

People's Economy The End of Poverty and Hunger

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I. INTRODUCTION TO AN ECONOMY

BARTER SYSTEM

Before invention of money people followed barter system in which people exchanged goods and services for other goods and services in return.

In barter system value of goods and services depend up on demand and supply of goods and services.

Demand

Increase in demand of goods and services in the market will increase the value of goods and services.

Decrease in demand of goods and services in the market will decrease the value of goods and services.

Supply

Decrease in supply of goods and services in the market will increase the value of goods and services

Increase in supply of goods and services in the market will decrease the value of goods and services.

Fluctuations in demand and supply of goods and services are the reason for the failure of barter system and paved way for poverty and hunger.

Money was invented to address the problems faced in barter system.

MONETARY SYSTEM

After invention of money

1. People got money as a return for their goods or services.

2. People have to pay money as a return to others goods and services.

An economy has two types of persons namely

1. Individual person (**people**)

2. Artificial person (**company**)

Individual person (people)

Invention of money as created a new term called salary or wages for individual person (people)

Salary or wages

Salary or wages for labour are determined by demand and supply of labour in the market.

Demand

Increase in demand for labour in the market will increase the salary or wages of the labour in the market.

Decrease in demand for labour in the market will decrease the salary or wages of the labour in the market.

Supply

Decrease in supply of labour in the market will increase the salary or wages of the labour in the market.

Increase in supply of labour in the market will decrease the salary or wages of the labour in the market.

Salary or wages of labour in market will be

Salary or wages demanded by the labour will be the salary or wages for labours in the market in following situations.

1. Increase in demand for labours in the market.

2. Decrease in supply of labours in the market.

Salary or wages offered by the employer will be the salary or wages for labours in the market in following situations

1. Increase in supply of labours in the market.

2. Decrease in demand for labours in the market.

Artificial person (company)

Invention of money as created a new term called price for goods and services of artificial person (company)

Price

Price of goods and services are determined by demand and supply for goods and services in the market.

Demand

Increase in demand of goods and services in the market will increase the price of goods and services in the market.

Decrease in demand of goods and services in the market will decrease the price of goods and services in the market.

Supply

Decrease in supply of goods and services in the market will increase the price of goods and services in the market.

Increase in supply of goods and services in the market will decrease the price of goods and services in the market.

Price of goods and services in market will be

Price demanded by the buyer of goods and services will be the price of the goods and services in the market in following situations

1. Increase in supply of goods and services in the market.
2. Decrease in demand of goods and services in the market.

Price supplied by the seller of goods and services will be the price of the goods and services in the market in following situations

1. Decrease in supply of goods and services in the market.
2. Increase in demand of goods and services in the market.

Operation of an economy

1. Individual person (**people**) creates demand for goods and services of artificial person (**company**) and depends on the artificial person (**company**) for their salary or wages.

2. Artificial person (**company**) creates supply of goods and services for individual person (**people**) and depends on individual person (**people**) for the price of their goods and services.

Price

Increase in price for goods and services of artificial person (**company**) in the market is due to following situations

1. Price supplied by the seller of goods and services will be the price of the goods and services in the market in following situations

- Decrease in supply of goods and services in the market.
- Increase in demand of goods and services in the market.

2. Salary or wages demanded by the labour will be the salary or wages for labours in the market in following situations.

- Increase in demand for labours in the market.
- Decrease in supply of labours in the market.

Decrease in price for goods and services of artificial person (**company**) in the market are due to following situations.

1. Price demanded by the buyer of goods and services will be the price of the goods and services in the market in following situations

- Increase in supply of goods and services in the market.
- Decrease in demand of goods and services in the market.

2. Salary or wages offered by the employer will be the salary or wages for labours in the market in following situations

- Increase in supply of labours in the market.
- Decrease in demand for labours in the market.

Salary or wages

Increase in salary or wages for individual person (**people**) in the market are due to following situations.

1. Salary or wages demanded by the labour will be the salary or wages for labours in the market in following situations.

- Increase in demand for labours in the market.
- Decrease in supply of labours in the market.

2. Price supplied by the seller of goods and services will be the price of the goods and services in the market in following situations

- Decrease in supply of goods and services in the market.
- Increase in demand of goods and services in the market.

Decrease in salary or wages of individual person (**people**) in the market are due to following situations.

1. Salary or wages offered by the employer will be the salary or wages for labours in the market in following situations

- Increase in supply of labours in the market.
- Decrease in demand for labours in the market.

2. Price demanded by the buyer of goods and services will be the price of the goods and services in the market in following situations

- Increase in supply of goods and services in the market.
- Decrease in demand of goods and services in the market.

Changes of price and salary or wages in the market

1. Increase in price without increase in salary or wages will decrease the price for goods and services in the market.

- Increase in price for goods and services of artificial person (**company**) without increase in salary or wages of individual person (**people**) will decrease the purchasing power of individual person (**people**).
- Decrease in purchasing power of individual person (**people**) will decrease the demand for goods and services of artificial person (**company**) in the market.
- Decrease in demand for goods and services of artificial person (**company**) in the market will decrease the price for goods and services of artificial person (**company**) in the market.

2. Decrease in price without decrease in salary or wages will increase the price for goods and services in the market.

- Decrease in price for goods and services of artificial person (**company**) without decrease in salary or wages of individual person (**people**) will increase the purchasing power individual person (**people**).
- Increase in purchasing power of individual person (**people**) will increase the demand for goods and services of artificial person (**company**) in the market.
- Increase in demand for goods and services of artificial person (**company**) in the market will increase the price for goods and services of artificial person (**company**) in the market.

3. Increase in salary or wages without increase in price of goods and services will decrease the salary or wages in the market.

- Increase in salary or wages of individual person (**people**) without increase in price of goods and services of artificial person (**company**) will increase the cost of artificial person (**company**).
- Increase in cost of artificial person (**company**) will decrease the salary or wages of individual person (**people**) in the market.

4. Decrease in salary or wages without decrease in price of goods and services will increase the salary or wages in the market.

- Decrease in salary or wages of individual person (**people**) without decrease in price of goods and services will decrease the cost of artificial person (**company**).
- Decreased cost artificial person (**company**) will increase the salary or wages of individual person (**people**).

These fluctuations in price and salary or wages in the market from invention of money to till now is the reason for

1. Inflation of price
2. Inflation of salary or wages.

Inflation of price

Inflation of price for goods and services of artificial person (**company**) in the market will increase the expenses of artificial person (**company**).

Increase in expenses of artificial person (**company**) will increase the price of their goods and services in the market.

Increase in price for goods and services of artificial person (**company**) in the market will Increase the expenses of individual person (**people**).

Increase in expenses of individual person (**people**) and artificial person (**company**) will decrease the value for money in the market.

Inflation of salary or wages

Inflation of salary or wages of individual person (**people**) in the market will increase the expenses of artificial person (**company**).

Increase in expenses of artificial person (**company**) will increase the price for their goods and services in the market.

Increase in price for goods and services of artificial person (**company**) will increase the expenses of individual person (**people**).

Increase in expenses of artificial person (**company**) and increase in expenses of individual person (**people**) will decrease the value of money in the market.

Inflation of price and inflation salary or wages is decreasing the value of money in the market.

Inflation of price and inflation of salary or wages is the reason for winding up of artificial person (company) and unemployment of individual person (people).

Decrease in value of money is the reason for failure of monetary system and paved way for poverty and hunger.

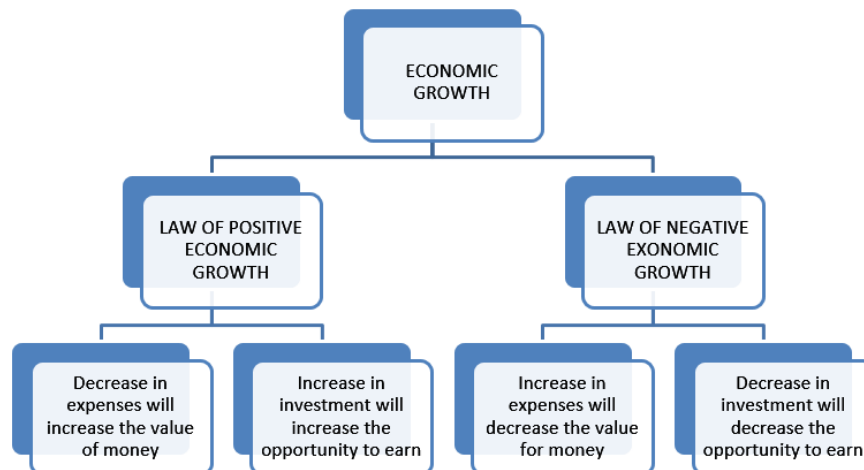
COST SYSTEM

LAW OF POSITIVE ECONOMIC GROWTH

1. Decrease in expenses will increase the value of money.
2. Increase in investment will increase the opportunity to earn.

LAW OF NEGATIVE ECONOMIC GROWTH

1. Increase in expenses will decrease the value for money.
2. Decrease in investment will decrease the opportunity to earn.



COST SYSTEM

An economy has two types of persons namely

1. Individual person (**people**)
2. Artificial person (**company**)

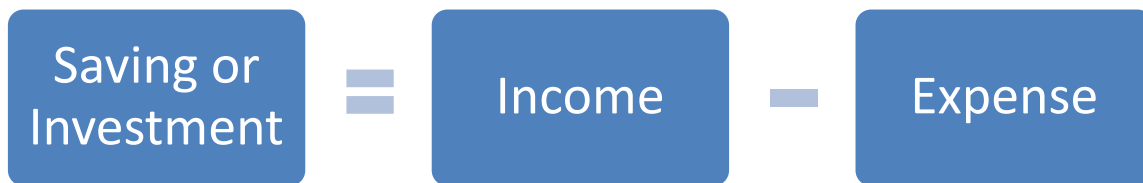
Individual person (people)

Invention of money as created following terms for individual person (**people**)

1. **Salary or wages and income**
2. **expense**
3. **saving**

4. investment

Individual persons (**people**) saving or Investment = salary or wages and income – expenses



Individual person (**people**) creates demand for the products of artificial person (**company**)

Individual persons (**people**) Expenses are Revenue to artificial persons (**company**)

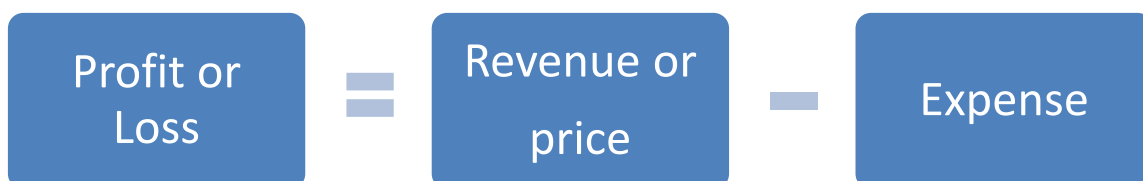
Individual person (**people**) survival in an economy is depending on the salary or wages and income from artificial person (**company**).

Artificial person (company)

Invention of money as created following terms for artificial person (**company**)

1. **price or revenue**
2. **expense**
3. **profit or Loss**
4. **investment**

Artificial person (**company**) profit or loss = price or revenue – expense



Artificial person (**company**) supplies their products as per the needs of Individual person (**people**).

Artificial persons (**company**) expense is salary or wages to Individual persons (**people**).

Artificial person (**company**) profit is income to individual person (**people**).

Artificial person (**company**) survival in an economy is depending on the Revenue from individual person (**people**).

So Individual person (**people**) and artificial person (**company**) depend up on each other for their survival in an economy.

LAW OF POSITIVE ECONOMIC GROWTH

Decrease in expenses will increase the value of money.

Increase in investments will increase the opportunity to earn.

decrease in expenses will increase the value of money

increase in investments will increase the opportunity to earn

Explanation to law of positive economic growth

Decrease in expenses will increase the value of money

- Decrease in expenses of artificial person (**company**)
Decrease in expenses of artificial person (**company**) will increase the profit of the artificial person (**company**) and decreased expenses of artificial person (**company**) will reduce the price for goods and services of artificial person (**company**) in the market.

- Decrease in expenses of individual person (**people**)
Decrease in price of goods and services of artificial person (**company**) in the market will decrease the expenses of individual person (**people**).
Decreased expenses of individual person (**people**) will increase the savings of individual person (**people**)

Increase in investments will increase the opportunity to earn.

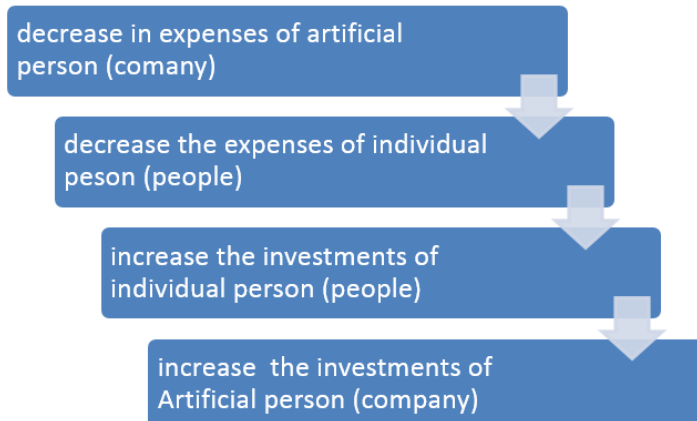
- Increase in investments of individual person (**people**)
Increased savings of individual person (**people**) will increase the investments of individual person (**people**) in the market.

