

NCERT Solutions Class 12
Business Studies Business Finance and Marketing
Chapter 13 Entrepreneurship Development

Multiple choice questions:

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Question 1: Entrepreneurs undertake

- (a) Calculated risk**
- (b) High risk**
- (c) Low risk**
- (d) Moderate and calculated risk**

Solution :

Risk refers to the probability that the realised profits are less than the expected profit. When an entrepreneur sets up a venture, he is not sure of its success. There is no assurance of returns or profits. Moreover, he also takes up the risk of choosing entrepreneurship as a career over practice of a profession that involves an assured pay off. However, an entrepreneur always takes calculated risk. As per their skill, training and confidence, they try to minimize the risk. For example, an entrepreneur might enter into prior contracts with the customers and thereby, ensure the sale of the product. Thus, it can be said that entrepreneurs undertake moderate and calculated risk.

Question 2:

In economics, which of the following is not a function of the entrepreneur?

- (a) Risk-taking
- (b) Provision of capital and organization of production
- (c) Innovation
- (d) Day to Day conduct of business

Solution :

An entrepreneur performs various functions such as risk-taking, provisioning of capital and organisation of production and day to day conduct of business. Although innovation is an important 'characteristic' of an entrepreneur but, it is not his core function. While, an entrepreneur needs to be innovative while planning and deciding upon business activities as to fulfill the public demand but, it is not his duty to innovate new technology or products. Thus, innovation is not a function to be performed rather an essential characteristic of a successful entrepreneur.

Question 3:

Which of the following statements does not clearly distinguish between entrepreneurship and management?

- (a) Entrepreneurs found the business; managers operate it

- (b) Entrepreneurs are the owners of their business; managers are employees
- (c) Entrepreneurs earn profits; managers earn salaries
- (d) Entrepreneurship is once for all activity; management is a continuous activity

Solution :

The sentence that does not clearly distinguish between entrepreneurship and management is 'Entrepreneurship is once for all activity; management is a continuous activity'. It is often said that once the business starts up, the role of entrepreneur ends and the manager comes in to run and stabilise it. However, entrepreneurs, even after the business is established, remain attached to the day-to-day activities. They also take up managerial role as and when required. In other words, as the managers are expected to play entrepreneurial role when needed, the entrepreneurs are also expected to handle the managerial function when needed.

Question 4:

In the roles and functions of the entrepreneur identified by Kilby, which of the following is not an aspect of 'political administration'?

- (a) Dealing with public bureaucracy
- (b) Managing human relations within the firm
- (c) Introducing new production techniques and products

(d) Managing customer and supplier relations

Solution :

Peter Kilby identified certain roles and functions of an entrepreneur in relation to the enterprise. Under the aspect of political administration, he identified three functions-dealing with public bureaucracy, managing human relations within the firm and managing customer and supplier relations. The function of 'Introducing new production techniques and products' was given in the aspect of technology.

Question 5:

Which of the following attitudes is not generally associated with successful entrepreneurship

- (a) Investing in R and D
- (b) Live your business day by day
- (c) Innovate and improvise continually
- (d) Produce as per customers' requirements

Solution :

For a successful entrepreneurship, the three attitudes as mentioned in the question that is, living the business day by day, innovating and improvising continuously and producing as per customer's requirement are essential. Although, investing in R and D also forms an important

aspect, however, it comes only after the other three have been achieved and the enterprise has reached a certain appreciable level. For the short-term success, it is not essential for the entrepreneur to invest in R and D. This is because the investment in R and D requires a huge investment outlay and thereby, can impede the operations of the business.

Question 6: Which of the following cannot be protected under copyright:

- a. Music
- b. Drawings
- c. Video games
- d. Actors

Solution:

Actors cannot be protected under copyright.

Intellectual property (IP) refers to the creations of the human mind, like inventions, literary and artistic works, symbols, names, images and designs used in business.

