offenses

Article 21 : Protection of life and personal liberty

Article 21A: Right to education

Article 22 : Protection against arrest and detention in certain cases

Article 23 : Prohibition of traffic in human beings and forced labour

Article 24 : Prohibition of employment of children in factories, etc.

# ***How to memorize 25 to 30***

- PMT gives you. First say I love education  
P-Freedom of Conscience, Practice  
M-Management  
T-Taxes  
I-Religious Instructions  
L-Language, Script and Culture  
E-Educational Institutions  
Article 25 : Freedom of conscience and free profession, practice and propagation of religion  
Article 26 : Freedom to manage religious affairs  
Article 27 : Freedom as to payment of taxes for promotion of any particular religion  
Article 28 : Freedom as to attendance at religious instruction or religious worship in certain educational institutions  
Article 29 : Protection of interests of minorities  
Article 30 : Right of minorities to establish and administer educational institutions

# ***Article 32 : Remedies for enforcement of rights conferred by this***

Part

मुर्दे को हुक्म देना मना है कहीं सर्टिफिकेट मांग लिया तो वारंट इशू हो जायेंगे

Habeas Corpus मुर्दे को

Mandamus हुक्म देना

Prohibition मना है

Certiorari कहीं सर्टिफिकेट मांग लिया

Quo Warranto तो वारंट इशू हो जायेंगे

Source and Inspiration: You tube Videos

# **Article 32 to 35: Right to constitutional remedies**

- The rights to constitutional remedies is Fundamental right
- The right to move the Supreme Court by appropriate proceedings for the enforcement of the rights conferred is guaranteed by Part III of the Constitution.
- Supreme Court has power to issue directions or orders on writs, including writs in the nature of habeas corpus, mandamus, prohibition, quo warranto and certiorari, which ever may be appropriate, for the enforcement of any of the right conferred by Part III of the constitution
- The power of judicial review over legislative action vested in the High Court under article 226 and the Supreme Court under article 32 of the constitution is an integral and essential feature of the constitution
- The right guaranteed by article 32 shall not be suspended except as otherwise provided for by this constitution

# Part IV-Articles 36-51

- Directive Principles

PART IV of the Constitution Art. (36-51) Contains the Directive Principles of State Policy. These Principles are in the nature of instruments of instruction to the govt. of the day to do certain things and to achieve certain ends by their actions in other words Directive Principles are essentially guidelines to the State. A Directive Principle required to be implemented by legislation and so long as there is no Law carrying out the Policy laid down in a Directive, neither the State nor an individual can violate any existing Law or legal right under the color of a Directive. Further still the Directives are not enforceable in the Courts and do not create any justiciable rights in favor of the individuals. In case of a conflict between Directive Principles and Fundamental Rights of the Constitution, the latter shall prevail.

These Directive Principles may be classified as follows: -

- a) Certain ideals, particularly Economic, which according to the framers of the Constitution, State should strive for.
- b) Certain directions to the legislature and the executive intended to show in which manner The State should exercise their legislative and executive powers.
- c) Certain Rights of the citizen shall not be enforceable by The Courts (Fundamental Rights) nevertheless The State Govt. shall aim to secure by regulations of its legislative and administrative policy. It shall be the duty of The State to follow these Principles both in the matter of Administration as well as in the making of Laws.

# ***Part IV A-Article -51 A***

- Fundamental Duties

A countervailing factor has been introduced by the 42nd amendment Act of 1976, known as the Fundamental Duties. These duties are mentioned in Art. 51A.

1. Each Province and each Indian State or group of States were allotted the total no. of seats proportional to their respective population roughly in the ratio of 1:1000000. As a result The Provinces were to elect 292 members while the Indian States were allotted a minimum of 93 seats.

2. The seats in each Province were distributed among the three main communities, Muslims, Sikh and general, in proportion to their respective populations.

3. Members of each community in the Provisional Legislative Assembly elected their own representatives by the method of proportional representations with single transferable vote.

4. The method of selection in the case of representatives of Indian States was to be determined by consultation.

These duties are not themselves enforceable in The Courts nor their violation, as such, punishable, nevertheless, if a Court, before which a Fundamental Right is sought to be enforced, has to be read all parts of the Constitution, it may refuse to enforce a Fundamental Right at the instance of an individual who has patently violated any of the duties specified in Art. 51A.

# ***Part V-Chapter II and III-Articles 79-123***

- The Union Legislature  
Parliament:

The Parliament of India consist of The President and two houses. The upper house (Rajya sabha) the Presiding Officer is called The Chairman, popularly known as The Vice President The members of this house are indirectly elected by proportional representation by means of the single transferable vote The total strength of the house is 250 members of whom 12 are nominated by the President, the purpose of the house is to serve a check on the hasty laws passed by the lower house. Whereas the lower house (Lok Sabha) is presided over by The Speaker. The members are elected directly by the people; the total strength of the house is 545 members of which 2 are nominated by The President.

- Functions of The Parliament are as follows:

Providing The cabinet: The first function of The Parliament is that of providing the Cabinet and holding them responsible. Though the responsibility of The Cabinet is to the popular chamber (Lok Sabha), the membership of the cabinet is not necessarily restricted to that chamber.

- **Control of The cabinet:** It is a necessary corollary from the theory of Ministerial responsibility that it is a business of the popular house to see that The Cabinet remains in power so long as it retains the confidence of the majority in that house.

Criticism of The Cabinet & of individual Ministers: While The Cabinet is left to formulate The Policy, the function of The Parliament is to bring about a discussion and criticism of that Policy on the floor of the house, so that not only The Cabinet can get the advice of the deliberative body and learn about its own errors and deficiencies.

- **An Organ of Information:** As a organ of Information, Parliament is more powerful than the Press, for parliament secures information authoritatively, from those of The know of things.
- **Legislation:** Since the inauguration of The Constitution the volume of Legislation is steadily rising. In order to carry out the manifold development and other measures necessary to establish a welfare state.
- **FINANCIAL CONTROL:** Parliament has the sole power not only to authorize expenditure for public service and to specify the purposes to which that money shall be appropriated but also to provide the ways and means to raise the revenue (Taxes, and other impositions) and also to ensure that the money granted has been sent for authorized purposes.



***Part V-Chapter IV -Articles 124-147***  
***Part-VI-Chapter V and VI-Articles 214-237***

- The Judiciary
  - The Supreme Court
  - The High Court
  - The Subordinate Courts

# ***Article 124 to 151: The union judiciary***

- The Supreme Court of India shall consist of a chief justice of India and, until parliament by law prescribes a larger number, of not more than 30 other judges
- Every judge of the Supreme Court shall be appointed by the President
- Every judge of the Supreme Court shall hold office until he attains the age of 65 years
- A judge may tender his resignation by writing under his hand addressed to the President
- A person shall not be qualified for appointment as a judge of the Supreme Court unless he is a citizen of India and:
  - Has been for at least five years a judge of a High Court of two or more such courts in succession
  - Has been for at least 10 years an advocate of a High Court or of two or more such courts in succession
  - Is, in the opinion of the President, a distinguished jurist
- A judge of the Supreme Court shall not be removed from his office except by an order of the President passed after an address by each house of parliament supported by a majority of the total membership of that house and by a majority of not less than two-thirds the members of that house present and voting has been presented to the President in the same session for such removal on the ground of

proved misbehavior or incapacity

- The national judicial appointments commission shall have The union minister in charge of law and justice, as member, ex officio
- Duty of the national judicial appointments commission are:
  - Recommend persons for appointment as chief justice of India, judges of the Supreme Court, chief justices of High Courts and other judges of High Courts
  - Recommend transfer of chief justice and other judges of High Courts from one High Court to any other High Court
  - Ensure that the person recommended is of ability and integrity
- Parliament may, by law, regulate the procedure for the appointment of chief justice of India and other judges of the Supreme Court
- The Supreme Court shall be a court of record and shall have all the powers of such a court including the power to punish for contempt of itself
- The Supreme Court shall, to the exclusion of any other court, have original jurisdiction in any dispute between the Government of India and one or more states, any state or states on one side, two or more states if and in so far as the dispute involves any questions (whether of law or fact) on which the existence or extent of a legal right depends

- An appeal shall lie to the Supreme Court from any judgement, decree or final order of a High Court in the territory of India, whether in a civil, criminal or other proceeding, if the High Court certifies under article 134A that the case involves a substantial question as to the interpretation of this constitution
- An appeal shall lie to the Supreme Court from any judgment, decree or final order in a civil proceeding of a High Court in a territory of India if the High Court certifies under article 134A:
  - That the case involves a substantial question of law of general importance
  - That in the opinion of the High Court the said question needs to be decided by the Supreme Court
- An appeal shall lie to the Supreme Court from any judgment, final order or sentence in a criminal proceeding of a High Court in the territory of India if the High Court:
  - Has on appeal reversed an order of acquittal of an accused person and sentenced him to death
  - Has withdrawn for trial before itself any case from any court subordinate to its authority and has in such trial convicted the accused person and sentenced him to death
  - Certifies under article 134A that the case is a fit one for appeal to the Supreme Court
- Subject to the provision of any law made by parliament or any rules made under article 145, the Supreme Court shall have power to review any judgment pronounced or order made by it

- The Supreme Court shall have such further jurisdiction and powers with respect to any of the matters in the union list as parliament may by law confer
- Parliament may by law confer on the Supreme Court power to issue directions, orders or writs, including writs in the nature of habeas corpus, mandamus, prohibition, quo warranto and certiorari, or any of them, for any purposes other than those mentioned in clause (2) of article 32
- The law declared by the Supreme Court shall be binding on all courts within the territory of India
- The appointment of Comptroller and Auditor General of India, shall be made by the President
- The accounts of the union and of the states shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe
- The reports of the Comptroller and Auditor General of India relating to the accounts of the union shall be submitted to the President who shall cause them to be laid before each house of parliament
- The reports of the Comptroller and Auditor General of India relating to the accounts of the State shall be submitted to the Governor of the state, who shall cause them to be laid before the Legislature of the State.