Increased investment of individual person (**people**) will increase the income of individual person (**people**) in the market.

- Increase in investments of artificial person (**company**)
Increase in income of individual person (**people**) will increase the purchasing power of individual person (**people**) in the market.

Increased purchasing power of individual person (**people**) and decreased expenses of artificial person (**company**) will increase the profit of artificial person (**company**)

Increased profit of artificial person (**company**) will increase the investments of artificial person (**company**) in the market.



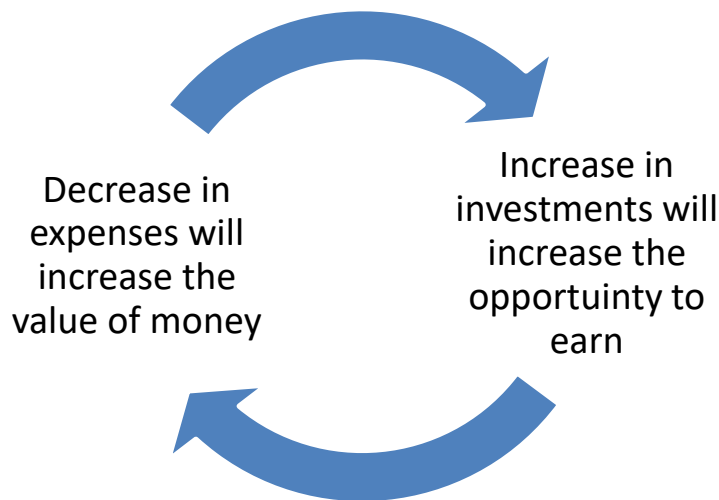
Decrease in expenses of artificial person (**company**) and decrease in expenses of individual person (**people**) will increase the value of money in the market.

Increase in investments of individual person (**people**) and increase in investments artificial person (**company**) will increase the opportunity to earn in the market.

CREATION AND UTILIZATION OF MONEY

Decrease in expenses of individual person (**people**) and artificial person (**company**) will increase the creation of money in the market.

Increase in investments of individual person (**people**) and artificial person (**company**) will increase the utilization of money in the market.



This cycle of creation and utilization of money in the market will increase the value of money, so each unit of money will buy more goods and services in the market.

Increased savings and investments of individual person (**people**) is due to

1. Decreased expenses of individual person (**people**).
2. Increased income from investments of individual person (**people**).

Increased profit and investments of artificial person (**company**) is due to

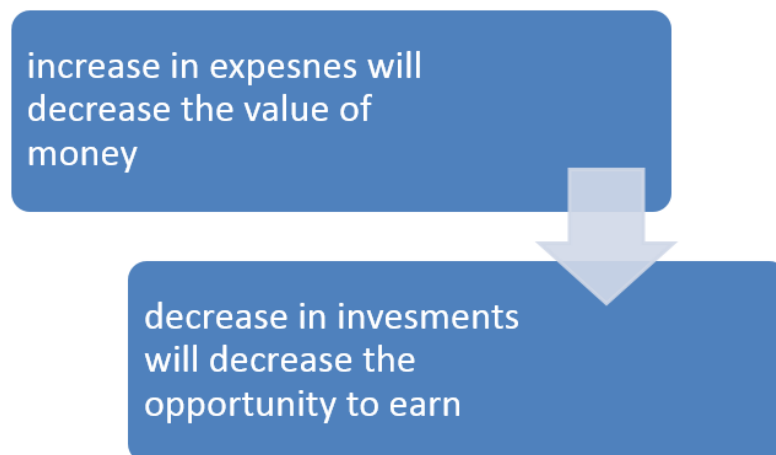
1. Decreased expenses of artificial person (**company**).
2. Increased revenue of artificial person (**company**).

Increase in value of money will end poverty and hunger in the world economy.

LAW OF NEGATIVE ECONOMIC GROWTH

Increase in expenses will decrease the value of money.

Decrease in investments will decrease the opportunity to earn.



Explanation to law of negative economic growth

Increase in expenses will decrease the value of money.

- Increase in expenses of artificial person (**company**)

Increase in expenses of artificial person (**company**) will increase the loss of artificial person (**company**) and increased expenses of artificial person (**company**) will increase the price of goods and services of artificial person (**company**) in the market.

- Increase in expenses of individual person (**people**)

Increase in price of goods and services of artificial person (**company**) in the market will increase the expenses of individual person (**people**)

Increase in expenses of individual person (**people**) will decrease the savings of individual person (**people**).

Decrease in investments will decrease the opportunity to earn

- Decrease in investments of individual person (**people**)

Decrease in savings of individual person (**people**) will decrease the investments of individual person (**people**) in the market.

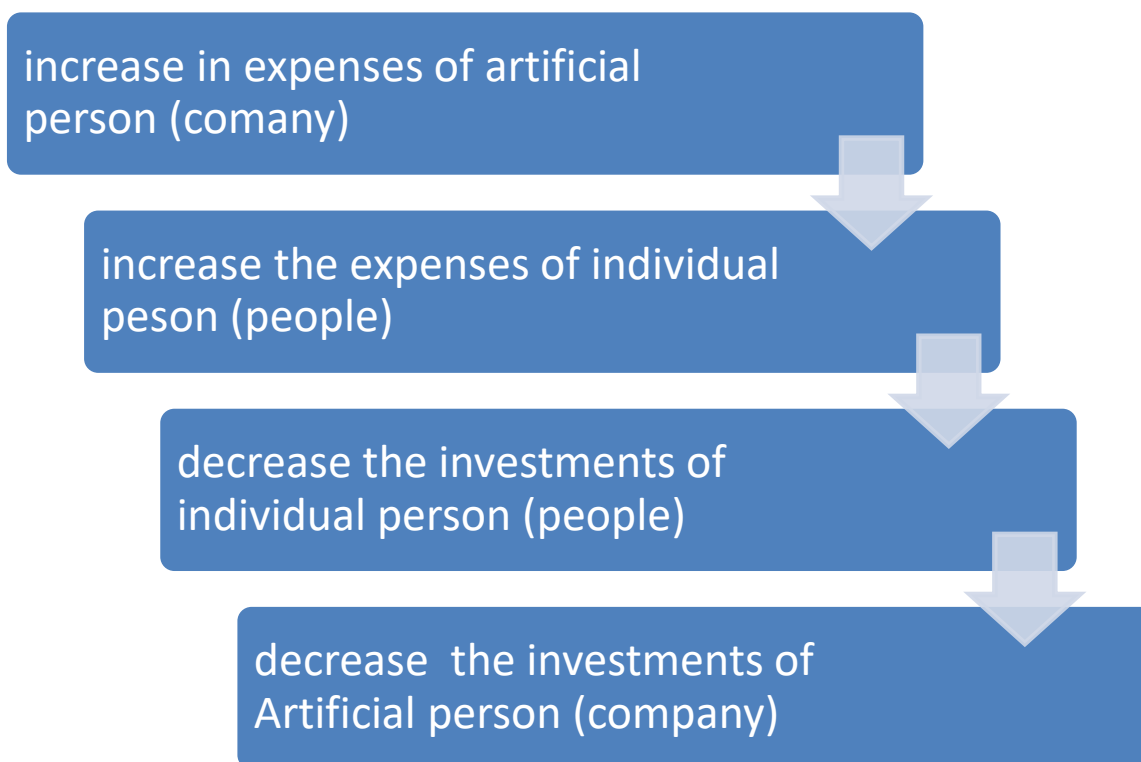
Decreased investments of individual person (**people**) in the market will decrease the income of individual person (**people**).

- Decrease in investments of artificial person (**company**)

Decrease in income of individual person (**people**) will decrease the purchasing power of individual person (**people**) in the market.

Decreased purchasing power of individual person (**people**) and increased expenses of artificial person (**company**) will increase the loss of artificial person (**company**).

Increased loss of artificial person (**company**) will decrease the investments of artificial person (**company**) in the market.



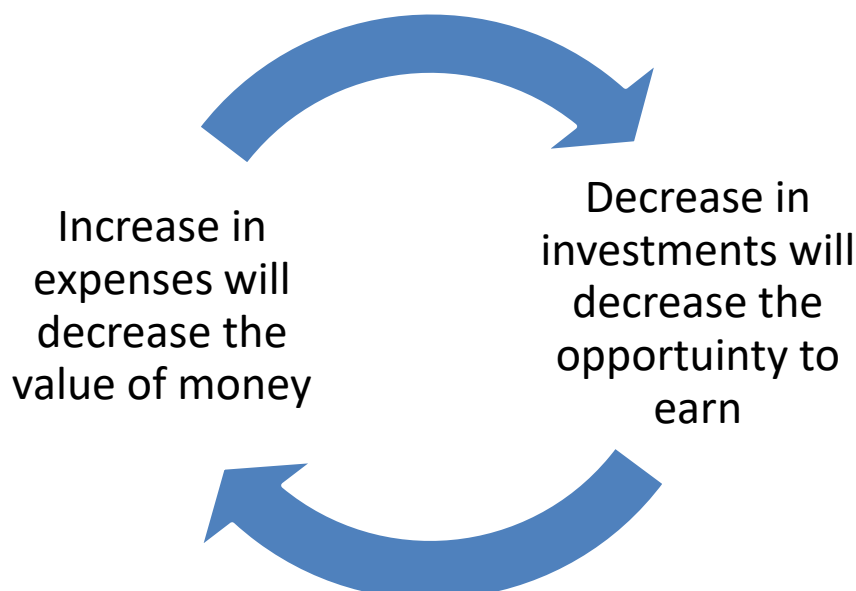
Increase in expenses of artificial person (**company**) and increase in expenses of individual person (**people**) will decrease the value of money in the market.

Decrease in investments of individual person (**people**) and decrease in investments artificial person (**company**) will decrease the opportunity to earn in the market.

CREATION AND UTILIZATION OF MONEY

Increase in expenses of individual person (**people**) and artificial person (**company**) will decrease the creation of money in the market.

Decrease in investments of individual person (**people**) and artificial person (**company**) will decrease utilization of money in the market.



This cycle of creation and utilization of money in the market will decrease the value of money, so each unit of money will buy less goods and services in the market.

Decreased savings and investments of individual person (**people**) is due to

1. Increased expenses of individual person (**people**).
2. Decreased income from investments of individual person (**people**).

Increased loss and decreased investments of artificial person (**company**) is due to

1. Increased expenses of artificial person (**company**).
2. Decreased revenue of artificial person (**company**).

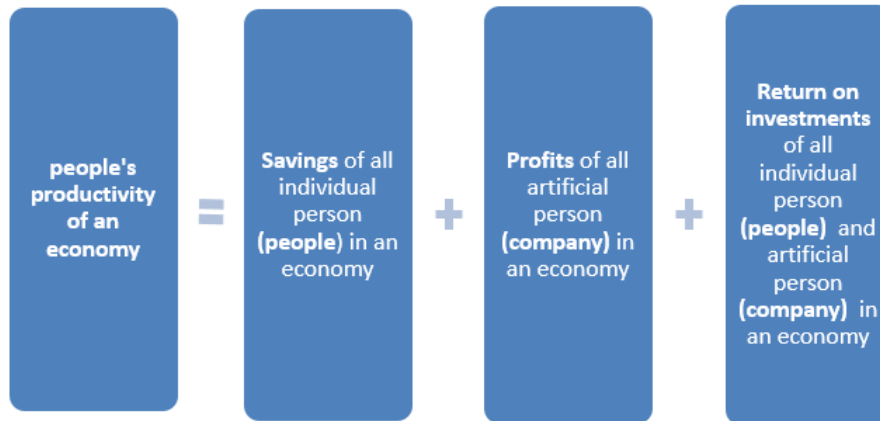
Decrease in value of money is the reason for poverty and hunger in the world economy.

MEASUREMENT TOOL

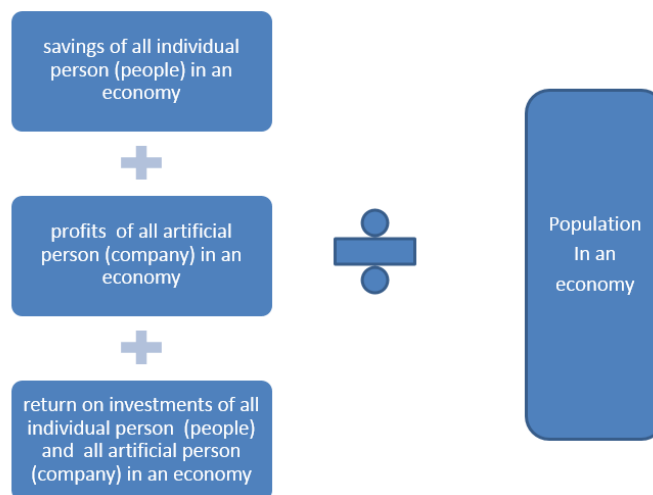
People's productivity includes

1. Savings of all individual person (**people**) in an economy
2. Profits of all artificial person (**company**) in an economy
3. Return on investment of all individual person (**people**) and artificial person (**company**) in an economy.