Intellectual property is divided into two broad categories: industrial property, which includes inventions (patents), trademarks, industrial designs and geographical indications, while the other is copyrights, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such

as drawings, paintings, photographs and sculptures and architectural designs.

Question 7: Which of these is a geographical indication?

- a. Mona Lisa Painting
- b. IRCTC logo
- c. Darjeeling tea
- d. Light bulb

Solution:

Darjeeling Tea is a Geographical Indication.

Geographical Indications (GI) are part of our collective and intellectual heritage that need to be protected and promoted. Goods protected and registered as GI are categorised into agricultural products, handicrafts, manufactured goods and textiles. Darjeeling tea, Basoli paintings of Kangra, Nagpur orange, Banaras Brocades and Sarees, and Kashmir Pashmina are some of the examples of GIs. Most of the GI products are created by rural communities, and therefore, supplement the incomes of our rural artisans, weavers, craftsmen and farmers.

Question 8: What is the role of an entrepreneur in contributing towards Intellectual Property Rights?

- a. Recognise and respect others' Intellectual Property Rights

- b. Be creative and innovative
- c. Protect their own Intellectual Property
- d. All the above

Solution:

Role of Entrepreneur in contributing to Intellectual Property Rights is all the above.

1. It encourages creation of new, path breaking inventions, such as cancer cure medicines.
2. It incentivises inventors, authors, creators, etc., for their work.
3. It allows the work created by a person to be distributed and communicated to the public only with his/her permission. Therefore, it helps in the prevention of loss of income.
4. It helps authors, creators, developers and owners to get recognition for their works.

Short answers questions:

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Question 1: Clarify the meaning of the terms 'entrepreneur', 'entrepreneurship' and 'enterprise'.

Solution :

The three terms 'entrepreneur', 'entrepreneurship' and 'enterprise' are different yet interrelated to

each other. An entrepreneur refers to a person/individual who starts up a business. He is the one who takes up the basic idea of setting up the business. In the process of setting up the business, he undertakes risk, coordinates production resources and undertakes innovation. This whole process of setting up a new business is called entrepreneurship. The final result, that is, the business which is established after undertaking the process of entrepreneurship is called an enterprise. Thus, 'entrepreneur is the person' who undertakes the 'process of entrepreneurship' to set up an 'enterprise'.



Question 2: Why is entrepreneurship regarded as a creative activity?

Solution :

Entrepreneurship is a process of setting up one's own business by an individual. Entrepreneurship is regarded as a highly creative activity as it is said that entrepreneurship adds or creates 'value'. An entrepreneur creates a link between the raw materials and the products produced as

per the needs of the society. Such process adds to the income and wealth. Even if new creation destroys the existing industries, for instance, new laptops are replacing the old desktop computers, it is termed as creative destruction. Entrepreneurship is also regarded as creative in the sense that it involves introduction of new products and technology. Even if new products or technology are not discovered rather adopted from existing ones, they are no less than innovation. This is because to use old techniques in a new way requires creativity. For instance, the creator of laptops used the old technique of table computers in a new way and thereby created laptops. Thus, creativity can be called as essence of entrepreneurship.

Question 3: "Entrepreneurs undertake moderate risks". Elaborate this statement.

Solution :

In the writings of Richard Cantillon, an entrepreneur is described as an agent who purchases means of production at certain prices, converts them into final products to sell them at uncertain prices in future. Herein, the key element which needs to be taken into consideration is 'uncertainty regarding future'. When an entrepreneur starts up a new business he is never sure of its success. It may happen that the business may flourish in the successful direction or it

might also happen that it ruins everything that the entrepreneur has. Although the possibility of absolute ruin is very rare, but the risk is always there. Moreover, when an individual opts for entrepreneurship as a career he gives up career in employment. That is, he gives up a well promised job or profession that provides assured returns. However, in reality what he is taking up is called moderate and calculated risk. When an entrepreneur decides to take up a new business venture, then first of all he weighs the favors against the odds on the basis of his skills, abilities and confidence. On this basis, they generally avoid the situations that are highly risky. Thus, they do undertake risks but such risks are moderate and calculated ones. They take up those ventures where the odds and favors are in equal probability and where they have the confidence of converting a only a 50% probability of success into 100% success. Thus, it can be said that they undertake moderate and calculated risk.