# ***Article 214 to 231: The High Courts in the states***

- Every High Court shall be a court of record and shall have all the powers of such a court including the power to punish for contempt of itself
- Every High Court shall consist of a chief justice and such other judges as the President may from time to time deem it necessary to appoint
- A High Court judge can address his resignation to the President
- A person shall not be qualified for appointment as a judge of a High Court unless he is a citizen of India and has for at least 10 years been an advocate of a High Court
- Notwithstanding anything in article 32, every High Court shall have power, throughout the territories in relation to which it exercises jurisdiction, to issue to any person or authority, including in appropriate cases, any Government, within those territories directions, orders or writs, including writs in the nature of habeas corpus, mandamus, prohibition, quo warranto and certiorari, or any of them, for the enforcement of any of the rights conferred by part III and for any purpose

- The distinction in a writ petition under article 226 and article 32 of the constitution is that the remedy under article 32 is available only for enforcement of the fundamental rights while under article 226 of the constitution, on filing of a writ, court can grant relief for any other purpose also
- Certi Orari: If the High Court is satisfied that a case pending in a court subordinate to it involves a substantial question of law as to the interpretation of this constitution the determination of which is necessary for the disposal of the case, it shall withdraw the case and may determine the said question of law and return the case to the court
- The writ of Mandamus is a command issued to direct any person, corporation, inferior court, or Government requiring him or it to do a particular thing specified therein which pertains to his or its office and is further in the nature of a public duty
- The writ of habeas corpus is an effective remedy to ensure personal liberty. It is a remedy available to a person who is confined without legal justification
- A writ of prohibition is issued to an inferior court preventing the latter from usurping jurisdiction which is not legally vested in it
- Under the constitution of India, all High Courts can issue the writ of certiorari throughout their territorial jurisdiction when the subordinate judicial authority acts:

- Without or in excess of jurisdiction
  - In contravention of the rules of natural justice
  - Commits an error apparent on the face of the record
- The writ of quo warranto enables enquiry into the legality of the claim which a person asserts, to an office or franchise and to oust him from such position if he is a usurper. Quo warranto means by what authority.



# ***Part VI-Articles 152-213***

## ***Part-VIII-Articles 239-240***

- The States and Union Territories  
Income Tax is the subject for Central Government to legislate under Schedule VI of the Constitution of India. No tax can be levied under the Article 265 of without authority of law. Income -Tax Act is that law under which income tax is levied.
- To determine tax properly and accurately, an appeal is necessary and the Central Government is given the power and duty to constitute the Income Tax Appellate Tribunal.
- It has thus constituted the Income Tax Appellate Tribunal in 1941 as a second appellate forum, initially with 6 members (presently 126 members) with equal number of judicial and accountant members.
- Though it is constituted by the Central Government, it operates independently as per its own procedure as stated in Section 255 with the powers to regulate its own procedure.
- The Tribunal is under the administrative supervision of Ministry of law and Justice. Tribunal is a quasi-judicial body independent into its working and in its decisions.

- By virtue of Article 227 of the Constitution, the Tribunal is under the superintendence of the High Court and thus subordinating to the High Court and is bound to follow the judgment of the High Court in the State in which it functions and of the Supreme Court under Article 141.

# ***Part XI-Articles 245-263***

- Union State Relations

Legislative Relations-Article 245 to 255.NCLT and NCLAT set up under article 245.

Administrative Relations

Financial Relations

- Union Vs. Centre

# ***Part V, Chapter V and Parts XII and XIII***

## ***Articles 148-151, 264-307***

- Financial Provisions and Trade Etc.
- CAG
  - Finance, Property, Contracts and Suits
  - Consolidated Fund
  - Contingency Fund
  - Distribution of Revenue between the Union and the States
  - Freedom of Trade , Commerce and Intercourse

# ***Distribution of Revenue between the Union and the States –Articles -268 -273***

- Taxes levied by the States-Fully retained by the Concerned State  
Taxes in the Union List-May be in part allotted to the states  
Taxes exclusively belonging to the Union:  
Customs, Corporation Tax, Taxes on Capital Value of assets, Surcharge on Income Tax etc.

Taxes belonging exclusively to the states:

Land Revenue, Stamp Duty on items included in the State List, Taxes on passenger and goods carried on inland waterways, Lands and Buildings, Mineral Rights, Animals and Boats, road vehicles, advertisements, consumption of electricity, luxuries, amusements etc., taxes on entry of goods into a local area, State Tax tolls, Fees in respect of matters in the State List and Taxes on professions, trades etc. not exceeding Rs.2500 per annum.

# ***Part XVIII-Articles 352-360***

- Emergency Provisions  
National Emergency  
Financial Emergency

# Part XIV,XIVA-Articles 308-323B

- Services under the Union and the States  
Public Service Commission  
Administrative Tribunals-Part XIV A –Articles 323A and 323B.
- Parliament and state Legislatures to set up by law administrative tribunals for the adjudication of disputes relating to service conditions, taxation, labour and industry, land reforms, elections, rent laws etc.

# ***Part XV-Articles 324 -329A***

- Elections  
Single Election Commission  
Electoral Reforms



***Part II Articles 29-30;Part V, Articles 120;  
Part VI, Article 210;Part XVII, Articles 343-  
351;  
Part XXII, Article 394A and Eighth Schedule***

- Language Provisions  
Protection of Linguistic Minority Rights and Non-Discrimination on grounds of Religion.  
Language of Legislatures-Hindi or English  
Official Language of the Union-Hindi  
Regional Languages and Link Language  
of Higher Courts and Authoritative Texts of Laws  
Language of Public Grievances-In any of the languages used in the Union or in the State.

## **Part XX, Article 368**

- Amendment of the Constitution  
Amending Powers and Basic Features

## **Part IX and Ixa A, Articles 243-243ZG**

- Panchayati Raj

## **Part XVI, XIX, XXI, XXII, Articles 330-342, 361, 367, 369-392, 393-395**

- Miscellaneous , Temporary and Special Provisions  
Special Provisions for Certain Classes

# *General Awareness*

## **Article 32 to 35: Right to constitutional remedies**

- The rights to constitutional remedies is Fundamental right
- The right to move the Supreme Court by appropriate proceedings for the enforcement of the rights conferred is guaranteed by Part III of the Constitution.
- Supreme Court has power to issue directions or orders on writs, including writs in the nature of habeas corpus, mandamus, prohibition, quowarranto and certiorari, which ever may be appropriate, for the enforcement of any of the right conferred by Part III of the constitution
- The power of judicial review over legislative action vested in the High Court under article 226 and the Supreme Court under article 32 of the constitution is an integral and essential feature of the constitution
- The right guaranteed by article 32 shall not be suspended except as otherwise provided for by this constitution

- The distinction in a writ petition under article 226 and article 32 of the constitution is that the remedy under article 32 is available only for enforcement of the fundamental rights while under article 226 of the constitution, on filing of a writ, court can grant relief for any other purpose also
- Certi Orari: If the High Court is satisfied that a case pending in a court subordinate to it involves a substantial question of law as to the interpretation of this constitution the determination of which is necessary for the disposal of the case, it shall withdraw the case and may determine the said question of law and return the case to the court
- The writ of Mandamus is a command issued to direct any person, corporation, inferior court, or Government requiring him or it to do a particular thing specified therein which pertains to his or its office and is further in the nature of a public duty
- The writ of habeas corpus is an effective remedy to ensure personal liberty. It is a remedy available to a person who is confined without legal justification
- A writ of prohibition is issued to an inferior court preventing the latter from usurping jurisdiction which is not legally vested in it
- Under the constitution of India, all High Courts can issue the writ of certiorari throughout their territorial jurisdiction when the subordinate judicial authority acts:

- Without or in excess of jurisdiction
- In contravention of the rules of natural justice
- Commits an error apparent on the face of the record

○ The writ of quo warranto enables enquiry into the legality of the claim which a person asserts, to an office or franchise and to oust him from such position if he is a usurper. Quo warranto means by what authority.