People's productivity = Savings of all individual persons (**people**) in an economy + Profits of all artificial persons (**company**) in an economy + Return on investment of all individual person (**people**) and artificial person (**company**) in an economy.



Peoples productivity per person = Savings of all individual persons (**people**) in an economy + **Profits** of all artificial persons (**company**) in an economy + **Return on investment** of all individual person (**people**) and artificial person (**company**) in an economy / **population in an economy**.

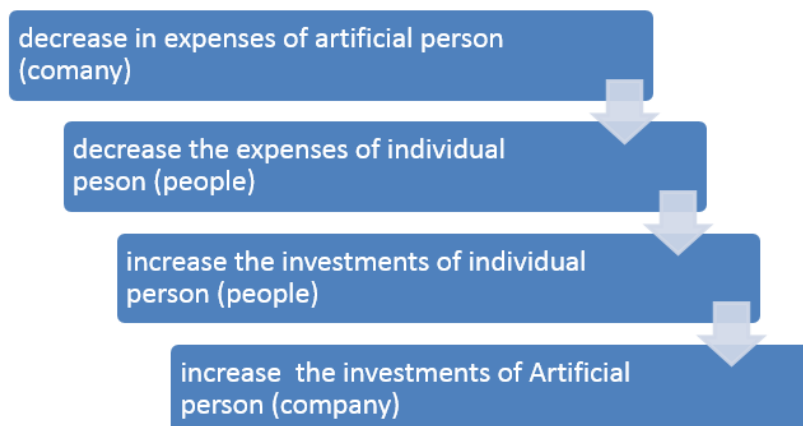


People's productivity per person of an economy should provide **food, good health and shelter** to one individual person (**people**) in an economy for the period it is calculated.

To change the current situation, we have to implement the **law of positive economic growth**

Law of positive economic growth

1. Decrease in expenses will increase the **value of money**.
2. Increase in investment will increase the **opportunity to earn**.



To change the current situation, we have to implement the economic development strategies like

1. Investment account
2. Predict
3. Effective cultivation
4. Cost effective production

Which will follow the law of positive economic growth to?

1. **Decrease the expenses to increase the value of money.**
2. **Increase the investments to increase the opportunity to earn.**

ECONOMIC DEVELOPMENT STRATEGIES

1. INVESTMENT ACCOUNT
2. PREDICT
3. EFFECTIVE CULTIVATION
4. COST EFFECTIVE PRODUCTION

Above economic development strategies are developed by following the law of positive economic growth.

These economic development strategies will increase the value of money in the world economy by creation and utilization of money in below manner.

- Decrease in expenses of individual person (**people**) and artificial person (**company**) will increase the creation of money in the market.
- Increase in investments of individual person (**people**) and artificial person (**company**) will increase the utilization of money in the market.

INVESTMENT ACCOUNT

Banks around the world are becoming bankrupt, because of increase in expenses of bank and decrease in investments in bank.

Operations of bank

Banks collect funds as a deposit from individual person (**people**) in the form of savings account and from artificial person (**company**) in the form of current account. And banks will provide funds as a loan to needed person like individual person (**people**) and artificial person (**company**) for a specified period in different form of services.

Banks need to give back the funds of depositors on their choice without any stipulated period, but banks will get back their funds from borrowers with a stipulated period, so it automatically increases the shortage of funds to banks, because they have the obligation to give back the funds to depositors on their choice without any stipulated period.

To meet the shortage of funds banks will borrow funds from other banks or financial institutions, so it will increase the expenses of banks and decrease the profit

Bank revenue

Bank provides funds as a loan to needed persons like individual person (**people**) and artificial person (**company**) and gets interest as a return for their services.

Bank expenses

Bank collects funds as a deposit from persons like individual person (**people**) and artificial person (**company**) to give interest as a return for their deposit.

And bank will have other operational expenses.

And bank need to pay interest on the borrowed funds, which are borrowed to meet the shortage of funds in bank, so this unnecessary expense is increasing the expenses of bank, and decreases the profit or increases the loss.

Increase in expenses of bank are decreasing the profit or increasing the loss of banks and lead to bankrupt, so increase in expenses and decrease in investment are reason for negative economic growth.

So we have to change this situation by applying the law of positive economic growth

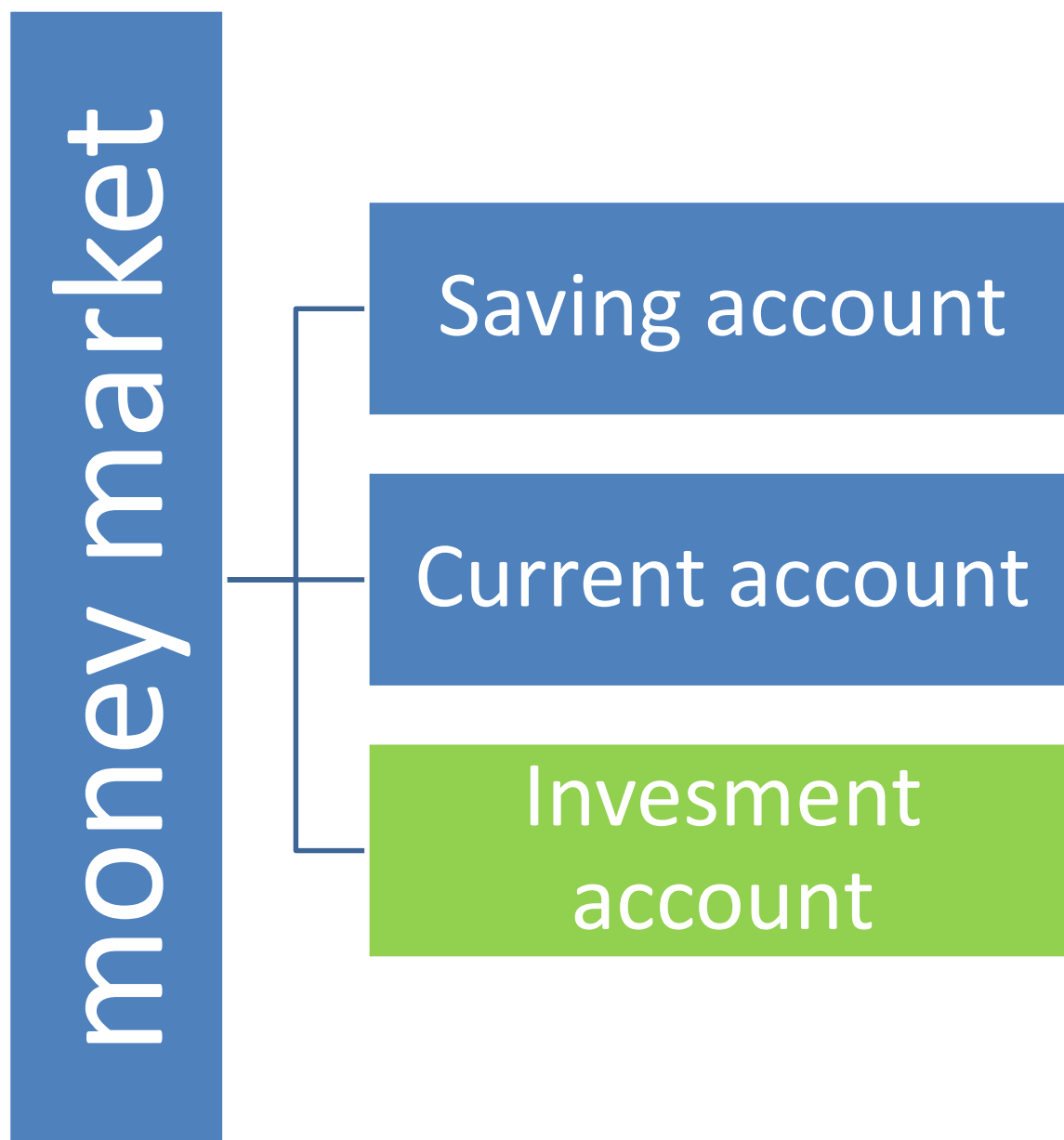
1. Decrease in expenses
2. Increase in investments

Currently banks around the world operate

1. Saving accounts for individual persons (**people**)
2. Current accounts for artificial person (**company**)

And there is a need for another type of account to be operated by banks around the world to decrease the expense and increase the investments in bank to increase the profits of the banks and that new account is called as investment account.

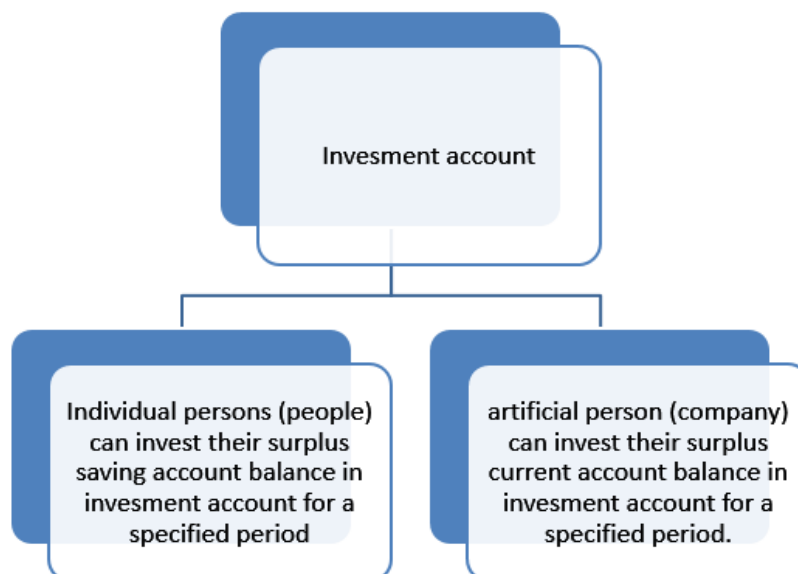
By decreasing the expenses and increasing the investments in bank, so banks will follow the law of positive economic growth.



INVESTMENT ACCOUNT

Investment account can be used by

1. Individual persons (**people**) can invest their surplus saving account balance in investment account for a specified period.
2. Artificial person (**company**) can invest their surplus current account balance in investment account for a specified period.



Banks should provide an option for individual person (**people**) and artificial person (**company**) to invest their surplus account balance in the investment account and allocate them on following banking facilities and money market instruments individually.

Money market instruments like

- Call/notice money
- Treasury bills
- Commercial bills
- Commercial papers

Credit facilities like

- Demand loan
- Term loans
- Overdraft
- Cash credit
- Packing credit
- Hire purchase

Banks should assess the demand in the market for the following money market instruments and credit facilities.

Money market instruments like

- Call/notice money
- Treasury bills
- Commercial bills
- Commercial papers

Credit facilities like

- Demand loan
- Term loans
- Overdraft
- Cash credit
- Packing credit
- Hire purchase

And Banks should fix

- Banks interest rate for each money market instruments and credit facilities individually
- Investment account interest rate for each money market instruments and credit facilities individually.

Banks interest rate – investment account interest rate = banks profit margin

Example

Money market instruments	banks interest rate	Investment account interest rate	Banks profit margin
Call/notice money	9%	7%	2%
Treasury bills	5%	4%	1%
Commercial bills	7%	5%	2%
Commercial papers	10%	8%	2%
Credit facilities like			
Demand loan	12%	9%	3%
Term loans	11%	8.5%	2.5%
Overdraft	8%	6%	2%
Cash credit	9%	7.5%	1.5%
Packing credit	10%	7.5%	2.5%
Hire purchase	9.5	7%	2.5%

And banks should decide the period of investment for each money market instruments and credit facilities individually.

Example

It may 15 days, 30 days, 60 days, 90 days, 120 days and 180 days and so on.

So investors will allocate their funds in the investment account to one or more of money market instruments and credit facilities based on their interest rate and period of investment.

Example

Chandra's investment account balance = 136,500

Money market instruments	Investment account interest rate	Period of investment	Investment
Call/notice money	7%	15 days	8,000
Treasury bills	4%	90 days	14,000
Commercial bills	5%	180 days	15,000
Commercial papers	8%	120 days	16,000
Credit facilities like			
Demand loan	9%	180 days	25,000
Term loans	8.5%	180 days	5,000
Overdraft	6%	120 days	9,000
Cash credit	7.5%	90 days	12,500
Packing credit	7.5%	90 days	20,000
Hire purchase	7%	60 days	12,000

Funds collected from investors on each money market instruments and credit facilities should be used for their respective purpose only.

On expiry of the specified period banks should credit the principal along with interest to investors in their investment account.

An investor can transfer the available credit balance of investment account to saving account or current account

Or

An investor can also re-invest the available credit balance in investment account by allocating to one or more of money market instruments and credit facilities based on their interest rate and investment period.

Note

If banks around the world want to attain positive economic growth they have to implement investment account in their banks to decrease the expenses and increase the investments in bank.