Question 4: How does entrepreneurship result in increasing the spectrum and scope of economic activities?

Solution :

Entrepreneurship largely promotes the economic development of a country. Entrepreneurship helps in the diversification of economic activities. This diversification

is felt across geographical, sectoral and technological scope. They break the vicious circles (of low level) on the demand side and the supply side. For instance, if the demand on the domestic front is low, production and employment remains low, which further results in low income and thereby, low demand. Entrepreneurs can break this cycle by directing production towards exports. Similarly, if the supply is constrained by, say, absence of resources, the entrepreneurs can increase the production capacity and if required import the required resources and raw materials or technology. In addition, entrepreneurs can also bring about positive sectoral changes in the economy. Entrepreneurs diversify their activities from the stagnant sectors to the new and upcoming sectors. This diversification of activities brings about a transformation in the economy and move it towards the path of development.

Question 5: Describe briefly the role of achievement motivation in entrepreneurship.

Solution :

It was traditionally said that an entrepreneur is born but, in reality, an entrepreneur is not just born but is aspired to become one. Men and women who carry a sense of self-efficacy, are the ones who are capable of being a potential source of entrepreneurship. Herein, achievement

motivation plays an important role in aspiring them to become an entrepreneur. What drives an individual towards entrepreneurship is the inclination towards achieving something different. Achievement and excelling over competitive situations proves as a motivating factor to take up entrepreneurship. Moreover, the desire is to accomplish difficult and different situations as independently as possible.

The platform to fulfil these desires is provided by entrepreneurship. Entrepreneurship drives an individual to excel one's self and overcome the obstacles through successful exercise of talent. That is, entrepreneurship creates a platform for exercising creativity and self-development. Hence, achievement motivation plays an important role in entrepreneurship.

Question 6: Imagine that an electronics company produces portable Bluetooth speakers shaped like a small cupcake keyring. How can it stop people from copying its design?

Solution:

We can stop people copying the idea to produce portable Bluetooth speaker shaped like a cupcake keyring by conferring legal rights called Intellectual Property Rights. All inventions or creations begin with an 'idea'. Once the idea becomes an actual product, i.e., Intellectual Property,

one can apply to the authority concerned under the Government of India for protection. Legal rights conferred on such products are called 'Intellectual Property Rights' (IPR). Hence Intellectual property (IP) refers to products of human mind, hence, just like other types of property, the owners of IP can rent, give or sell it to other people. Intellectual property is divided into two broad categories: industrial property, which includes inventions (patents), trademarks, industrial designs and geographical indications, while the other is copyrights, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such as drawings, paintings, photographs and sculptures and architectural designs. Intellectual Property Right is important because of the following points:

1. It encourages creation of new, path breaking inventions, such as cancer cure medicines.
2. It incentivises inventors, authors, creators, etc., for their work.
3. It allows the work created by a person to be distributed and communicated to the public only with his/her permission. Therefore, it helps in the prevention of loss of income.
4. It helps authors, creators, developers and owners to get recognition for their works.

Question 7: Write down the names of one of your favourite book/film, song. Find out who the original creators are and who owns the copyright for each creation?