# Rights of workmen under labour laws

## The Factories Act, 1948

- Cleaning: The floor of the factory should be thoroughly cleaned by washing with disinfectant or by some other effective method once in every week
- Space: With a view to provide sufficient air space to the workers in the work-room, the minimum working space for each worker of at least of 14.2 cubic meters of space be available in every workroom
- Cooler: Where more than 250 workers are ordinarily employed, effective arrangements should be made for cooling drinking water during hot weather
- Safety Officer: Minimum number of workers required in a factory for the mandatory appointment of a safety officer is more than 1000
- First Aid Box: There shall be a provision of keeping at least one first-aid box or cupboard, for every 150 workers ordinarily employed at any one time in the factory
- Welfare Officer: The occupier of the factory shall make appointment of welfare officers wherein 500 or more workers are ordinarily employed
- Crèche : Section 11A of the Maternity Act safeguards the intent of Section 48 of the Factories Act, 1948, which requires factories with more than 30 female workers to have a crèche. Therefore, even if a factory has less than 50 employees but has at least 30 females.

- An adult worker shall be allowed to work only for 48 hours in a week
- There shall be holiday for the whole day in every week and such weekly holiday shall be on the first day of the week
- An adult worker, whether male or female shall not be required or allowed to work in a factory for more than 9 hours in any day
- No adult worker shall work continuously for more than 5 hours unless a rest interval of at least half an hour is given to him.
- Where a worker works in a factory for more than 9 hours in any day or more than 48 hours in any week, he shall, in respect of overtime work, be entitled to wages at the rate of twice his ordinary rate of wages
- Women workers shall not be employed except between the hour of 6:am and 7:pm
- A child who has not completed 14 years of age shall not be employed in any factory
- A certificate issued to a young person by a certifying surgeon shall have a validity of one year
- The fee for certificate of fitness shall be paid by the occupier of the factory
- A child shall not be employed or permitted to work for more than 4½ hours in any day
- Where a worker has worked for a minimum period of 240 days or more in a factory during any calendar year, he is entitled to leave with wages

- There should be one latrine for every 20 employees up to 100 and thereafter one for every 50. Out of total requirement for male employees 33% can be substituted by urinals. State Rules vary in this regard.
- **Rule 44 (c)** – Sanitary Napkins of adequate quantity conforming to Indian Standards must be provided and maintained in the women's toilets for their use, and the same must be replenished daily.
- **Rule 44 (d)** – Disposable bins with lids must be provided within the women's toilets for the collection of napkins. The used napkins must be disposed of as per the procedure approved by the Inspector.
- An adult is entitled to annual leave with wages of one day for every 20 days of work performed by them during the previous calendar year
- A child is entitled to annual leave with wages for one day for every 15 days of work performed by them during the previous calendar year
- If any worker does not avail any earned leave entitled to him during the calendar year, it can be carried forward to the next calendar year subject to the maximum of 30 days for an adult worker
- If the chief inspector does not grant a license to a factory an appeal can be made to State Government
- 'Welfare' in the Factories Act, 1948 includes facilities for drinking water, sitting and first aid.
- Wage period shall not exceed one month
- The wages of every person employed upon or in any railway factory or industrial or other establishment upon or in which less than 1000 persons are employed, shall be paid before the expiry of the 7<sup>th</sup> day
- Where the employment of any person is terminated by or on behalf of the employer the wages earned by him shall be paid before the expiry of the 2<sup>nd</sup> working day from the day on which his employment is terminated
- No fine shall be imposed on any employed person who is under the age of 15 years



# Employee provident funds and miscellaneous provisions act, 1952

Definition	An organization where 20 or more persons are engaged , the act becomes applicable.
Contribution	Employee share is @ 12% salary payable
Employer Share	@ 12% Basic salary payable
Eligible employee	All employees drawing basic salary below Rs 15000/- P.M are coverable
Dearness allowance and retaining allowance of an employee is paid as	10% of the basic wage
Related Schemes	1) Employees provident funds scheme, 1952 2) Employees deposit linked insurance scheme, 1976 3) <i>Employees</i> pension scheme, 1995

# **Employees State insurance act, 1948**

Definition	An organization where 10 or more persons are engaged , the act becomes applicable
Contribution	Employee share is @ 0.75% of gross salary payable. WEF 01.07.2019
Applicable	Over time incentive and other monthly allowance
Employer share	@ 3.25% gross salary payable
Eligible employee	All employees drawing gross salary below Rs 21000/- P.M are coverable
Provide Benefits	To employees in case of Sickness, maternity and employment injury
Permanent partial disablement Every injury specified	Such disablement of a permanent nature, as reduced the earning capacity of an employee Part II of the II schedule
Permanent total disablement every injury specified in	Part I of the II schedule

- PF Act is applicable to factories and other classes of establishments engaged in specific industries classes of establishments employing 20 or more persons

### **Payment of Bonus act, 1965**

- The act shall apply to every factory, every other establishment in which 20 or more persons are employed on any day during an accounting year
- Allocable surplus in relation to an employer, being a company (other than a banking company ) which has not made the arrangements prescribed under the Income Tax Act for the declaration and payment within India of the dividends payable out of its profits in accordance with provisions of section 194 of that act is 67% of the available surplus in an accounting year. Allocable surplus in any other case is 60% of such available surplus. Maximum bonus payable is 20% of Salary and Wages.
- Every employee shall be entitled to be paid by his employer in an accounting year, bonus, in accordance with the provisions of this act, provided he has worked in the establishment for not less than 30 working days in that year
- An employee shall be disqualified from receiving bonus under this act, if he is dismissed from service for:
  - Fraud
  - Riotous or violent behaviour while on the premises or the establishment
  - Theft, misappropriation or sabotage of any property of the establishment

- Minimum amount of bonus payable to an employee under the payment of bonus act, 1965 is 8.33% of the salary earned during the accounting year or Rs. 100 whichever is higher
- The maximum amount of bonus which can be paid is 20% of such salary or wage
- The bonus should be paid within a period of 8 months from the close of the accounting year

### **Payment of Gratuity Act, 1972**

- Payment of Gratuity Act is applicable to factory, mine, plantation
- Minimum number of employees required in an establishment for applicability of the provisions is 10.
- Gratuity is payable:
  - After he has rendered continuous service for not less than 5 years
  - On his superannuation
  - On his retirement or resignation
- For every completed year of service or part thereof in excess of 6 months, the employer shall pay gratuity to an employee at the rate of 15 days wages based on the rate of wages last drawn by the employee concerned
- In the case of an employee who is employed in a seasonal establishment and who is not so employed throughout the year, the employer shall pay the gratuity at the rate of 7 days wages for each season

- In the case of a monthly rated employee, the 15 days wages shall be calculated by dividing the monthly rate of wages last drawn by him by 26 and multiplying the quotient by 15
- The amount of gratuity payable to an employee shall not exceed 16 times the basic pay or Rs.20 lakhs or such amount as is notified by the Govt.
- The employer shall arrange to pay the amount of gratuity within 30 days from the date it becomes payable to the persons to whom the gratuity is payable
- Adolescent means a person who has completed his 14<sup>th</sup> year of age but has not completed his 18th year
- Child means a person who has not completed his 14<sup>th</sup> year of age
- An index number, in relation to employees in any scheduled employment in respect of which minimum rates of wages have been fixed, means the index number ascertained and declared by the competent authority to be the cost of living index number applicable to employees in such employment
- Different minimum rates of wages may be fixed for:
  - Different classes of work in the same scheduled employment
  - Adults, adolescent, children and apprentices
  - Different localities
- Minimum rates of wages may be fixed by following wage period which may be :

- By the hour
- By the day
- By the month

- Minimum wages payable under this act shall be paid in either of the following modes:
  - Cash
  - Wholly or partly in kind, if there is custom provided it is authorized by the appropriated Government
  - If the appropriate Government is of the opinion that provision should be made for the supply of essential commodities at concession rates
- Claims arising out of payment less than the minimum rates of wages shall be presented within 6 months from the date on which the minimum wages or other amount became payable
- Any employer who pays to any employee less than the minimum rates of wages fixed for that employee's class of work, or less than the amount due to him under the provision of this act, shall be punishable with imprisonment for a term which may extend to 6 months (3 years in Delhi )or with fine which may extend to 500 rupees (Rs.50000 in Delhi) or with both
- Any employer who contravenes any provision of this act or of rule or order made there under shall, if no other penalty is provided for such contravention by this act, be punishable with fine which may extend to Rs 500 (Rs.20000 in Delhi)