PREDICT

In capital market artificial person (**company**) raises funds form individual person (**People**) and artificial person (**company**) through issue of shares and debentures.

Shares

Shares should be issued only at **initial public offer** of the artificial person (**company**), because issue of new shares by **follow on public** offer will lead to stock dilution, which will decrease the existing shareholders

ownership percentage of the artificial person (company) and reduces the earnings per share of the shareholders like individual person (people) and artificial person (company). And increases the **share issue expenses** of the artificial person (**company**)

Issue of shares after **initial public offer** will **increase the expenses** of artificial person (**company**) by **increasing the share issue expenses**

Issue of shares after **initial public offer** will **decrease the investments** by **decreased shareholders ownership, reduced earnings per share** and **dividend uncertainty**.

So **issue of shares** after **initial public offer** is **increasing the expenses** and **decreasing the investments**

Debentures

On issue of debentures artificial person (company) will have no flexibility in their obligation to make interest payments and principal on their maturity. Debentures offers only fixed and low interest rates and debenture holders don't have any claim on profits of artificial person (company)

Issue of debentures will **increase the expenses** of artificial person (**company**) by **increasing the debenture issue expenses**.

Issue of debentures will **decrease the return on investments** as **fixed or low interest rates offered on debentures** and **debenture holders don't have any claim on profits of artificial persons (company)**

Issue of shares and debentures are increasing the expenses and decreasing the investments, which are leading us to negative economic growth.

To change this situation, we have to implement the **law of positive economic growth**.

Law of positive economic growth

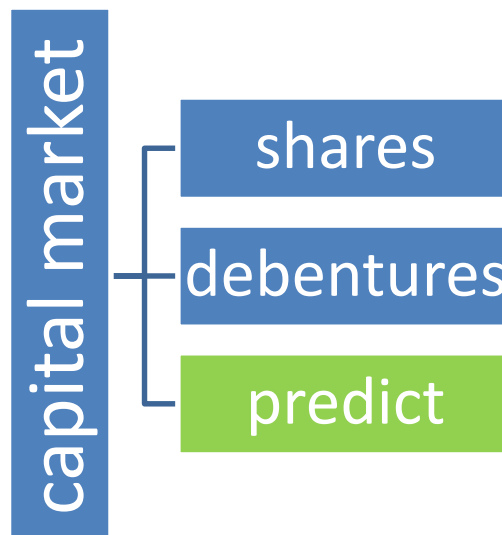
1. Decrease in expenses will increase the value of money.
2. Increase in investment will increase the opportunity to earn.

So artificial persons (company) should not issue debentures and shares after initial public offer

NEW METHOD

In capital market artificial person (**company**) raises funds from individual person (**People**) and artificial person (**company**) through issue of

1. Shares (**initial public offer only**)
2. **Predict (new instrument)**



New instrument

The new instrument is called as **predict**

Predict will be issued by companies to raise funds from public in following manner.

Company can issue **predict** for a period of **3 years or 5 years or 7 years or 10 years**.

Company should **repay** the **principal** to **predict holders** after the **maturity period**.

On issue of **predict**, company should mention the following information in the offer document

1. **Face value**
2. **Interest rate range**
3. **Percentage of profit range for dividend**

- 4. **High profit percentage range**
- 5. **Low profit percentage range**
- 6. **Period of maturity**

1. Face value

- Face value is original value of **predict**.
- Company determines the face value of **predict**
- **Company should mention the face value of predict in the offer document.**

Example: if a company wants to raise 100 lakhs from public.
They can issue 40,000 predicts at a face value of 250 each.

2. Interest rate range

In offer document of **predict**, company as to mention the interest rate range with lower limit and upper limit for each and every year till its maturity.

Example: company A issues predict with a maturity period of 3 years.

Years	Interest rate range
1	9% to 12%
2	8% to 11%
3	10% to 13%

3. Percentage of profit range for dividend

In offer document of **predict**, company as to mention the percentage of profit range for dividend with lower limit and upper limit for each and every year till its maturity.

Example: company A issues predict with a maturity period of 3 years

Years	Percentage of profit range for dividend
1	40% to 60%
2	45% to 65%
3	35% to 55%

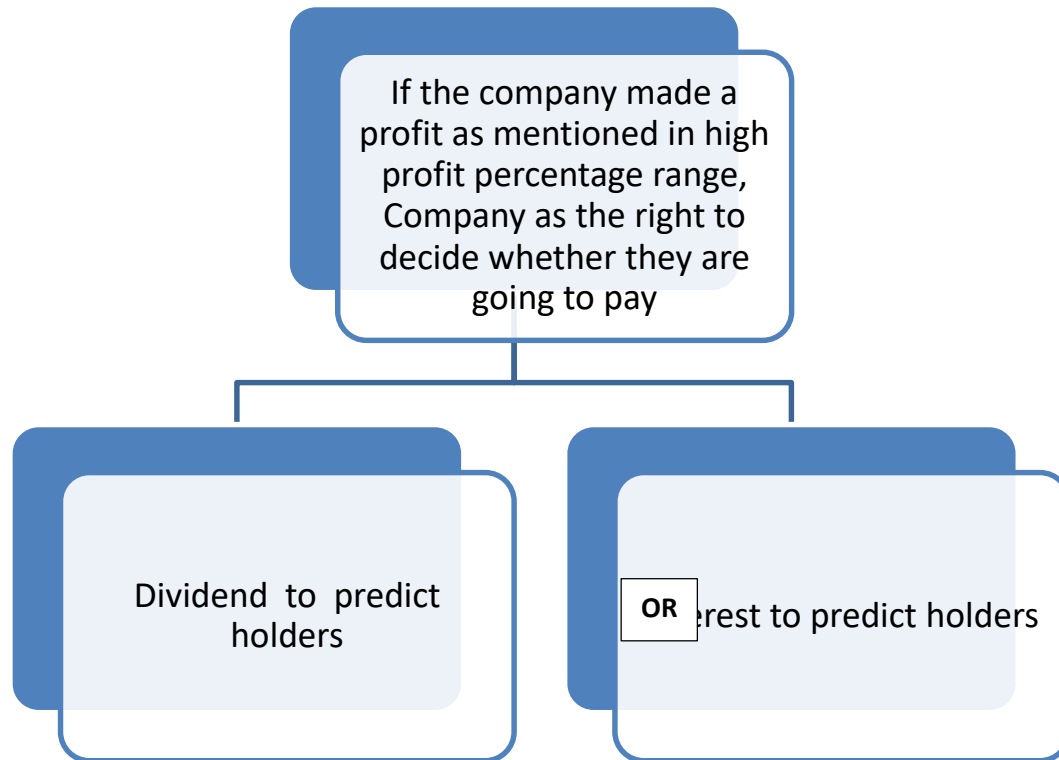
4. High profit percentage range

- Company will predict its future high profit percentage range for every year based on the past performance of the company. **And it will be mentioned in the offer document.**

Example: company A issues predict with a maturity period of 3 years

Years	High profit percentage range
1	16% to 25%
2	17% to 28%
3	18% to 30%

- If the company made a profit as mentioned in high profit percentage range, Company as the **right to decide** whether they are going to pay **dividend** or **interest to predict holders**



➤ If a **company** as selected **dividend**, then **company** have to select the percentage of profit for divided from the range mentioned in the offer document of **predict**

Example: percentage of profit range for dividend in 1st year = **40% to 60%**
Company A as selected 50% of profit as dividend for the first year.

OR

➤ If a **company** as selected **interest**, then **company** have to select the percentage of interest from the range mentioned in the offer document of **predict**

Example: interest rate range for 1st year = 9% to 12%
Company A as selected 10% as interest rate for the first year.

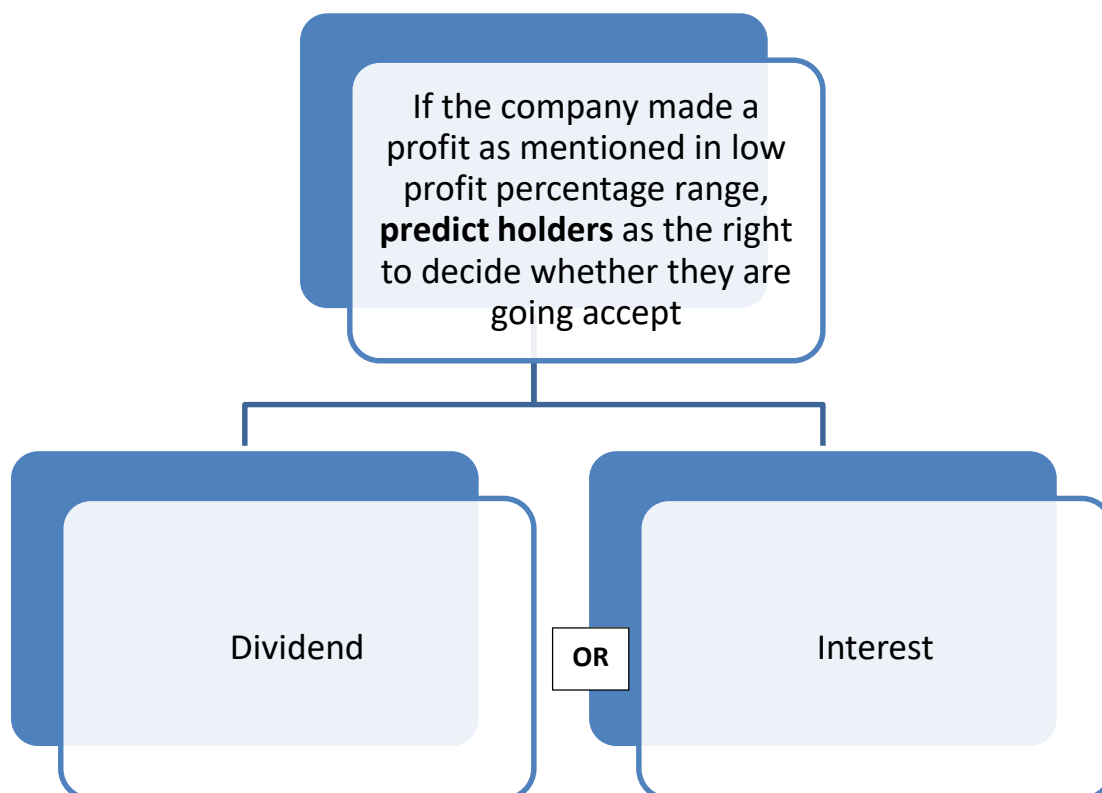
5. Low profit percentage range

➤ Company will predict its future low profit percentage range for every year based on the past performance of the company. **And it will be mentioned in the offer document.**

Example: company A issues predict with a maturity period of 3 years

Years	low profit percentage range
1	1% to 15%
2	1% to 16%
3	1% to 17%

➤ If the company made a profit as mentioned in low profit percentage range, **predict holders** as the **right to decide** whether they are going accept **dividend** or **interest**.



➤ If **predict holders** as selected **dividend**, then **predict holders** have to select the percentage of profit for divided from the range mentioned in the offer document of **predict**.

Example: percentage of profit range for dividend in 1st year = **40% to 60%**
Predict holders as selected 55% of profit for dividend for the 1st year.

OR

➤ If **predict holders** as selected **interest**, then **predict holders** have to select the percentage of interest from the range mentioned in the offer document of **predict**.

Example: interest rate range for 1st year = 9% to 12%
Predict holders as selected 11% as interest rate for the 1st year.

6. Period of maturity

➤ Company should mention the period of maturity in the offer document of **predict**.