Solution:

S.No	Name of Book/Film/Song	Original Creator	Copyright by
1	Jai Ho – Song	AR Rahman	Super Cassettes Industries(TSeries) India
2	The Godfather – Novel	Mario Puzo	Mario Puzo
3	Cars- Film	Pixar Animation Studios	Disney Pictures

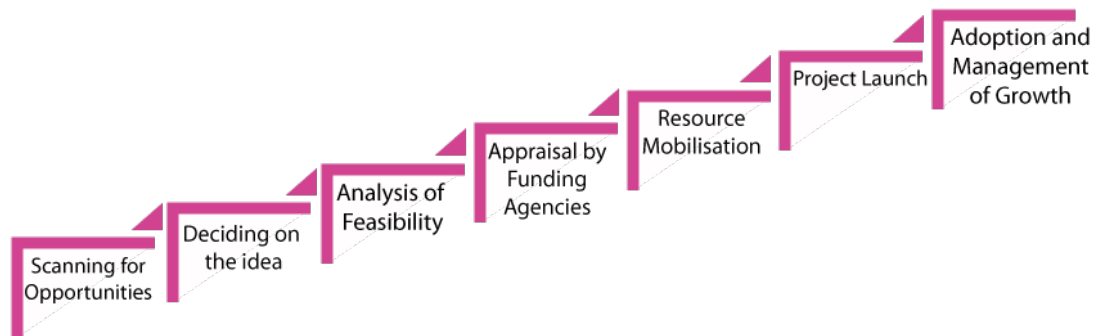
Long answers Questions

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Question 1:Describe briefly the steps involved in starting a new business.

Solution :

The following are the steps involved in setting up a new business.



i) ***Scanning for Opportunities:***

The first step involved in starting up a business is to look out for various business opportunities. For scanning the opportunities an entrepreneur uses his personal observations, contacts, official reports, published documents, surveys, etc. He carefully analyses each opportunity and works out how he can use them to create goods and services. He analyses the situations based on several factors such as market size, where to procure goods from, at what price to sell, probable competitors, etc. Opportunities are scanned not only at the domestic/national front but also at the international front.

ii) ***Deciding on the Product/Idea:***

Scanning of opportunities helps in identifying the broad segment or market for the business. The next step is to zero in on a particular product or service in the selected

market segment. For instance, suppose an entrepreneur decides to set up a venture in the fast food market. He must decide the products or combination of products that he would supply.

iii) ***Analysis of Feasibility:***

Once the product or service is chosen it becomes important for the entrepreneur to check whether the idea is practically possible or not. The entrepreneur needs to find this out, on the basis of different parameters such as whether the technology to be used is available, whether the product will derive profits, is the idea financially feasible and whether the good will face any legal restrictions.

iv) ***Appraisal by Funding Agencies:***

To set up the business, an entrepreneur requires funds. For receiving the required funds, the entrepreneur discusses the business plan and the feasibility reports with the financial agencies. The financial institutions provide the funds only when they are convinced about the plan and its feasibility. Sometimes the financial institutions require the entrepreneur to fill a performa detailing about the plan.

v) ***Resource Mobilisation:***

After the appraisal is received from funding institutions, the entrepreneur starts identifying and collecting the resources that are needed for the commencement of the

project. The resources required comprise of raw materials, technology, human resources, machines, etc. The entrepreneur tries to obtain the resources at the minimum possible cost.

vi) ***Project Launch:***

Next, the entrepreneur proceeds with the commencement of the project. That is, he undertakes activities such as establishing the factory premises, purchasing equipments, collecting the inputs for production, etc. Thereby, he establishes the enterprise.

vii) ***Adoption and Management of Growth:***

The role of an entrepreneur do not ends with the establishment of enterprise. He performs various other day-to-day functions such as organising goods and services, ensuring production, keeping an eye on competition etc. Thus, he needs to manage the business and continuously strive for better growth and development.

Question 2: Examine the nature of relationship between entrepreneurship and economic development.