# The Employees Compensation Act, 1923

- Dependant means either of the following:
  - A widow
  - A minor legitimate or adopted son and unmarried legitimate or adopted daughter
  - A widowed mother
- Partial disablement means, where the disablement is of a **temporary** nature and such disablement reduces the earning capacity of a workman in **any** employment in which he was engaged at the time of the accident resulting in the disablement, and, where the disablement is of a **permanent nature**, such disablement as reduces his earning capacity in **every** employment which he was capable or undertaking at that time
- Every injury specified in **part II of schedule I** shall be deemed to result in permanent **partial disablement**
- Total disablement means such disablement, whether of a temporary or permanent nature, as incapacitates an employee for all work which he was capable of performing at the time of the accident resulting in such disablement
- **Permanent total disablement** shall be deemed to result from every injury specified in **part I of schedule I** or from any combination of injuries specified in part II thereof where the aggregate percentage of the loss of earning capacity, as specified in the said part II against those injuries, amounts to one hundred per cent or more

- If personal injury is caused to an employee by accident arising out of and in the course of the employment, his employer shall be liable to pay compensation in accordance with the provisions of chapter II of the act
- The employer shall not be liable under the employees compensation act, in respect of any injury which does not result in the total or partial disablement of the employee for a period exceeding three days.
- Where death results from an injury, the amount of compensation payable shall be an amount equal to 50% of the monthly wages of the deceased employee or Rs.120000 whichever is higher.
- Where permanent total disablement results from the injury, the amount of compensation payable shall be an amount equal to 60% of the monthly wages of the injured employee multiplied by the relevant factor or Rs.140000 whichever is higher.
- Where the employee has, during a continuous period of not less than 12 months immediately preceding the accident, been in the service of the employer who is liable to pay compensation, the monthly wages of the employee shall be one-twelfth of the total wages which have fallen due for payment to him by the employer in the last 12 months of that period
- Payment of compensation in respect of an employee whose injury has resulted in death, shall be made by way of deposit with the commissioner
- Schedule I of the act contains list of injuries deemed to result in permanent total disablement



- Schedule II of the act contains list of persons who subject to the provisions of section 2(1)(n), are included in the definition of workmen
- Schedule III of the act contain list of occupational diseases

### **The Maternity Benefit Act, 1961**

- The act applies to:
  - Factory, mine or plantation
  - Any such establishment belonging to Government
  - Any establishment wherein persons are employed for the exhibition of equestrian, acrobatic and other performances
- The act applies to every shop or establishment, in which 10 or more persons are employed, or were employed, on any day of the preceding 12 months
- Child includes a still born child
- Commissioning mother means a biological mother who uses her egg to create an embryo implanted in other woman
- Miscarriage means expulsion of the contents of a pregnant uterus at any period prior to or during the 26<sup>th</sup> week of pregnancy but does not include any miscarriage, the causing of which is punishable under the Indian Penal code (45 of 1860)
- Wages under this act does not include over time earnings

- No women shall work in any establishment during the 6 weeks immediately following the day of her delivery, miscarriage or medical termination of pregnancy
- No woman shall be entitled to maternity benefit unless she has actually worked in an establishment of the employer from who she claims maternity benefit, for a period of not less than 80 days in the 12 months immediately preceding the date of her expected delivery
- The maximum period for which any woman shall be entitled to benefit shall be 26 weeks of which not more than 8 weeks shall precede the date of her expected delivery
- Every woman entitled to maternity benefit under this act shall also be entitled to receive from her employer a medical bonus of 1000 rupees, if no pre-natal confinement and pos-natal care is provided for by the employer free of charge

#### The Industrial Disputes Act, 1947

- Average pay means the average of the wages payable to a workman in the three complete calendar months in the case of monthly paid workman
- In the case of any industrial establishment in which 100 or more workmen are employed on any day in the preceding 12 months the appropriate Government may by general or special order require the employer to constitute a works committee
- No employer carrying on any public utility service shall lock out any of his workmen:

- Without giving them notice of lock-out as here in after provided, within 6 weeks before locking out
- Within 14 days of giving such notice
- Before the expiry of the date of lock out specified in any notice as aforesaid
- No workman who is employed in any industrial establishment shall go on strike in breach of contract
  - During the pendency to conciliation proceedings before a Board and seven days after conclusion of such proceedings
  - During the pendency of proceedings before a labour court, tribunal or national tribunal and two months after the conclusion of such proceedings
  - During the pendency of arbitration proceedings before an arbitrator and two months after the conclusion of such proceedings, where a notification has been issued under sub-section (3A) of section 10A
- A strike or a lock-out shall be illegal if:
  - It is commenced or declared in contravention of section 22
  - It is commenced or declared in contravention of section 23
  - It is continued in contravention of an order made under sub-section (3) of section 10 or sub section (4A) of section 10A
- Whenever a workman is laid off, he shall be paid by the employer for all days during which he is so laid off, except for such weekly holidays, compensation which shall be equal to 75% of the total of the basic wages and dearness allowance that would have been payable to him had he not been so laid off

- An employer who intends to close down an undertaking shall serve, at least 60 days before the date on which the intended closure is to become effective, a notice, on the appropriate Government stating clearly the reasons for the intended closure of the undertaking

Schedules	Contains
I	Industries which may be declared to be public utility services under sub clause (vi) of clause (n) of section 2
II	Matters within the jurisdiction of labour courts
III	Matters within the jurisdiction of industrial tribunals
IV	Conditions of service for change of which notice is to be given
V	Unfair practices

### **The Trade Union Act, 1926**

- Trade dispute means any dispute between employers and workmen, workmen and workmen and employers and employers which is connected with the employment or non-employment, or the terms of employment or the condition of labour, of any person

- Requirement of minimum number of members for registration of trade union under this act are seven
- No trade union of workmen shall be registered unless at least 10% or at least 100 workmen are engaged or employed in the establishment or industry with which it is connected are the members of such trade union on the date of making of application for registration
- The following Acts do not apply to the registered trade union:
  - The societies registration act, 1860
  - The co-operative societies act, 1912
  - The companies act, 1956/2013
- The general funds of a registered trade union may be spent on the following:
  - The payment of salaries, allowance and expenses to office bearers of the trade union
  - The payment of expenses for the administration of the trade union, including audit of the accounts of the general funds of the trade union
  - The conduct of trade disputes on behalf of the trade union or any member thereof
- Any person who has attained the age of 15 years may be a member of a registered trade union subject to any rules of the trade union to the contrary
- A person shall be disqualified for being chosen as, and for being a member of the executive or any other officer bearer of a registered trade union if:
  - He has not attained the age of 18 years
  - He has been convicted by a court in India of any offence involving moral turpitude and sentenced to imprisonment, unless a period of five years has elapsed since his release

## **Economy and Economics**

***Economy is Economics at play in a certain region.***

**New Terms on the block:**

**Gig Economy**

**Green Economy**

**New Economy**

**Informal Economy**

**Economics:**

Father of Economics Adam Smith characterised Economics as “An inquiry into the nature and cause of wealth of nations”. Yet there is no concrete definition as no definition is globally accepted. So it’s better to have an idea about what Economics is rather than searching for definition.

- The horizon of Economics is very wide. It talks about scarce source like diamond and also resources like air which are abundant in nature. As diamond is scarce it is priced high and as air is abundant so it priced zero. So it talks about the price of both, the scarce one and the abundant one. Adam Smith found that “the things which have greater value in exchange have almost negligible value in use and vice versa”. For example water, it has great value in use. We can't live without it, but hardly can we buy anything by exchanging it. And look at diamond, we can buy many things but can we eat/drink/breath it? But as the human tendency is to care for scarce more so Economics talks about scarcity more often than not.
- Economics is the study of how society use scarce resources to produce valuable commodities and distribute them among different people.

Here definition says about 2 ideas:

- 1 The goods are scare.
- 2 And society must use the resources prudently.

We know “There is no limit to human wants” but there is limit to resources available. And wants will be fulfilled only with the resources available. That means we have to make some choices before we start using resources. We have to prioritise our wants. There must be certain priorities of our wants. And Economics is that science which helps us deciding those priorities. It explains how to use resources most efficiently by building what we want most.

- As resources are decreasing day by day that means whatever we have today is not same as whatever we had yesterday and what we will have tomorrow. That makes this subject more interesting. That is why economists call it as a dynamic subject. And they are right in every way calling it so because with decreasing of resources we must alter our priorities and the method by which we fulfill our priorities.

## ***ECONOMY:***

***Economy is Economics at play in a certain region.***

- Let's understand this. We know what economics is. That is how we can produce more with less resources with prioritising our wants. This is a theory. And we apply all those theory we have planned on a territory say a country. Then the whole things become ECONOMY. For example Indian Economy that is Economics at play in Indian Territory. Same way French Economy that is economics at play in France territory.
- Two countries might be facing same problem at same frame of time. Economist might have suggested a dozens of remedies for that, ultimately it depends upon that country to apply which theory. They might opt for same remedies or different remedies. There is every possible chance of getting different result even after choosing same theory and getting same result using different theory.