➤ **It may be**

- 3 years
- 5 years
- 7 years
- 10 years

EFFECTIVE CULTIVATION

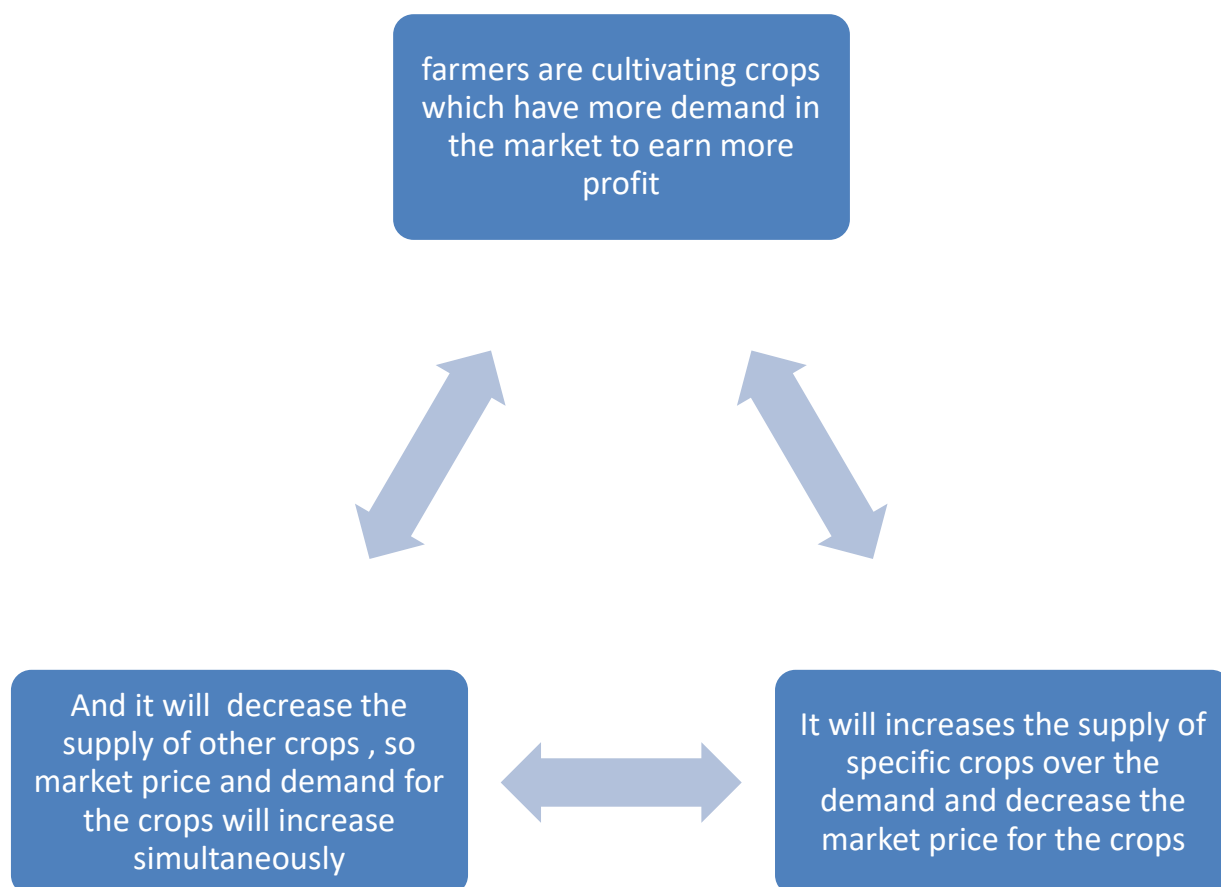
Current situation in agriculture

➤ Currently farmers around the world are cultivating crops, which have more demand in the market to earn more profit.

➤ By cultivating specific crops, which have more demand in the market, they are increasing the supply of specific crops over the demand so price of the crops in the market will decrease because of excess supply.

➤ And it will decrease the supply of other crops, so price of other crops will increase in the market and demand for the crops will also increase simultaneously.

- **Again farmers will cultivate crops, which have more demand in the market.**



Problems faced by farmers

- Due to reduced price, profit of the farmers is reduced.
- if their expenses are more than the decreased market price, they will incur loss
- Due to excess supply over demand, farmers may not be able to sell their agricultural products in the market. And this will lead to wastage of cultivated crops, natural resources and complete loss of money invested for cultivation of crops.

$$\text{Profit/ loss} = \text{market price} - \text{cost (expenses)}$$

Problems faced by wholesalers and retailers

- Wholesalers and retailers will buy agricultural products from farmers, which have more demand in the market and store in their warehouse. And increase in supply over demand will decrease the market price of the crops.
- Due to decreased market price, profit of wholesalers and retailers is reduced.
- If their expenses are more than the decreased market price, they will incur loss.
- Due to excess supply over demand, wholesalers and retailers may not be able to sell their products in the market.

$$\text{Profit/loss} = \text{market price} - (\text{purchase price} + \text{expenses})$$

Problems faced by consumers

- Unstable market price will increase the cost of living of people.

Unstable market price is due to variations in demand and supply.

Expenses of farmers, wholesalers, retailers and consumers are increasing, so it decreases the value of money. Investments are decreased due to loss incurred to farmers, wholesalers and retailers.

This is the reason for **negative economic growth**.

To change this situation, we have to implement the law of positive economic growth

Law of Positive economic growth

1. Decrease in expenses will increase the value of money.
2. Increase in investments will increase the opportunity to earn.

Effective cultivation

Effective cultivation is a strategy in which supply will be altered to meet the Demand of the market.

$$\text{Planned Supply} = \text{market demand}$$

An organisation should be created to assess the

1. **Supply plan**
2. **Cost of cultivation.**
3. **Market demand**
4. **price**

Supply plan

- Usually each crop will have different cultivation periods.
- Usually a land will be suitable for cultivating one or more kind of crops and the organisation should collect the data for all agricultural lands.
- By collecting the above information, we will be able to know
 1. Period of cultivation for each crop
 2. number of hectares suitable for cultivating each individual crop
 3. Areas or zones suitable for cultivating each individual crop.
- Organisation should plan the mix of crops for each area or zone.

Market demand

Organisation should assess the demand for each agricultural product in the market.

Organisation should plan the mix of crops for each area or zone as per the demand for each agricultural product in the market

Cost of cultivation

Farmers in each area or zone will cultivate the mix of crops suitable for their land.

Farmers in each area or zone should cultivate the same crop allotted for their area or zone, so farmers of that area or zone will share the expenses of cultivation.

Farmers union in each area or zone will share their expenses based on their share of land in that area or zone.

Organisation should record the cost of cultivation of each crop in each area or zone.

Price

Price will be equal to cost of cultivation plus profit for farmers.

$$\text{Price} = \text{cost} + \text{profit}$$

Price will be fixed under cost plus method. In this method the organisation will conduct sale of agricultural products of the farmers.

In cost plus method

- Organisation will declare the cost of cultivation.
- farmers will bid the cost plus percentage of profit to sell
- buyers will offer cost plus percentage of profit to buy
- If farmers bid and buyers offer matches, farmers should sell to the buyer at agreed price.

Advantages to farmers

- Farmers will earn stable profit, without any major variations in profit
- Farmers will not incur any losses.

- Cultivated crops will be used by the end consumer, so there will be no wastage of natural resources

$$\text{Price} = \text{cost} + \text{profit}$$

Advantages to wholesalers and retailers

- Wholesalers and retailers will buy agriculture products from farmers and store in their warehouse.
- Wholesalers and retailers will earn a stable profit, without any major variations in profit.
- Wholesalers and retailers will not incur any losses.
- Goods stored in the warehouse will be sold to end consumer, without any wastages.

$$\text{Price} = (\text{Purchase price} + \text{expenses}) + \text{profit}$$

Advantages to consumer

Stable price will reduce the cost of living of people.

Stable price is possible by meeting the market demand with planned supply.

$$\text{Planned Supply} = \text{market demand}$$

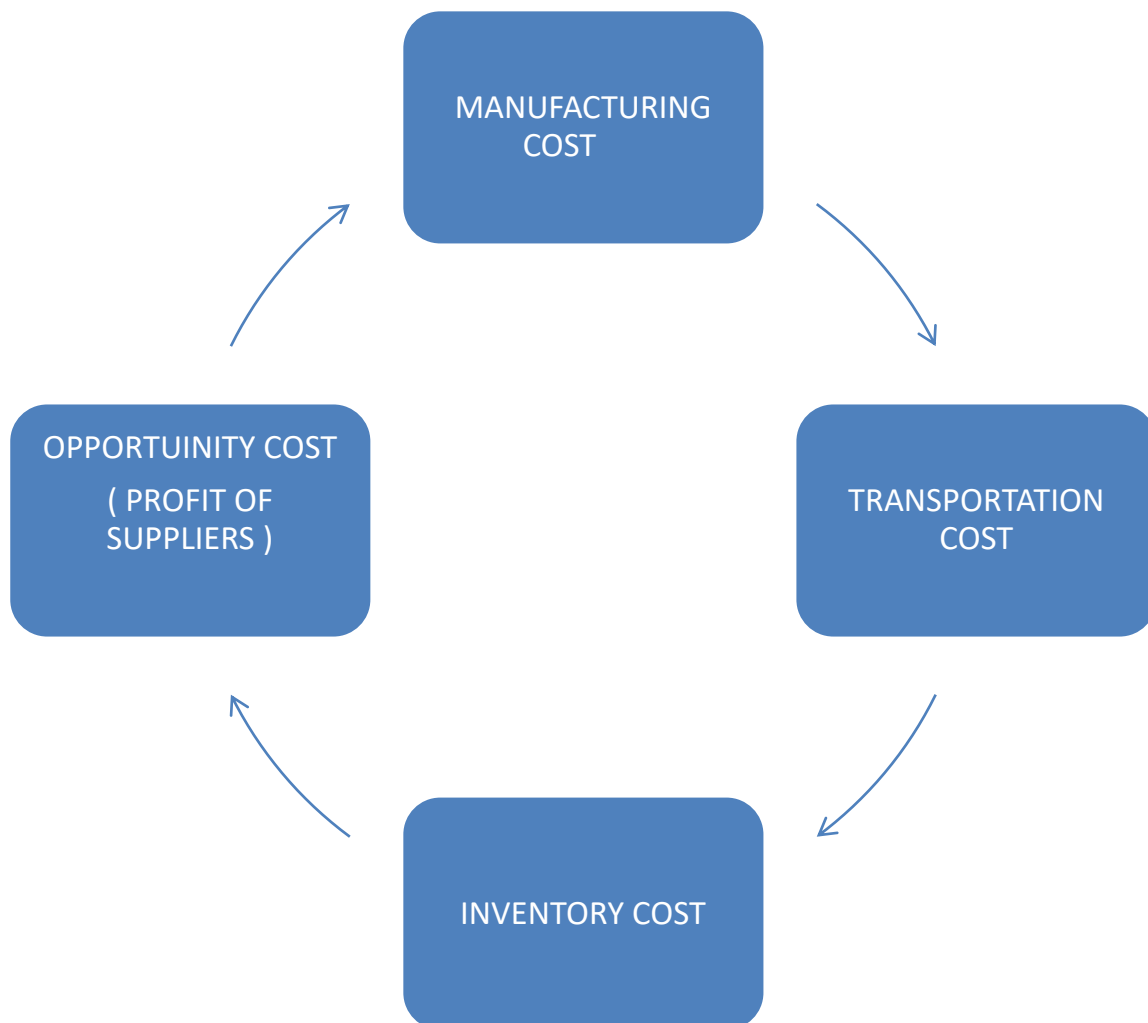
COST EFFECTIVE PRODCUTION PLAN

Global supply chain

Increasing cost of global supply chain is due to increase in

1. **MANUFACTURING COST**
 - **Material cost**
 - **Employee cost**
 - **Expenses**
 - **Overheads**
2. **TRANSPORTATION COST**
3. **INVENTORY COST**
4. **OPPORTUNITY COST (profit of suppliers)**

And **cascading effect** on above cost.



COST EFFECTIVE PRODUCTION

Cost effective production can be used for the production of final product which requires assembly.

In cost effective production we have to take below decisions in following order

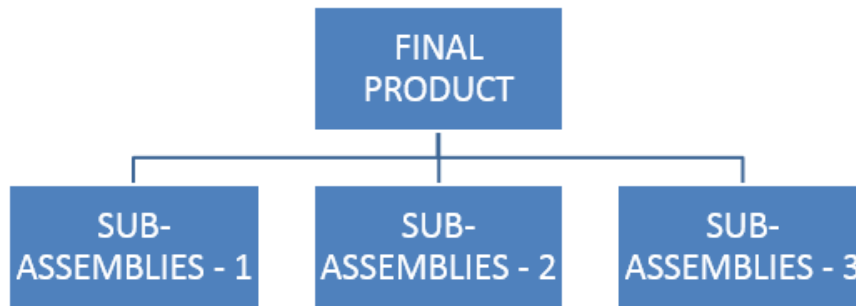
1. What to buy
2. Where to buy
3. What to make
4. Where to make

METHOD

FINAL PRODUCT

In cost effective production Final product should be divided in to different semi-finished goods or sub-assemblies, which are required for the production of the final product.