Solution :

The relationship between entrepreneurship and economic development can be highlighted with the help of the following functions performed by entrepreneurs.

i) ***Contribution to GDP***

Economic development of any economy is often related to increase in GDP. As entrepreneurs take up production activities, he directly contribute towards the generation of income. In addition to the process, he appoints various factors of production such as land, labour and capital. In return of the services provided, the factors of production receive income. Land gets rent, labour gets wages and capital receives interest and all these values add to the GDP.

ii) Capital Formation

The GDP of an economy is directly related to the rate of capital formation. Higher the desired rate of growth of GDP, higher is the required rate of capital formation. Entrepreneurs invest their own savings as well as mobilise the savings of others. Thereby, they contribute in the process of capital formation.

iii) Generating Employment

Many people are not able to earn a living due to lack of opportunities. A new business provides employment opportunity to such people and act as a source to earn livelihood. An entrepreneur by setting up a business provides employment directly as well as indirectly. For instance, it provides employment to labourers building up a factory, to people who will be working in the production process, etc.

iv) Generation of Business Linkages

An entrepreneur helps in creating a chain of business linkages. An enterprise provides opportunities to both the suppliers of the inputs as well as the marketers who will be selling the output. For instance, if an entrepreneur decides to manufacture tables and chairs, he creates business opportunities for the people who provide the input resources such as wood, steel, etc. Similarly, he will provide work for workers, transporters as well as for the retailers who will sell them further.

v) Increased Efficiency

An entrepreneur improves economic efficiency by avoiding wastage of resources. He focuses on optimisation of resources and aims at producing greater output from the available input. He also works on the technological upgradation and thereby, contributes to increased productivity.

vi) Increasing the Range of Economic Activities

Entrepreneurs always look out for fresh areas to invest their savings into or to start up a new business. By doing so, they help in increasing the scale of economic development. By bringing out new opportunities and serving as a source of livelihood in new sectors rather than the stale ones, they help in diversifying the economic activities across geographical and technological and sectoral scope.

Question 3: Clarify how motivation and abilities impact an individual's decision to choose entrepreneurship as a career.

Solution :

Many people are efficacious in the sense that they have a self-perception along with the confidence of turning the odd situations into the favourable ones. Such individuals have the potential of becoming a successful entrepreneur. Such individuals have the ability required to be an entrepreneur. What they require is a set of motivating factors. There are many enablers and disablers of entrepreneurship such as socio-cultural situations, individual values, etc. which affect the decision to take up entrepreneurship as a career. Four primary drivers of entrepreneurial behaviour have been identified, namely, N-Ach, N-Pow, N-Aff and N-Aut.

Need for Achievement (N-Ach)

An urge to accomplish the competitive situations and to use one's talent to achieve high standards of excellence drives an individual towards entrepreneurship. This need for achievement refers to mastering, manipulating and organising the human resources and ideas in order to attain something difficult. Entrepreneurship creates a platform for exercising creativity and self development. Entrepreneurship drives an individual to excel one's self

and to overcome the obstacles through successful exercise of talent.

Need for Power (N-Pow)

Power refers to the authority to influence and direct people. An entrepreneur is the owner of his enterprise and thereby holds the power to control its various activities. Moreover, a successful entrepreneur uses his power to fulfill not only his own personal interests but also at the same time can provide positive impetus to the society as well.

Need for Affiliation (N-Aff)

Every person has a need for affiliation. That is, he desires to conform to the wishes and aspirations of the people whom he/she values. Although entrepreneurs are believed to be low on affiliation but, this is not true. One may not work for self-fulfillment but for his/her family's gratification. For instance, one may wish to carry on with his family business and works to take it to a greater height. This is perceived as the need for affiliation. Thus, entrepreneurship fills in the need for affiliation and motivates a person to satisfy his social needs via choosing entrepreneurship as a career.

Need for Autonomy (N-Aut)

Need for autonomy refers to the need for freedom and independence. Unlike other professional practices, entrepreneurship provides the freedom of being

responsible to one's own self. In other words, entrepreneurship provides the opportunity of being responsible and accountable to one's own self rather than working under some external authority. Such a freedom motivates the people to take up entrepreneurship as a career.

Question 4: Discuss the features of the Startup India Scheme of the Government of India.

Solution:

The Startup India Scheme is a flagship initiative of the Government of India with an objective to carve a strong ecosystem for nurturing innovation and startups in the country. This drive will lead towards sustainable economic growth and generate large-scale employment opportunities. The Government of India aims to empower startups to grow through innovation and design.