- Because economic theories are expectation of human behavior about their economic activities. And as this is based on human behavior this changes with respect to the region, historical background, perception, and psychic make and many more. No two economies are same. They may broadly be classified as “developed”, “ developing” and “developed” yet they are different from one another because people of one country may not act like other country on a same economic theory. That makes Economics highly interesting and pleasant. As an economist you have to think every now and then.

## **What Is Economics?**

- Economics is a social science concerned with the production, distribution, and consumption of goods and services. It studies how individuals, businesses, governments, and nations make choices on allocating resources to satisfy their wants and needs, trying to determine how these groups should organize and coordinate efforts to achieve maximum output.
- Economics can generally be broken down into macroeconomics which concentrates on the behaviour of the aggregate economy, and microeconomics which focuses on individual consumers and businesses.

# **KEY TAKEAWAYS**

- Economics is the study of how people allocate scarce resources for production, distribution, and consumption, both individually and collectively.
- Two major types of economics are microeconomics, which focuses on the behavior of individual consumers and producers, and macroeconomics, which examine overall economies on a regional, national, or international scale.
- Economics is especially concerned with efficiency in production and exchange and uses models and assumptions to understand how to create incentives and policies that will maximize efficiency.
- Economists formulate and publish numerous economic indicators, such as gross domestic product (GDP) and the Consumer Price Index (CPI).
- Capitalism, socialism, and communism are types of economic systems.

# **Understanding Economics**

- The founding of modern Western economics is credited to the publication of Scottish philosopher Adam Smith's 1776 book, *An Inquiry into the Nature and Causes of the Wealth of Nations*.<sup>1</sup>
- The principle (and problem) of economics is that human beings have unlimited wants and occupy a world of limited means. For this reason, the concepts of efficiency and productivity are held paramount by economists. Increased productivity and a more efficient use of resources, they argue, could lead to a higher standard of living.

## **Types of Economics**

The study of economics is generally broken down into two disciplines.

- Microeconomics focuses on how individual consumers and firm make decisions; these individuals can be a single person, a household, a business/organization or a government agency. Analyzing certain aspects of human behavior, microeconomics tries to explain how they respond to changes in price and why they demand what they do at particular price levels.

Microeconomics tries to explain how and why different goods are valued differently, how individuals make financial decisions, and how individuals best trade, coordinate and cooperate with one another. Microeconomics' topics range from the dynamics of supply and demand to the efficiency and costs associated with producing goods and services; they also include how labour is divided and allocated, uncertainty, risk, and strategic game theory.

- Macroeconomics studies an overall economy on both a national and international level. Its focus can include a distinct geographical region, a country, a continent, or even the whole world. Topics studied include foreign trade, government fiscal and monetary policy, unemployment rates, the level of inflation and interest rates, the growth of total production output as reflected by changes in the Gross Domestic Product (GDP), and business cycles that result in expansions, booms, recessions, and depressions.

Micro- and macroeconomics are intertwined; as economists gain an understanding of certain phenomena, they can help us make more informed decisions when allocating resources. Many believe that microeconomics' foundations of individuals and firms acting in aggregate constitute macroeconomic phenomena.

# **Schools of Economic Theory**

- There are also schools of economic thought. Two of the most common are monetarist and Keynesian. Monetarists have generally favourable views on free markets as the best way to allocate resources and argue that stable monetary policy is the best course for managing the economy. In contrast, the Keynesian approach believes that markets often don't work well at allocating resources on their own and favours fiscal policy by an activist government in order to manage irrational market swings and recessions.
- Economic analysis often progresses through deductive processes, including mathematical logic, where the implications of specific human activities are considered in a "means-ends" framework.

## **Economics 101**

### The Economics of Labour, Trade, and Human Behaviour

- The building blocks of economics are the studies of labour and trade. Since there are many possible applications of human labour and many different ways to acquire resources, it is difficult to determine which methods yield the best results.

- Economics demonstrates, for example, that it is more efficient for individuals or companies to specialize in specific types of labour and then trade for their other needs or wants, rather than trying to produce everything they need or want on their own. It also demonstrates trade is most efficient when coordinated through a Medium of Exchange, or money.
- Economics focuses on the actions of human beings. Most economic models are based on assumptions that humans act with rational behaviour, seeking the most optimal level of benefit or utility. But of course, human behaviour can be unpredictable or inconsistent, and based on personal, subjective values (another reason why economic theories often are not well suited to empirical testing). This means that some economic models may be unattainable or impossible, or just not work in real life.

## **Economic Indicators**

- Economic indicators are reports that detail a country's economic performance in a specific area. These reports are usually published periodically by governmental agencies or private organizations, and they often have a considerable effect on stocks, fixed income, and foreign markets when they are released. They can also be very useful for investors to judge how economic conditions will move markets and to guide investment decisions.

Some of the major indicators used for fundamental analysis:

## **Gross Domestic Product (GDP)**

- **Retail Sales**  
**Industrial Production**  
**Employment Data**  
**Consumer Price Index (CPI)**  
Types of Economic Systems
- Capitalism

## **Types of Economic Systems**

### **➤ Capitalism**

Capitalism emerged with the advent of industrialization. Capitalism is defined as a system of production whereby business owners (capitalists) produce goods for sale in order to make a profit and not for personal consumption. In capitalism, capitalists own the business including the tools used for production as well as the finished product. Workers are hired in return for wages, and the worker owns neither the tools he uses in the production process nor the finished product when it's complete. Capitalist production relies on the market for the allocation and distribution of the goods that are produced for sale

A market is a venue that brings together buyers and sellers, and where prices are established that determine who gets what and how much of it. The United States and much of the developed world today can be described as capitalist market economies.

## ➤ **Capitalism Alternatives**

Alternatives to capitalist production exist. Two of the most significant ones developed in the 19th century as a response to what was seen as capitalism's abuses.

- Socialism is a system of production whereby workers collectively own the business, the tools of production, the finished product, and share the profits – instead of having business owners who retain private ownership of all of the business and simply hire workers in return for wages. Socialist production often does produce for profits and utilizes the market to distribute goods and services.
- Communism is a system of production where private property ceases to exist and the people of a society collectively own the tools of production. Communism does not use a market system, but instead relies on a central planner who organizes production (tells people who will work in what job) and distributes goods and services to consumers based on need. Sometimes this is called a command economy.



# **What is an Economic System?**

An economic system is a means by which societies or governments organize and distribute available resources, services, and goods across a geographic region or country. Economic systems regulate factors of production, including capital, labor, physical resources, and entrepreneurs. An economic system encompasses many institutions, agencies, and other entities.

## **Types of Economic Systems**

### **1. Traditional economic system**

The traditional economic system is based on goods, services, and work, all of which follow certain established trends. It relies a lot on people, and there is very little division of labour or specialization. In essence, the traditional economy is very basic and the most ancient of the four types.

Because of its primitive nature, the traditional economic system is highly sustainable. In addition, due to its small output, there is very little wastage compared to the other three systems.

## **2. Command economic system**

In a command system, there is a dominant, centralized authority – usually the government – that controls a significant portion of the economic structure. Also known as a planned system, the command economic system is common in communist societies since production decisions are the preserve of the government.

If an economy enjoys access to many resources, chances are that it may lean towards a command economic structure. In such a case, the government comes in and exercises control over the resources. Ideally, centralized control covers valuable resources such as gold or oil. The people regulate other less important sectors of the economy, such as agriculture.

Such economies are vulnerable to economic crises or emergencies, as they cannot quickly adjust to changed conditions.

## **3. Market economic system**

Market economic systems are based on the concept of free markets. In other words, there is very little government interference. The government exercises little control over resources, and it does not interfere with important segments of the economy. Instead, regulation comes from the people and the relationship between supply and demand.

## 4. Mixed system

Mixed systems combine the characteristics of the market and command economic systems. For this reason, mixed systems are also known as dual systems.

Sometimes the term is used to describe a market system under strict regulatory control.

Mixed systems are the norm globally. Supposedly, a mixed system combines the best features of market and command systems. However, practically speaking, mixed economies face the challenge of finding the right balance between free markets and government control. Governments tend to exert much more control than is necessary.

Economic systems are grouped into traditional, command, market, and mixed systems. Traditional systems focus on the basics of goods, services, and work, and they are influenced by traditions and beliefs. A centralized authority influences command systems, while a market system is under the control of forces of demand and supply. Lastly, mixed economies are a combination of command and market systems.

A market-based economy is one where goods and services are produced and exchanged according to demand and supply between participants (economic agents) by barter or a medium of exchange with a credit or debit value accepted within the network, such as a unit of currency.