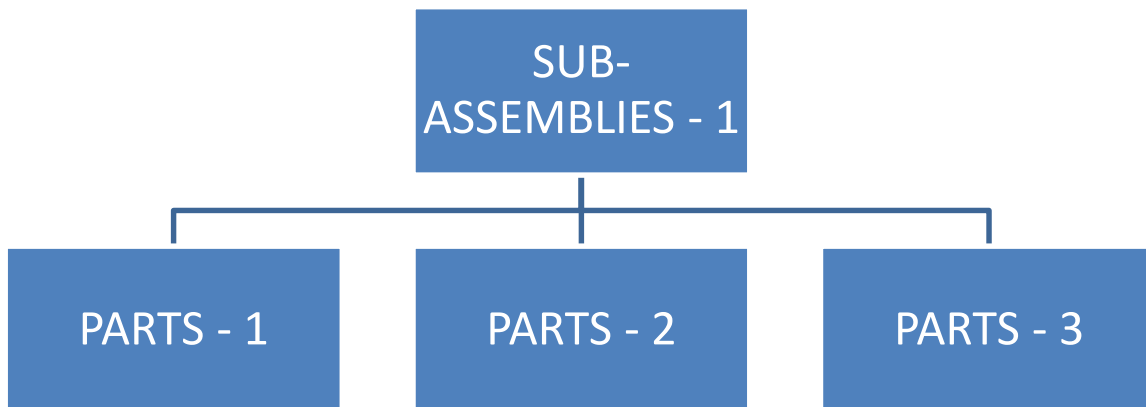
e.g. Final product has been divided in to **three semi-finished goods or sub-assemblies.**



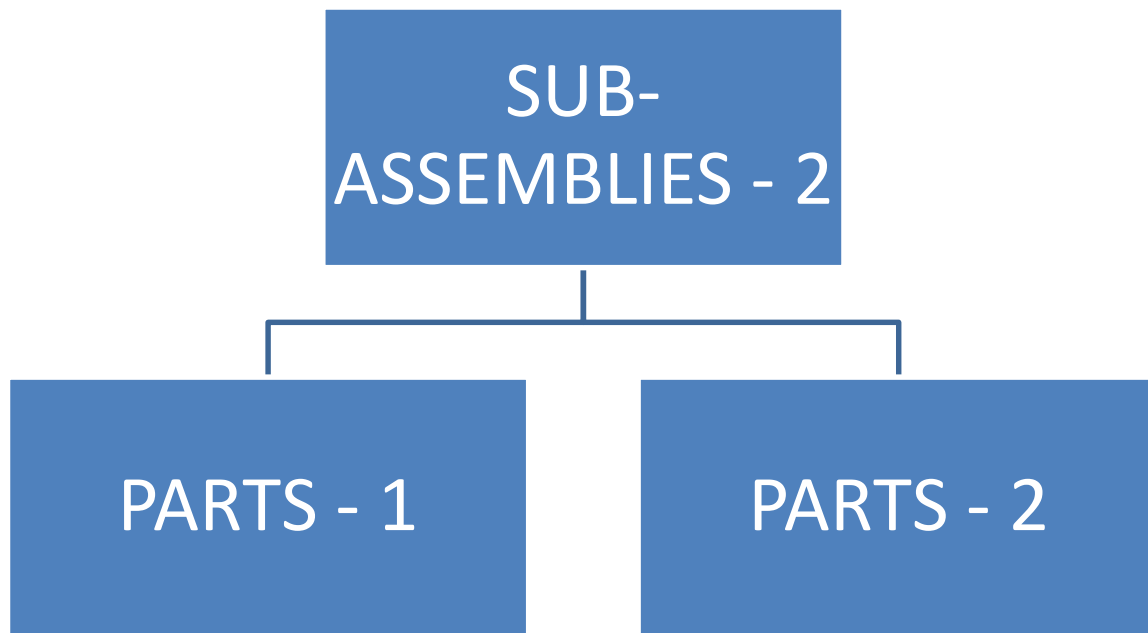
SEMI-FINISHED GOODS OR SUB-ASSEMBLIES

Each Semi-finished goods or sub-assemblies should be divided in to different parts or components, which are required for the production of respective semi-finished goods or sub-assemblies.

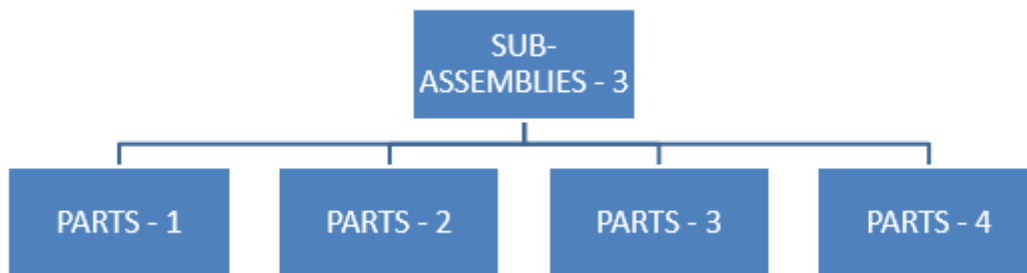
e.g. Sub-assemblies – 1 has been divided in to **three** parts or components.



e.g. Sub-assemblies – 2 has been divided in to **two** parts or components.



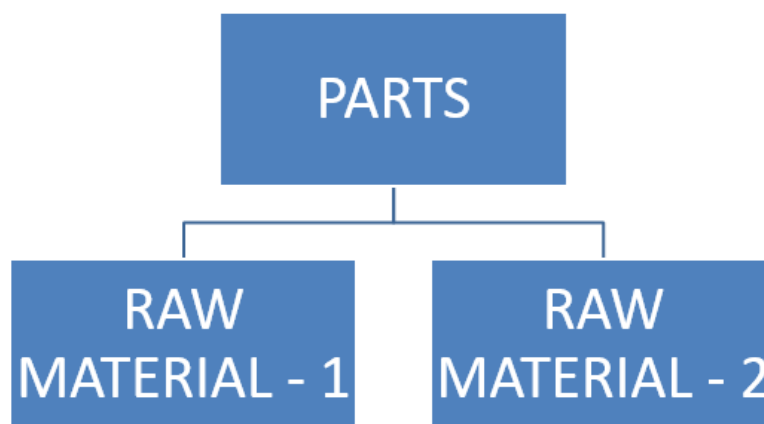
e.g. Sub-assemblies – 3 has been divided in to **four** parts or components.



PARTS OR COMPONENTS

Each Parts or components should be divided in to different raw materials, which are required for the production respective parts or components.

e.g. parts or components has been divided in to **two** raw materials.



PRIMARY COST

Variables in global supply chain are

1. Price
2. Rate of customs duty

3. Transportation cost
4. Inventory cost

PRICE

Price will vary for each

1. Semi-finished goods or sub-assemblies
 2. Parts or components
 3. Raw materials
- In different countries.

RATE OF CUSTOMS DUTY

Rate of customs duty will vary for each

1. Semi-finished goods or sub-assemblies
2. Parts or components
3. Raw materials

TRANSPORTATION COST

Transportation cost will change for each

1. Semi-finished goods or sub-assemblies
2. Parts or components
3. Raw materials

With different mode of transports like

- Road
- Rail
- Sea
- Air

Form origin country to destination country.

INVENTORY COST

Inventory cost will change for each

1. Semi-finished goods or sub-assemblies
2. Parts or components
3. Raw materials

Based on their quantity and storage period.

COMPUTATION OF PRIMARY COST

We have to get primary cost of each

1. Semi-finished goods or sub-assemblies
2. Parts or components
3. Raw materials

By adding their respective

1. Price
2. Customs duty
3. Transportation cost
4. Inventory cost

Semi-finished goods or sub-assemblies

Primary cost of each **Semi-finished good or sub-assemblies** is calculated by adding **price, customs duty, transportation cost and inventory cost.**

PRIMARY COST SHEET	
SUB-ASSEMBLIE (PER UNIT)	
PARTICULARS	AMOUNT
PRICE	XXXX
CUSTOMS DUTY	XXXX
TRANSPORTATION COST	XXXX
INVENTORY COST	XXXX
SUB-ASSEMBLE PIMARY COST	XXXX

Parts or components

Primary cost of each Part or component is calculated by adding price, customs duty, transportation cost and inventory cost.

PRIMARY COST SHEET	
PARTS (PER UNIT)	
PARTICULARS	AMOUNT
PRICE	XXXX
CUSTOMS DUTY	XXXX
TRANSPORTATION COST	XXXX
INVENTORY COST	XXXX
PARTS PIMARY COST	XXXX

Raw materials

Primary cost of each raw material is calculated by adding price, customs duty, transportation cost and inventory cost.

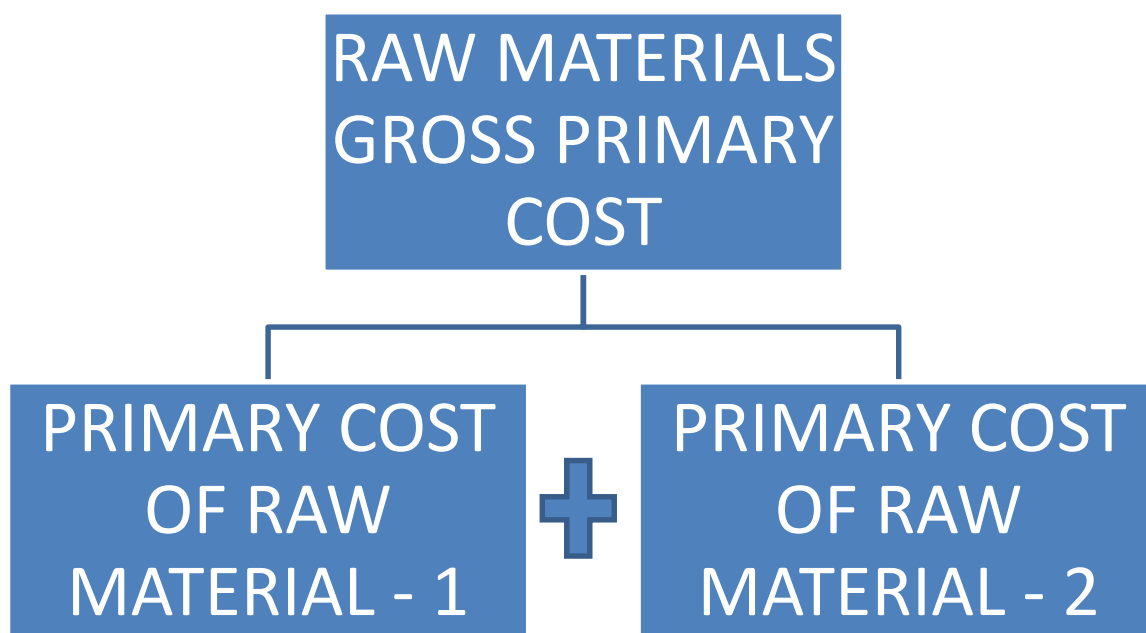
PRIMARY COST SHEET	
RAW MATERIAL (PER UNIT)	
PARTICULARS	AMOUNT
PRICE	XXXX
CUSTOMS DUTY	XXXX
TRANSPORTATION COST	XXXX
INVENTORY COST	XXXX
RAW MATERIALS PIMARY COST	XXXX

COMPUTATION OF GROSS PRIMARY COST

RAW MATERIALS GROSS PRIMARY COST OF RESPECTIVE PARTS

Raw materials gross primary cost of respective parts is calculated by adding the each raw materials primary cost.

e.g. Parts requires two raw materials, we have to add primary cost of two raw materials to get raw materials gross primary cost.

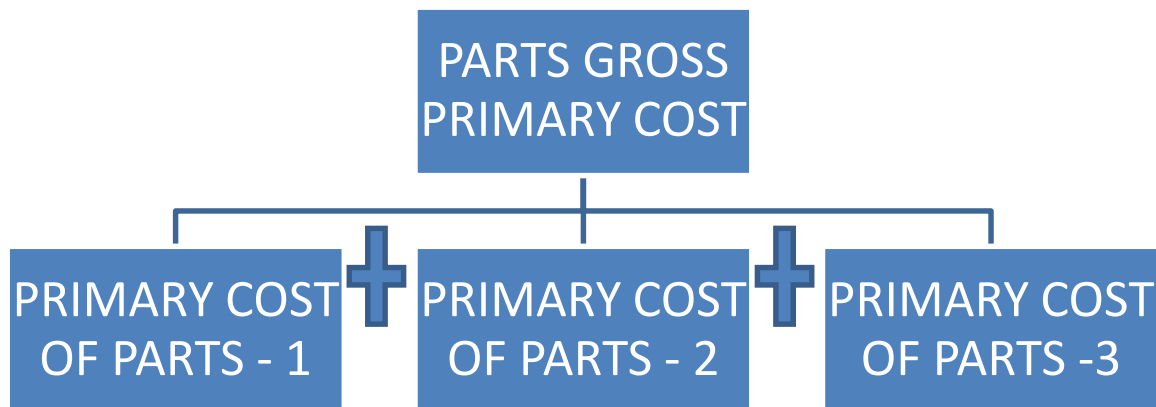


RAW MATERIALS GROSS PRIMARY COST	
PARTICULARS	AMOUNT
RAW MATERIAL PRIMARY COST – 1 (RAW MATERIAL – 1)	XXX
RAW MATERIAL PRIMARY COST – 2 (RAW MATERIAL – 2)	XXX
RAW MATERIAL GROSS PRIMARY COST	XXXX

PARTS GROSS PRIMARY COST OF RESPECTIVE SUB-ASSEMBLIES

Parts gross primary cost of respective sub-assemblies is calculated by adding the each parts primary cost.

e.g. Sub-assemblies requires **three** parts, we have to add primary cost of three parts to get parts gross primary cost.