The scheme specifically aims to: 1. Trigger an entrepreneurial culture and inculcate entrepreneurial values in the society at large and influence the mindset of people towards entrepreneurship,

2. Create awareness about the charms of being an entrepreneur and the process of entrepreneurship, especially among the youth,

3. Encourage more dynamic startups by motivating educated youth, scientists and technologists

to consider entrepreneurship as a lucrative, preferred and viable career, and

4. Support the early phase of entrepreneurship development, including the pre-startup, nascent, as well as, early post startup phase and growth enterprises.

5. Broad base the entrepreneurial supply by meeting specific needs of underrepresented target groups, like women, socially and economically backward communities, scheduled castes and scheduled tribes; under represented regions to achieve inclusiveness and sustainable development to address the needs of the population at the bottom of the pyramid. Features of the Startup India Scheme of the Government of India are as follows:

1. **Simplification and Handholding:** In order to make compliance for startups, friendly and flexible, simplifications are announced.

2. **Startup India Hub:** The objective is to create a single point of contact for the entire startup ecosystem and enable knowledge exchange and access to funding.

3. **Legal support and Fasttracking Patent**

Examination: The scheme for Startups Intellectual Property Protections (SIPP) is envisaged to facilitate protection of patents, trademarks and designs of innovative and interested startups.

4. **Easy Exit:** In the event of a business failure and wind up of operations, procedures are being adopted to reallocate capital and resources towards more productive avenues. This will promote experimentation with new and innovative ideas, without fearing complex and long drawn exit process.

5. **Harnessing private sector for incubator setup:** To ensure professional management of government sponsored/funded incubators, the government envisages setting up of incubators across the country in PPP mode.

6. **Tax exemption:** The profits of startup initiatives are exempted for income tax for a period of three year **Case Problem**

A landless woman from Bihar has been nominated among the top 25 farmers in Asia by a Mexican website. Forty-five-year old Lalmuni Devi was a daily wage labourer when she decided to take destiny into her own hands and transformed herself into a successful mushroom farmer. Today she manages to make Rs. 12,000 every year for an investment of only Rs. 600. Her feat finds mention on a Mexican website that has grouped her as the top 25 inspirational farmers in its photo gallery. "I am a poor woman. I thought that mushroom farming would profit henceforth I started it. Now I can earn a living for my family," said Lalmuni Devi. Successful enterprise The success story has caught on with many

women in the Azadpur village on the outskirts of Patna "It is effortless farming, which we can even do in our village. Working in the scorching heat is very tiring. Mushroom farming generates more profit," said Urmila Devi. Lalmuni and other landless women have been encouraged by the Indian Council for Agriculture Research to take up mushroom farming. "It is to help the poorest of the poor through alternative livelihood support system. For that we have chosen a village where people have no land and they have to share croppers," said Dr A.R. Khan, Principal Scientist, ICAR, Patna. Lalmuni's efforts have paved the way for many other landless women to take up mushroom farming and earn a livelihood for their family with little effort. Question

1. What inspiring feat did Lalmuni Devi perform?

Solution:

Lalmuni Devi started mushroom farming which is inspirational.

2. Do you feel that you can also become an entrepreneur? Elaborate.

Solution:

Yes, I can also become an entrepreneur by following:

1. Starting a business
2. Efficient and quality work performance
3. Risk taking ability.
4. Social Responsibility.

3. What qualities of an entrepreneur did Lalmuni Devi exhibit?

Solution:

- She is self-confident.
- She grabbed the opportunity to start farming.
- She managed everything efficiently
- She has problem solving ability.
- She has leadership quality.

4. What are the benefits and risks of becoming an entrepreneur? How can you guard against the risks?

Solution:

Benefits:

- Decision Making Authority
- Earning Profit.
- Become owner of business

Risks:

- Financial Risk
- Market Risk

- Technological Advancement.

We can guard against these risks by proper business plan, analysing the market, competitors etc, moving pace to pace with technology.