- A command-based economy is one where political agents directly control what is produced and how it is sold and distributed.
- A green economy is low-carbon, resource efficient and socially inclusive. In a green economy, growth in income and employment is driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.
- A gig economy is one in which short-term jobs are assigned or chosen via online platforms.
- New economy is a term referred to the whole emerging ecosystem where new standards and practices were introduced, usually as a result of technological innovations.
- An informal economy is economic activity that is neither taxed nor monitored by a government, contrasted with a formal economy. The informal economy is thus not included in that government's gross national product (GNP). Although the informal economy is often associated with developing countries, all economic systems contain an informal economy in some proportion.
- Informal economic activity is a dynamic process that includes many aspects of economic and social theory including exchange, regulation, and enforcement.

By its nature, it is necessarily difficult to observe, study, define, and measure. No single source readily or authoritatively defines informal economy as a unit of study.

- The terms "underground", "under the table" and "off the books" typically refer to this type of economy. The term black market refers to a specific subset of the informal economy. The term "informal sector" was used in many earlier studies, and has been mostly replaced in more recent studies which use the newer term.
- The informal sector makes up a significant portion of the economies in developing countries but it is often stigmatized as troublesome and unmanageable. However, the informal sector provides critical economic opportunities for the poor and has been expanding rapidly since the 1960s. As such, integrating the informal economy into the formal sector is an important policy challenge.
- In microeconomics, economies of scale are the cost advantages that enterprises obtain due to their scale of operation (typically measured by the amount of output produced), with cost per unit of output decreasing with increasing scale. At the basis of economies of scale there may be technical, statistical, organizational or related factors to the degree of control.
- Economies of scale apply to a variety of organizational and business situations and at various levels, such as a production, plant or an entire enterprise

When average costs start falling as output increases, then economies of scale occur. Some economies of scale, such as capital cost of manufacturing facilities and friction loss of transportation and industrial equipment, have a physical or engineering basis.

Another source of scale economies is the possibility of purchasing inputs at a lower per-unit cost when they are purchased in large quantities.

The economic concept dates back to Adam Smith and the idea of obtaining larger production returns through the use of division of labor.

Economies of scale often have limits rate.

Large producers are usually efficient at long runs of a product grade (a commodity) and find it costly to switch grades frequently. They will, therefore, avoid specialty grades even though they have higher margins. Often smaller (usually older) manufacturing facilities remain viable by changing from commodity-grade production to specialty products. [

Economies of scale must be distinguished from economies stemming from an increase in the production of a given plant. When a plant is used below its optimal production capacity, increases in its degree of utilization bring about decreases in the total average cost of production.

The simple meaning of economies of scale is doing things more efficiently with increasing size.

Common sources of economies of scale are :

**Purchasing**

**Managerial**

**Financial ( lower-interest**

**Marketing**

**Technological advantage of returns to scale in the production function**

- Each of these factors reduces the long run average costs (LRAC) of production by shifting the short-run average total cost (SRATC) curve down and to the right.
- Economies of scale is a concept that may explain real-world phenomena such as patterns of international trade or the number of firms in a market. The exploitation of economies of scale helps explain why companies grow large in some industries. It is also a justification for free trade policies, since some economies of scale may require a larger market than is possible within a particular country
- There is a distinction between two types of economies of scale: internal and external.
- An industry that exhibits an internal economy of scale is one where the costs of production fall when the number of firms in the industry drops, but the remaining firms increase their production to match previous levels. Conversely, an industry exhibits an external economy of scale when costs drop due to the introduction of more firms, thus allowing for more efficient use of specialized services and machinery.

## **The determinants of economies of scale**

- **Physical and engineering basis: economies of increased dimension**
- **Economies in holding stocks and reserves**
- **Transaction economies**
- **Economies deriving from the balancing of production capacity**
- **Economies resulting from the division of labour and the use of superior techniques**
- **Managerial Economics**
- **Learning and growth economies**
- **Capital and operating cost**



# **Economy**

- The economy of India is a developing mixed economy
- Gross Domestic Product (GDP) means a monetary measure of the market value of all final goods and services (both) produced in a period of time
- Different approaches for calculation of the GDP are:
  - The production approach, which sums the outputs of every class of enterprise to arrive at the total
  - The expenditure approach works on the principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to people total expenditures in buying things
  - The income approach works on the principle that the incomes of the productive factors (“producers,” colloquially) must be equal to the value of their product, and determines GDP by finding the sum of all producers’ incomes.

- While calculating GDP, following factors are excluded.:
  - Transfer payments
  - Second hand goods
  - Value of intermediate goods
- National income means the value of goods and services produced by a country during a financial year
- National income is measured by the following methods :
  - By product method
  - By income method
  - By expenditure method
- Net Domestic product means net output in a year
- Gross national product is calculated by  $\text{Gross domestic product} + \text{Net income from abroad}$
- Net national product is derived by  $\text{Gross national product} - \text{Depreciation}$
- Domestic income includes dividends, salaries and wages and direct taxes
- Per capital income can be derived by  $\text{National income} / \text{Population}$
- Micro economics deals with analysis of any single unit of economics.
- Macro economics deals with analysis of all units of economics studied together

- Different type(s) of economies are capitalist economy, socialist economy, mixed economy

Book Titled	Written by
An enquiry into the nature and cause of the wealth of nations'	Adam Smith
An essay on the nature and significance of Economic Science	Lionel Robbins
Principles of economics	Alfred Marshall
Economics': An introductory analysis	Paul Samuelson

- The value of alternative foregone in order to have something else is known as Opportunity cost
- A capitalist economic system is one which is characterized by free markets and the absence of Government intervention in the economy
- Wealth aspect of economics was given by Adam smith
- Welfare aspect of economics was given by Alfred marshall
- Scarcity and choice aspect of economics was given by Lionel Robbins
- Development and growth aspect of economics was given by Paul samuelson
- Positive economics deals with scientific issues and questions
- Normative economics deals with ethical issues, questions and problems
- The factors determining the demand for a commodity is/are:

- Price of the commodity
- Income of the consumer
- Taste and preferences and demographic factors

- The law of diminishing marginal utility states that as the stock of a commodity increases with the consumer, its marginal utility to the consumer decreases
- The law of demand describes that in normal situations, quantity demanded of a good falls when its price increases and vice versa
- The law of supply states that a firm will produce and offer to sell greater quantity of a product or service as the price of that product or services rises, other things being equal
- The supply curve is upward sloping
- The utility can be measured by Cardinal approach or Ordinal approach
- When a consumer buys a goods, the utility derived from it varies with its quantity and generates the concept, which is called as Total utility, Average utility, Marginal utility
- Demand curve shows the relationship between the quantities of goods which consumers would be willing to purchase at alternative prices

- Supply curve shows the relationship between the quantities supplied of a commodity by the producer at alternative prices
- A utility measurement based on the presumption that the satisfaction of wants and needs is a quantifiable characteristics of human activity, is called as Cardinal utility.
- The **Cardinal Utility approach** is propounded by neo-classical economists, who believe that **utility** is measurable, and the customer can express his satisfaction in **cardinal** or quantitative numbers, such as 1,2,3, and so on. ... Here, one Util is equivalent to one rupee and the **utility** of money remains constant.
- A utility measurement based on the presumption that the satisfaction of wants and needs is not a quantifiable characteristics of human activity, is called as Ordinal utility
- A consumer goods for which demand rises when the price increases and the demand falls when price decreases, is called as Giffen goods
- The function relationship between input and output is known as Production function
- Law of returns to scale is a long run concept
- A firm which produces a product, of which no close substitute is available in the market, is known to enjoy Monopoly
- The market structure in which each seller produces a differentiated products is called as Monopolistic competition

## **FINANCIAL MARKETS**

- A Financial market is a market in which people trade financial securities, commodities, and value at low transaction costs and at prices that reflect supply and demand
- The money market is a market for short term funds, which deals in financial assets whose period of maturity is upto one year
- Equity shares are not the money market instruments as against call money, treasury bill and certificate of deposits.
- Certificate of deposit is issued by commercial banks and special financial institutions (SFIs)
- Capital market may be defined as a market dealing in medium and long term funds
- Secondary market means a market where securities are traded after being initially offered to the public in the primary market and/or listed on the stock exchange
- Commercial paper (CP) is issued by companies
- Spot market is where securities are traded for immediate delivery and payment
- Forward market is where the securities are traded for future delivery and payment
- A put option gives right but not an obligation to the owner to sell a security to the writer of the option at a predetermined price before a certain date
- A call option gives right but not an obligation to the buyer to purchase a security from the writer of the option at a particular price before a certain date
- Derivatives are securities defined under the Securities Contracts (Regulation) Act, 1956
- A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security, is called as derivative instruments