PARTS GROSS PRIMARY COST	
PARTICULARS	AMOUNT
PARTS PRIMARY COST – 1 (PARTS – 1)	XXX
PARTS PRIMARY COST - 2 (PARTS – 2)	XXX
PARTS PRIMARY COST – 3 (PARTS – 3)	XXX
PARTS GROSS PRIMARY COST	XXXX

SELECTION PROCEDURE OF PRODUCITON MODEL COST COMPARISON OF RAW MATERIAL AND PARTS

If **raw material gross primary cost** is **less** than the respective **parts primary cost** we have to choose **MANUFACTURING FROM RAW MATERIALS.**

OR

If **raw material gross primary cost** is **greater** than the respective **parts primary cost** we have to choose **MANUFACTURING FROM PARTS.**

RAW MATERIALS GROSS PRIMARY COST	
PARTICULARS	AMOUNT
RAW MATERIAL PRIMARY COST – 1 (RAW MATERIAL – 1)	XXX
RAW MATERIAL PRIMARY COST – 2 (RAW MATERIAL – 2)	XXX
RAW MATERIAL GROSS PRIMARY COST	XXXX

PRIMARY COST SHEET	
RAW MATERIAL (PER UNIT)	
PARTICULARS	AMOUNT
PRICE	XXXX
CUSTOMS DUTY	XXXX
TRANSPORTATION COST	XXXX
INVENTORY COST	XXXX
RAW MATERIALS PIMARY COST	XXXX

COST COMPARISON OF PARTS AND SUB-ASSEMBLIES

If **Parts gross primary cost** is less than the respective **sub-assemblies primary cost** we have to choose **MANUFACTURING FROM PARTS.**

OR

If **parts gross primary cost** is **greater** than the respective **sub-assemblies primary cost** we have to choose **MANUFACTURING FROM SUB-ASSEMBLIES.**

PARTS GROSS PRIMARY COST	
PARTICULARS	AMOUNT
PARTS PRIMARY COST - 1 (PARTS - 1)	XXX
PARTS PRIMARY COST - 2 (PARTS - 2)	XXX
PARTS PRIMARY COST - 3 (PARTS - 3)	XXX
PARTS GROSS PRIMARY COST	XXXX

PRIMARY COST SHEET	
SUB-ASSEMBLIE (PER UNIT)	
PARTICULARS	AMOUNT
PRICE	XXXX
CUSTOMS DUTY	XXXX
TRANSPORTATION COST	XXXX
INVENTORY COST	XXXX
SUB-ASSEMBLE PIMARY COST	XXXX

PRODUCTION MODELS

Comparing the cost of raw materials, parts and sub-assemblies will give us the following types of production model.

1. **MANUFACTURING FROM RAW MATERIALS**
2. **MANUFACTORING FROM PARTS OR COMPONENTS**
3. **MANUFACUTRING FROM SUB-ASSEMBLIES OR SEMI-FINISHED GOODS**

MANUFACTURING FROM RAW MATERIALS

In manufacturing from raw materials

1. We have to procure raw materials from the market.
2. Raw materials will used for the production of their respective parts.
3. Produced parts will be used for the production of their sub-assemblies.
4. Produced sub-assemblies will be used for the production of final product.

MANUFACTURING FROM PARTS OR COMPONENTS

In manufacturing from parts or components

1. We have to procure parts form the market.
2. Parts will be used for the production of their respective sub-assemblies.
3. Produced sub-assemblies will be used for the production of final product.

MANUFACTURING FROM SUB-ASSEMBLIES OR SEMI-FINISHED GOODS

In manufacturing from sub-assemblies or semi-finished goods

1. We have to procure sub-assemblies or semi-finished goods from the market.
2. Sub-assemblies or semi-finished goods will be used for the production of final product.

Since we are procuring

1. **Raw materials** in **manufacturing from raw materials** production model.
2. **Parts** in **manufacturing form parts or components** production model.
3. **Sub-assemblies** in **manufacturing form sub-assemblies or semi-finished goods** production model.

We should have a minimum of two or three suppliers for each raw materials, parts or components and sub-assemblies or semi-finished goods.

CHANGES IN PRIMARY COST

1. Price

Price will change for

- **Each raw material supplier**
- **Each parts or components supplier**
- **Each sub-assemblies or semi-finished goods.**

2. Customs duty

Customs duty will not change for each supplier.

3. Transportation cost

Transportation cost will change for each mode of transport

- **Road**
- **Rail**
- **Air**
- **Sea**

4. Inventory cost

Inventory cost will change for each order quantity.

- **Minimum order quantity**
- **Average order quantity**
- **Maximum order quantity**

CALCULATION PROCEDURE OF PRIMARY COST

Calculation procedure of primary cost of each raw materials, parts or components and sub-assemblies or semi-finished goods are as follows.

1. **First** we have to select a **supplier** with **lowest price**.
2. **Secondly** we have to select mode of transport with **lowest cost of transportation** for the supplier selected in **first step**.
3. **Thirdly** we have to select the order quantity with **lowest cost of inventory** for the supplier selected in **first step**

Finally we have to add the **lowest price, lowest cost of transportation, lowest inventory cost and customs duty** to get **primary cost**.

This procedure is followed for each raw material, parts or components and sub-assemblies or semi-finished goods.

EXPLANATION OF PRODUCTION MODEL

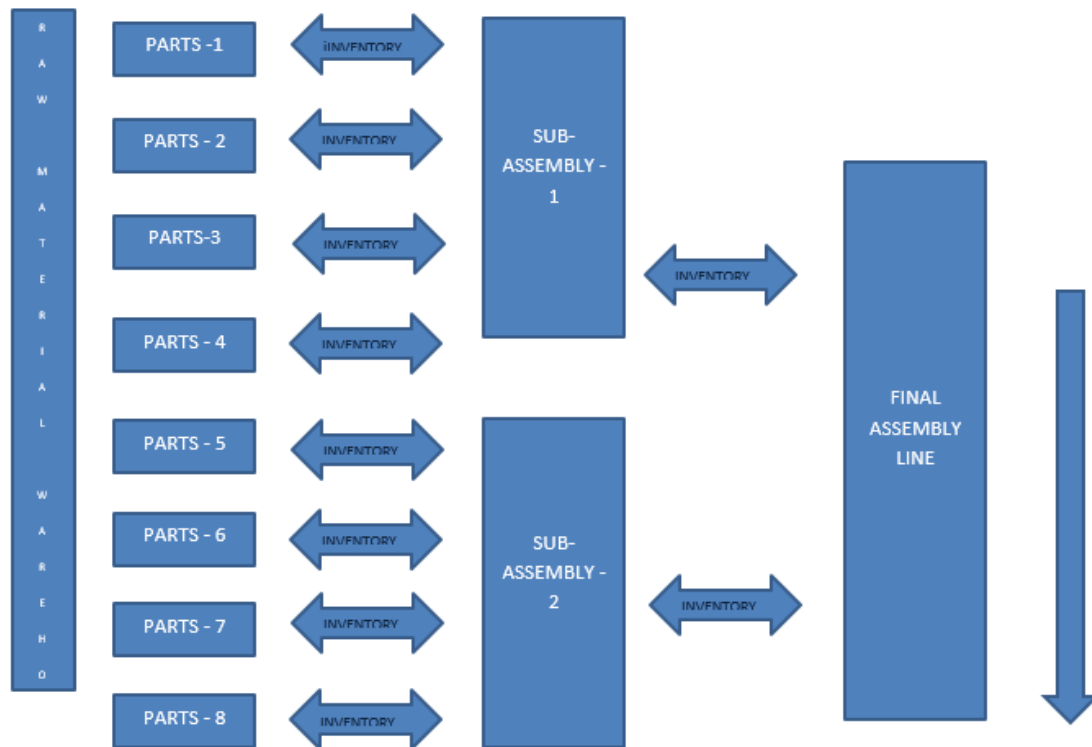
By integration of vertical assembly line and horizontal assembly line, we can increase the operational efficiency of the factory.

MANUFACTURING FROM RAW MATERIALS PROCESS

1. Raw materials will be purchased from suppliers and stored in warehouse.
2. Each parts department will receive raw materials from warehouse and it will be produced to parts in parts department.
3. Sub-assembly will receive parts from their respective parts department and it will be assembled to semi-finished goods.

- Final assembly will receive semi-finished goods from their respective sub-assembly and it will be assembled to finished product.

MANUFACTURING FROM RAW MATERIALS



CAPACITY

- We need to fix the number of finished product to be produced in an 8 hours shift.
- Machine and labour capacity in final assembly** should be fixed to assemble the **one final product** using their respective semi-finished goods within the **allotted time**.
Allotted time = number of finished products to be produced in 8 hours shift **divided by** 8 hours of time.
- Machine and labour capacity in sub-assembly** should be fixed to assemble the **one semi-finished goods** using their respective parts within the **allotted time**.
Allotted time = **87.5% of time** taken to assemble the semi-finished goods in final assembly.
- Machine and labour capacity in parts department** should be fixed to produce **one part** using their respective raw material within the **allotted time**.
Allotted time = **87.5% of time** taken to assemble the parts in sub-assembly.
- Inventory storage capacity between parts department and respective sub-assembly will be 1 hour production of parts department of 8 hours shift.
- Inventory storage capacity between sub-assembly and final assembly will be 1 hour production of sub-assembly of 8 hours shift.

PRODUCTION AND INVENTORY

- Only 87.5% of parts produced by parts department will be assembled by their respective sub-assembly and 12.5% of parts will be in inventory for every 1 hour of 8 hours shift.
- Only 87.5% of semi-finished goods produced by sub-assembly will be assembled in final assembly and 12.5% of semi-finished goods will be in inventory for every 1 hour of 8 hours shift.
- After 8 hours of production, 1 hour production of parts department and sub-assembly will remain un-utilized by their respective sub-assembly and final assembly.
- Remaining un-utilized inventory will give us time for repairs and maintenance without stopping the production.

ADVANTAGES

It will reduce the following **secondary cost, which are 40% to 50% of cost of production**.

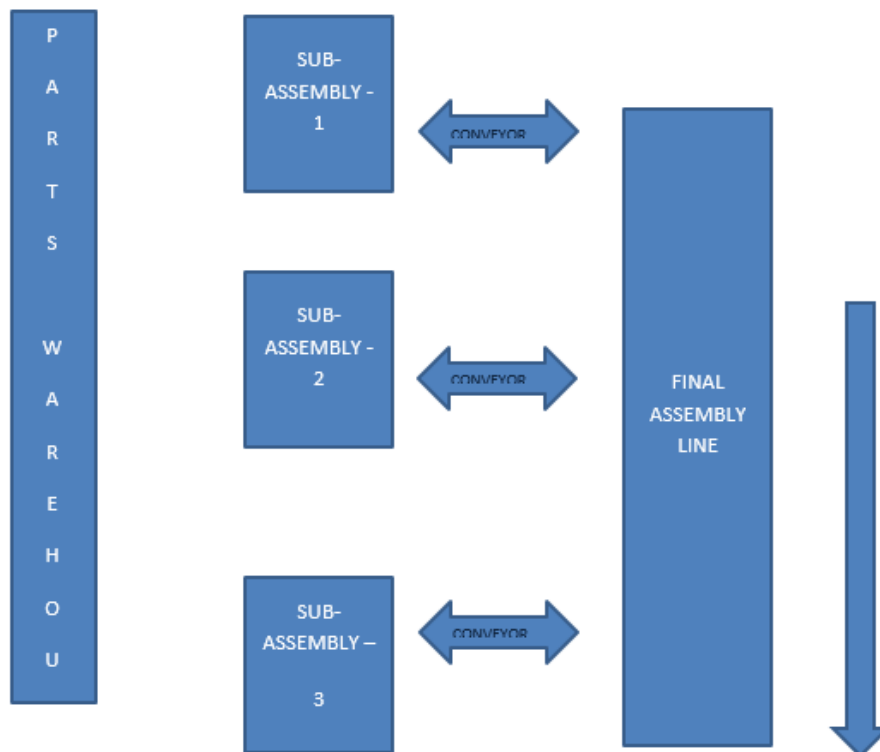
- Employee cost

2. Direct expenses
3. Overheads

MANUFACTURING FROM PARTS PROCESS

1. Parts will be purchased from suppliers and stored in warehouse.
2. Sub-assembly will receive respective parts from warehouse and it will be assembled to semi-finished goods in sub-assembly.
3. Final assembly will receive semi-finished goods from their respective sub-assembly and it will be assembled to finished product in final assembly.

MANUFACTURING FROM PARTS



CAPACITY

1. We need to fix the number of finished product to be produced in an 8 hours shift.
2. **Machine and labour capacity** in **final assembly** should be fixed to assemble the **one final product** using their respective semi-finished goods within the **allotted time**.
Allotted time = number of finished products to be produced in 8 hours shift **divided by** 8 hours of time.
3. **Machine and labour capacity** in **sub-assembly** should be fixed to assemble the **one semi-finished goods** using their respective parts within the **allotted time**.
Allotted time = **87.5% of time** taken to assemble the semi-finished goods in final assembly
4. Inventory storage capacity between sub-assembly and final assembly will be 1 hour production of sub-assembly of 8 hours shift.

PRODUCTION AND INVENTORY

1. Only 87.5% of semi-finished goods produced by sub-assembly will be assembled in final assembly and 12.5% of semi-finished goods will be in inventory for every 1 hour of 8 hours shift.
2. After 8 hours of production, 1 hour production of parts department and sub-assembly will remain un-utilized by their respective sub-assembly and final assembly.
3. Remaining un-utilized inventory will give us time for repairs and maintenance without stopping the production.

ADVANTAGES

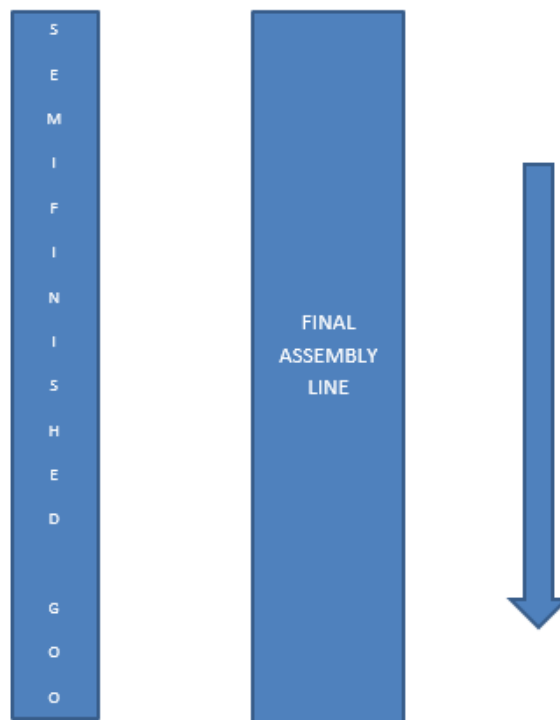
It will reduce the following **secondary cost, which are 40% to 50% of cost of production.**

1. Employee cost
2. Direct expenses
3. Overheads

MANUFACTURING FROM SEMI-FINISHED GOODS

PROCESS

1. Semi-finished goods will be purchased from suppliers and stored in warehouse.
2. Final assembly will receive semi-finished goods from warehouse and it will be assembled to finished product in final assembly.



CAPACITY

1. We need to fix the number of finished product to be produced in an 8 hours shift.
 2. **Machine and labour capacity** in **final assembly** should be fixed to assemble the **one final product** using their respective semi-finished goods within the **allotted time**.
- Allotted time** = number of finished products to be produced in 8 hours shift **divided by** 8 hours of time.

ADVANTAGES

It will reduce the following **secondary cost, which are 40% to 50% of cost of production.**

1. Employee cost
2. Direct expenses
3. Overheads

By mixing the above production models, we will be able to increase the operational efficiency of the factory to reduce the below secondary cost

1. Employee cost
2. Direct expenses
3. Overheads

MIX OF PRODCUTION MODELS

In cost effective production, we mix the below production models to increase the operational efficiency in manufacturing

1. **MANUFACTURING FROM RAW MATERIALS**
2. **MANUFACTURING FROM PARTS OR COMPONENTS**
3. **MANUFACTURING FROM SUB-ASSEMBLIES OR SEMI-FINISHED GOODS**

The use of above production models and mix of above production models will reduce the below **secondary cost, which are 40% to 50% of cost of production.**

1. Employee cost
2. Direct expenses
3. Overheads

SELECTION OF PRODUCTION MODELS

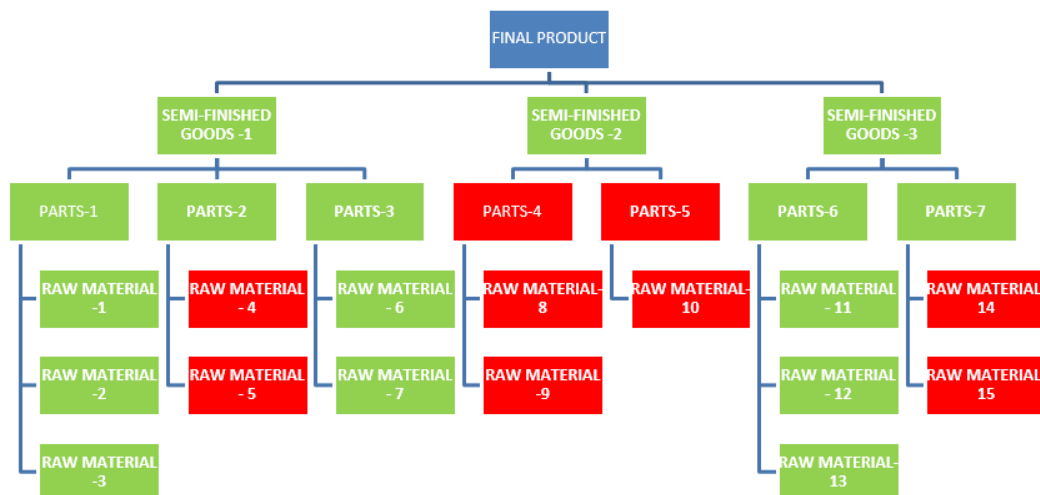
Selection of production model is done by comparing the following cost

1. **Cost comparison of raw materials and parts**
2. **Cost comparison of parts or semi-finished goods.**

In cost effective production Final product should be divided in to different semi-finished goods or sub-assemblies, which are required for the production of the final product.

Each Semi-finished goods or sub-assemblies should be divided in to different parts or components, which are required for the production of respective semi-finished goods or sub-assemblies.

Each Parts or components should be divided in to different raw materials, which are required for the production respective parts or components.



MANUFACTURING FROM RAW MATERIALS

1. **Raw material -1, raw material -2, and raw material -3** will be procured form supplier and used for production of **parts-1**.

Produced **Parts -1** will be used for the production of **semi-finished goods -1**.

Produced **Semi-finished goods -1** will be used for the production of **final product**.

2. **Raw material -6 and raw material -7** will be procured form supplier and used for production of **parts-3**

Produced **Parts -3** will be used for the production of **semi-finished goods -1**

Produced **Semi-finished goods -1** will be used for the production of **final product**

3. **Raw material -11, raw material -12, and raw material -13** will be procured form supplier and used for production of **parts-6**.

Produced **Parts -6** will be used for the production of **semi-finished goods -3**.

Produced **Semi-finished goods -3** will be used for the production of **final product**.

MANUFACTURING FROM PARTS

1. **Parts-2** will be procured form supplier and used for production of **semi-finished goods-1**

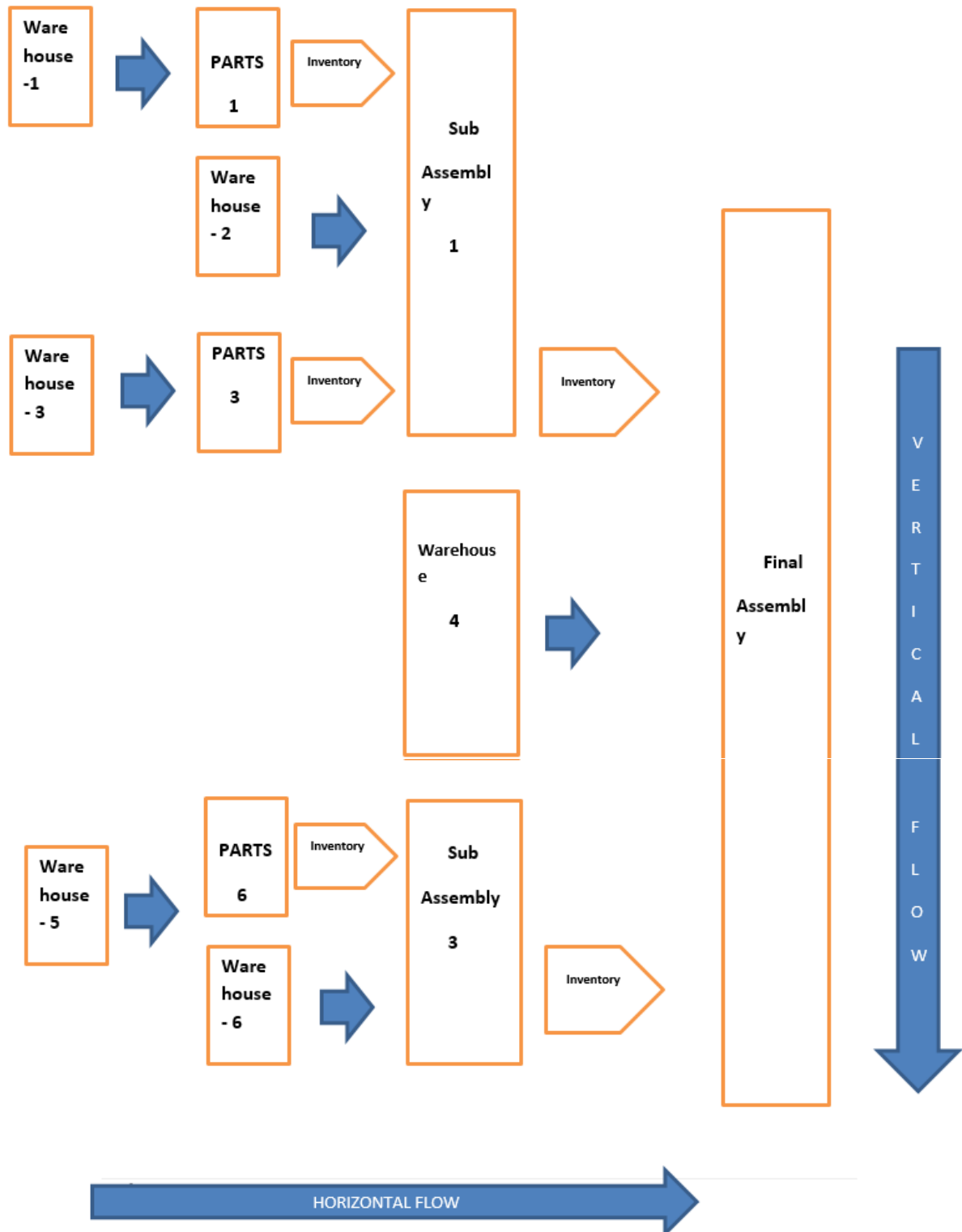
Produced **Semi-finished goods -1** will be used for the production of **final product**.

2. **Parts-7** will be procured form supplier and used for production of **semi-finished goods-3**

Produced **Semi-finished goods -3** will be used for the production of **final product**.

MANUFACTURING FROM SEMI-FINISHED GOODS

1. **Semi-finished goods-2** will be procured form supplier and used for production of **final product**.



MANUFACTURING FROM RAW MATERIALS

1. **Raw material -1, raw material -2, and raw material -3** will be procured form supplier and stored in **warehouse -1**

Parts-1 parts department will receive raw materials from **warehouse -1** for production of **parts-1**

Only 87.5% of Produced **Parts -1** will be used for the production of **semi-finished goods -1** in sub-assembly and remaining 12.5% of **parts-1** will be in inventory for every 1 hour of 8 hours shift.

Only 87.5% of Produced **Semi-finished goods -1** will be used for the production of **final product** in final assembly and remaining 12.5% of **semi-finished goods-1** will be in inventory for every 1 hours of 8 hours shift.

2. **Raw material -6 and raw material -7** will be procured form supplier and stored in **warehouse -3**
Parts-3 parts department will receive raw materials from **warehouse -3** for production of **parts-3**
Only 87.5% of Produced **Parts -3** will be used for the production of **semi-finished goods -1** in sub-assembly and remaining 12.5% of **parts-3** will be in inventory for every 1 hour of 8 hours shift.
Only 87.5% of Produced **Semi-finished goods -1** will be used for the production of **final product** in final assembly and remaining 12.5% of **semi-finished goods-1** will be in inventory for every 1 hours of 8 hours shift.

3. **Raw material -11, raw material -12, and raw material -13** will be procured form supplier and stored in **warehouse -5**
Parts-6 parts department will receive raw materials from **warehouse -5** for production of **parts-6**
Only 87.5% of Produced **Parts -6** will be used for the production of **semi-finished goods -3** in sub-assembly and remaining 12.5% of **parts-6** will be in inventory for every 1 hour of 8 hours shift.
Only 87.5% of Produced **Semi-finished goods -3** will be used for the production of **final product** in final assembly and remaining 12.5% of **semi-finished goods-3** will be in inventory for every 1 hours of 8 hours shift.

MANUFACTURING FROM PARTS

1. **Parts-2** will be procured form supplier and stored in **warehouse -2**.
Semi-finished goods -1 sub-assembly will receive **parts-2** from **warehouse -2** for production of **Semi-finished goods -1** in sub-assembly.
Only 87.5% of Produced **Semi-finished goods -1** will be used for the production of **final product** in final assembly and remaining 12.5% of **semi-finished goods-1** will be in inventory for every 1 hours of 8 hours shift.

2. **Parts-7** will be procured form supplier and stored in **warehouse -6**.
Semi-finished goods -3 sub-assembly will receive **parts-7** from **warehouse -6** for production of **Semi-finished goods -3** in sub-assembly.
Only 87.5% of Produced **Semi-finished goods -3** will be used for the production of **final product** in final assembly and remaining 12.5% of **semi-finished goods-3** will be in inventory for every 1 hours of 8 hours shift.

MANUFACTURING FROM SEMI-FINISHED GOODS

1. **Semi-finished goods-2** will be procured form supplier and stored in **warehouse -4**
Final assembly will receive **Semi-finished goods-2** from **warehouse -4** for production of **final product** in final assembly.

II. CONCLUSION

Cost effective production can be used for the production of final product which requires assembly.

Cost effective production will reduce the cost of production by 25% to 35% by reducing

1. **Primary cost**
 - Price
 - Customs duty
 - Transportation cost
 - Inventory cost
2. **Secondary cost**
 - Employee cost
 - Direct expenses
 - Overheads.