- A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future
- A future contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price
- Bid-ask spreads is an example of implicit cost
- Baby bond (US) is a bond with a face value of less than \$1000 usually in \$100 denominations
- Carrying forward of transactions from one settlement period to another without effective delivery is known as Bald
- Balanced Funds are funds which aim to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their documents.
- Banc assurance is the phenomenon whereby a financial institution combines the selling of banking products and insurance products through the same distribution channel:
- A scheduled bank carrying on all of any of the issue related activities namely acceptance of application and application monies; acceptance of allotment or call monies, refund of application monies; and payment of dividend or interest warrants is termed as Bankers to an issue

- ☐ A pessimist market operator who expects the market price of shares to decline is known as Bear
- ☐ Bearer bonds are Securities which do not require registration of the name of the owner in the books of the company and interest and principal are paid to the holder of the instrument, whenever become due
- ☐ Security used as the basis for interest rate calculations and for pricing other securities is known as Bench Mark. It also denotes the most heavily traded and liquid security of a particular class.
- ☐ A measure of the volatility of a stock relative to the market index in which the stock is included is known as Beta
- ☐ A low beta indicates relatively low risk
- ☐ A high beta indicates High risk
- ☐ Buying and selling a block of securities which usually takes place when restructuring or liquidating a large portfolio is known as Block trading
- ☐ A security offering that sells out almost immediately is known as Blow out
- ☐ The best rated shares with the highest status as investment based on return, yield, safety, marketability and liquidity are known as blue chip shares.



- ❑ Laws passed by the states in the U.S to protect investors are termed as Blue sky(US)
- ❑ Book building is a process by means of which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document
- ❑ Bucketing is a situation where, in an attempt to make a short-term profit, a broker confirms an order to a client without actually executing it
- ❑ Butterfly spread is an option strategy involving the simultaneous sale and purchase of an instrument.
- ❑ A bond denominated in sterling but issued by a non-British borrower is known as Bulldog bond
- ❑ To buy on margin means to buy shares with money borrowed from the stockbroker, who maintains a margin account for the customer.

- ❑ Capital asset pricing model is an economic theory that describes the relationship between risk and expected return and serves as a model for the pricing of risky securities:
- ❑ Chinese walls are artificial barriers to the flow of information set up in large firms to prevent the movement of sensitive information between department:
- ❑ Contract note is a note issued by a broker to his constituents setting out the number of securities bought or sold in the market along with the rate, time and date of contract
- ❑ Conversion ratio is the narrowing of the difference between the future contract and the value of the underlying assets during the final days of the contract
- ❑ Dabba trading is the trading of securities outside the stock exchanges
- ❑ Dematerialization is the process of transforming securities holdings in physical form to those in electronic form through a depository participant:
- ❑ Derivative is a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.

- ❑ A Dutch auction is one of several similar types of auctions for buying or selling goods. Most commonly, it means an auction in which the auctioneer begins with a high asking price in the case of selling, and lowers it until some participant accepts the price, or it reaches a predetermined reserve price.
- ❑ European option is a put or call that can be exercised only on its expiration date.
- ❑ Firewall is a barrier designed to prevent losses or risks taken in one part of a financial institution from weakening other parts of institution.
- ❑ Floor price is the minimum offer price below which bids cannot be entered .
- ❑ Green Shoe Option is an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the specific provisions in DIP guidelines, which is granted for a company to be exercised through a stabilizing agent.
- ❑ Herfindahl-Hirschman (HH) Index is the sum of the squares of the market shares of companies in any given industry. It is a measure of industry concentration and is more sensitive to the effects of mergers than simple market shares.

- ❑ Junk bond is a High yield bond issued by low rated companies:
- ❑ A unique identification number allotted for each security in the depository system by SEBI is called (ISIN) International securities identification number.
- ❑ Mumbai interbank bid and offer rates are called MIBOR
- ❑ An option that is written without corresponding security or option position as protection in seller account is known as Naked option
- ❑ Net worth is the aggregate value of the paid up equity capital and free reserves (excluding reserves created out of revaluation), reduced by the aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.
- ❑ Reverse repo is the purchase of securities with an agreement to resell them at a higher price at a specific future date.

- ❑ The price in contracts for put options and call options, at which the option can be exercised is known as strike price
- ❑ SWAP is a financial transaction which exploits arbitrage opportunities between markets and in which two counter parties agree to exchange streams of payments over time according to a predetermined rule.
- ❑ Sweat equity are the Equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions.
- ❑ SWIFT is a dedicated computer network to support funds transfer message internationally between member banks world-wide.
- ❑ Systematic risk is the risk that affects an entire financial market or system, and not just specific participants.
- ❑ Treasury bill is a short term bearer discount security issued by Governments as a means of financing their cash requirements.  
The rate of return anticipated on a bond if it is held until the maturity date is called Yield to maturity
- ❑ A bond that pays no interest while the investors holds it is called Zero coupon bond

# ***Basic Concepts of Valuation***

❖ Introduction

❖ Governing Section:

- Section 247 and Companies (Registered Valuers and Valuation) Rules 2017

❖ W.e.f 1<sup>st</sup> Feb 2019, Valuation only by a registered valuer.

❖ Regulator: IBBI

❖ Three types of Valuation: Land and Building, Plant and Machinery, Securities or Financial assets

RVOs-Around 20, RVs-More than 3000

Draft Valuers Bill, 2020

[http://www.mca.gov.in/Ministry/pdf/Notice\\_14042020.pdf](http://www.mca.gov.in/Ministry/pdf/Notice_14042020.pdf)

## ❖ Premises of Valuation

- ❖ Primary Premises-Going Concern Valuation, Liquidation Valuation,
- ❖ Other Premises-FMV in continued Use, FMV in case of Removal, Value to the specific holder etc.

## ❖ Purpose of Valuation

- ❖ Merger, Acquisition, Takeover
- ❖ Strategic Partnership, Joint Venture and Collaboration  
ESOP and employee retention
- ❖ At the time of Peaceful Exit
- ❖ Specific Situations-IBC, Liquidation, Winding up etc.
- ❖ Mandatory under Company Law: IPO, FPO, issue of shares for consideration other than cash, private placement
- ❖ Under Other Laws: Income Tax, FEMA, Customs etc.
- ❖ For Insurance Coverage
- ❖ Court Directed Valuations
- ❖ During Winding Up
- ❖ At the time of Debt Funding

## ❖ Valuation Standards

- International Valuation Standards-General VS 101 to 105.Asset Specific VS-210,300,400,410,500
- IPEV Guidelines
- AICPA Guide
- European Valuation Standards
- RVO adopted Valuation Standards

## ❖ Valuation Engagement-Scope of Work

- Valuation Engagement-Results in a conclusion of value which is basically an opinion. Two types-Detailed Report and Summary Report
  - Calculation Engagement-In IBC, two or more valuations are to be carried out and an average taken for decision purposes.
  - Fairness Opinion(Valuation Review)Engagement-Akin to Peer Review, it involves review of work of another valuer.
- ## ❖ Valuation Process - Enquiry, Engagement, Action , Site Visit, Documentation , Report



## ❖ Valuation Report

- Mandatory Contents-Background Information of the asset being valued , Purpose of Valuation, Identity of Valuer and other experts, Disclosure of Interest if any , Date of appointment , valuation date and date of report, Sources of Information, Procedure and Methodology , Caveats, Limitations and Disclaimers
  - Additional Contents-Projected Financials, Analysis , Confirmation that it is as per applicable standards etc.
  - Contents of review report as per IVS 103-Scope of Work, Assumptions , Date of RR, Conclusion of the Reviewer
- ## ❖ Valuation Documentation-Valuation papers and Back up papers for 3 years. Ideally for 8 years.
- Indicative List includes Proposal, acceptance, copy of Board Resolution, Engagement Letter, NDA, Financial Information, Non-Financial Information, declaration by Management for informational gaps, Source of Third Party information, Calculation ,tools used etc.
- ## ❖ Documentation Retention-As per applicable legislation. By both Values and client party

- ❖ Penal Provisions-As per Section 247(3) and (4)
  - Procedural Contravention-Fine Rs.25000 to Rs.100000
  - Intention to fraud-Imprisonment upto one year and fine Rs.100000 to Rs.500000
- ❖ Effect of Conviction
  - Refund of Fees
  - Pay damages to affected party

# ***Basic Concepts of Valuation***

- ❑ Total enterprise value (TEV) means the actual economic value of a company at a given point of time
- ❑ Market capitalization means the market value of all outstanding shares
- ❑ There are three approaches to business valuation:
  - Discounted cash flow valuation
  - Relative valuation
  - Contingent claim valuation
- ❑ The discounted cash flow valuation relates to the value of an asset to the present value of expected future cash flows on that asset
- ❑ Relative valuation means estimating the value of an asset by looking at the pricing of 'Comparable' assets relative to a common variable like earnings, cash flows, book value or sales
- ❑ Contingent claim valuation means using option pricing models to measure the value of assets that share option characteristics

- ❑ The factors responsible for uncertainties in business valuation are:
  - Macro-economic factors
  - Business cycle, its growth potential in the industry in which it operates
  - Competitors position in the market
- ❑ Book value is an accounting concept. It implies historical assets less outside liabilities
- ❑ Intrinsic value represents the true or real value on the basis of an analysis of fundamentals without considering the prevailing price in the market
- ❑ Common valuations errors:
  - The purpose of the valuation report is not specified
  - The standard of value not mentioned
  - Valuation report does not consider the premise of value
- ❑ Internal factors that affect the valuation:
  - Consistent dividend payment track record
  - Market for the products and goodwill of the firm
  - Industrial relations and reputation of the management

❑ External factors that affects the valuation:

- Stability in the economy
- Stable Government
- Taxation

❑ The fundamental basis for valuation are :

- Cash flows
- Returns
- Operational variables

❑ The assets based approach of valuation can be measured by method of the liquidity value and the replacement cost

❑ The equity value of a company is the value of the shareholders claims in the company whereas, the enterprise value of a company denotes the value of the entire company to all its claim holders

❑ Basis for discounted cash flow valuation:

- To estimate the life of the asset
- To estimate the cash flows during the life of the asset
- To estimate the discount rate to apply to these cash flows to get present value

❑ Distinct ways to categorize the discounted cash flow model:

- Going concern vs asset valuation
- Equity valuation versus firm valuation
- Variations on DCF models

❑ Cash value added (CVA) is the excess of cash generated over and above the requirement of cash

❑ Cash value added can be calculated as:

Cash value added = operating cash flow - operating cash flow demand

❑ Operating cash flow is calculated as:

Operating cash flow (OCF) = EBITDAI + Increase in working capital – Non-strategic

Investments

❑ Cash flow return on investment is calculated as:

Sustainable cash flow / Cash invested

❑ Relative value of growth (RVG) can be calculated as:

Value of 1% growth (VG) / value of 1% improvement in margin (VM)

❑ Limitations of EVA method of firm valuation:

- Needs calculation of invested capital for every year which depends on valuation issues
- Economic profits as excess returns are fairly subjective, depending on the valuation of invested capital
- Economic profit framework may provide data including illusionary accuracy of the quantified business plan

❑ Beta is the measure of equity risk relative to market portfolio

❑ When  $\beta = 1$ , it means Average risk investment

❑ When  $\beta > 1$ , it means above Average risk investment

❑ When  $\beta < 1$ , it means below Average risk investment

❑ When  $\beta = 0$ , it means Riskless investment

❑ Cost of debts depends upon:

- The general level of interest rates
- The credit risk premium
- The firm's tax rate

- ❑ Weighted average cost of capital (WACC) is the rate that a company is expected to pay to all its capital owners to finance its assets. It is the minimum return that a company must earn on an existing asset base to satisfy its creditors, owners, and other providers of capital. If this is not met, they would need to invest elsewhere
- ❑ Valuation is often a combination of cash flow and time value of money.
- ❑ Book value is the historical value
- ❑ Liquidation value is the net amount that can be realized if the business is terminated and the asset are sold piece-meal
- ❑ Return on equity investment is calculated by:  
$$\text{Cash flow} + (\text{Closing market price} - \text{Opening market price}) / \text{opening market price}$$
- ❑ Discounted cash flow analysis determines:
  - A company's current value according to its estimated future cash flows
- ❑ Valuation is the process of determining the present value of assets
- ❑ The Indian valuation standards (Ind VS) have been issued by the ICAI.



- ☐ The Indian valuation standards (Ind VS) have been issued by the ICAI.  
Different Indian Valuation Standards are:

<b>Ind IVS</b>	<b>Stands for</b>
101	Definitions
102	Valuation bases
103	Valuation approaches
201	Scope of work, analysis and Evaluation
202	Reporting and documentations
301	Business valuation
302	Intangible assets
303	Financial instruments

<b>IVS</b>	<b>Stands for</b>
101	Scope of work
102	Investigation and compliance
103	Reporting
104	Bases of value
105	Valuation approaches and methods
200	Business and business interest
210	Intangible assets
300	Plant and equipment
400	Real property interest
410	Development property
500	Financial instruments

# **FORENSIC AUDIT**

- ❑ The purpose of forensic audit is to examine and evaluate the financial information of an entity for use as evidence in court
- ❑ The objective behind the forensic audit is to avoid fraud and theft, to formulate a comprehensive corporate governance policy and to create a positive work environment
- ❑ Forensic audit requires Detective skills and Financial acuity
- ❑ The objective of financial audit is to express opinion as to 'true & fair' presentation, while the purpose of forensic audit is to determine whether any fraud has actually taken place, to have an analysis of past trend and substantive increase in expenditures or diversion of funds and to have an in depth checking of selected transactions to unearth the fraud
- ❑ The major fundamentals of forensic audit are:
  - An audit and investigation
  - An agreed upon procedures engagement
  - A proactive search for fraud

- ❑ Forensic audit uses no sampling, it analyses 100% data sets
- ❑ The purpose of establishment of serious fraud investigation office (SFIO) is:
  - To investigate frauds relating to a company
- ❑ When the central Government make an investigation into the affairs of a company:
  - On the receipt of a report of the registrar or inspector under section 208
  - On intimation of a special resolution passed by a company that the affairs of the company ought to be investigated
  - It is in public interest
- ❑ Where an arrest of a person is to be made by SFIO in connection with a Government company or a foreign company under investigation, such arrest shall be made with prior written approval of The central Government
- ❑ Any person who is found to be guilty of fraud involving an amount of at least 10 lakh rupees or 1% of the turnover of the company, whichever is lower, shall be punishable with imprisonment for a term which shall not be less than 6 months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud

- ❑ Where the fraud in question involves public interest, the term of imprisonment shall not be less than 3 years
- ❑ Where the fraud involves an amount less than 10 lakh or 1% of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to 50 lakh rupees or with both
- ❑ If an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving Rs. 1 crore or above is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government
- ❑ In case of a fraud involving the amount lesser than Rs one crore, the auditor shall report the matter to the audit committee (ACB) or in the absence of an audit committee to the Board of Directors
- ❑ A forensic auditor is Bloodhound
- ❑ Red flag in the course of forensic audit indicates warning signals of any impending danger
- ❑ Green flag in the course of forensic audit indicates:

- the existence of fraud but do not activate alarms bells
  - Could be helpful in identifying unusual signs, but apparently harmless
- ❑ The objectives of the prevention of money laundering act, 2002 (PML Act) are:
- To prevent and control money laundering
  - To confiscate and seize the property obtained from the laundered money
  - To deal with any other issue connected with money laundering in India
- ❑ Provision for punishment under the PML act 2002:
- Rigorous imprisonment for a term which shall not be less than 3 years but which may extend to 7 years and shall also be liable to fine which may extend to 5 lakh rupees
- ❑ The prevention of money laundering act, 2002, and rule there under require every banking company, financial institution and intermediary, to furnish to FIU-IND (Financial Intelligence Unit –India )information relating to:
- All cash transactions of the value of more than Rs.10 lakh or its equivalent in foreign currency
  - All series of cash transaction integrally connected to each other which have been valued below Rs. 10 lakh or its equivalent in foreign currency where such series of transactions have take place within a month

- ❑ The main function of FIU-IND (Financial Intelligence Unit –India ) is:
  - Collection of cash transaction reports (CRTs) and suspicious transaction reports (STRs) from various reporting entities
  - Analyzing the received information in order to uncover patterns of transactions suggesting suspicion of money laundering and related crimes
  - Sharing of information with national intelligence/law enforcement agencies, national regulatory authorities and foreign financial intelligence units
- ❑ Financial action task force(FATF) was establishes by a group of seven (G-7) summit in Paris, initially to examine and develop measures to combat money laundering

Particulars	Elasticity of demand	Elasticity of supply
The ratio of percentage change quantity in demanded/Supplied to percentage change in some other factor like price or income is called:-	Elasticity of demand	Elasticity of Supply
When a very significant change in price leads to an infinite change in quantity demanded/supplied, is called :-	Perfectly elastic demand	Perfectly elastic Supply
When regardless of a change in price , there is no change in the quantity demanded/supplied of a commodity , it is called:-	Perfectly inelastic demand	Perfectly inelastic Supply
When a small change in price causes a greater change in quantity demanded/supplied, it is called:-	Relatively elastic demand	Relatively elastic Supply
Where a greater change in price leads to smaller change in quantity demanded/supplied, it is called:-	Relatively inelastic demand	Relatively inelastic Supply
When a change in price results in exactly the same percentage in the quantity demanded/supplied of a commodity, it is called:-	Unitary elastic demand	Unitary elastic Supply