INTRODUCTION

The concept of economic structure in a capitalist society
is inherently related to the concept of monopoly power. Interest
in the development of the art of theorizing on the capitalist
economic structure is little more than a hundred and fifty years
old. In this line, the development of the history of economic
thought got its start with the publication of F. Engels'
'Critique of political economy [1854]' and attained maturity as
a scientific theory with the publication of Marx's Fourth volume
of Das Kapital [1904]. One can criticize but hardly deny in fact
that Marx's pointing out some of the phenomena of the capitalist
economy [leaving aside his controversial terminological ambiguity,

1. 'The outline of a critique of political Economy' was the
first economic work written by Engels. It was one of the prin­
cipal works published in the 'Deutsch Französische Jahrbichten'
and together with the programme articles written by Marx deter­
mined the Journal's communist trend. In the preface to the first
edition of 'A contribution to the critique of political economy'
[1854] Marx called it a brilliant essay on the critique of
economic categories. Despite the fact that the work contained
some traits of immaturity which were inevitable at the earlier
state of the framework ideas - a short-coming about which Engels
wrote in a general way in his letter [Liebknecht, April 13, 1876] -
the work contained a profound anticipation of some propositions
in the new materialist economic teaching.
if any], especially his analysis of the inherent nature of the mechanism which must normally result in the polarisation of capital, bears a good approximation to reality. His method of analysis within his conceptual framework, postulates an inverse relationship between the rate of profit and 'organic composition of capital'. Accumulation of capital and declining profit rate are the features which must appear due to the working out of the capitalist method of production. Accumulation, when private property prevails, leads to the 'concentration' of capital in the hands of a few; it is, in general, an inevitable consequence if capital is left to follow its natural course, and it is precisely through competition that the way is cleared for this natural disposition of capital. Since the profit on capital is in proportion to the size of the capital, a large capital, therefore, accumulates more quickly than a small capital even if there is no deliberate competition. But competition among the small and big whales is inevitable. Now, the increase of capital and large amount of capital investment are possible if there prevails a condition of advancing wealth in the country. Secondly, capitalists' competition helps the proportion of fixed capital to circulating capital become larger and larger and thirdly, the competition ultimately results in a general deterioration of the quality of commodities, adulteration, fake production and universal poisoning evident in most of the developing countries like India. Marx's conclusion, however, according to his opponents detracts from reality. Factors like a continuous and increasing process of adjustment among the opposite forces in a progressive democratic society, wonderful developments in the field of technology whic
have been transforming the fixed capital into variable capital by ensuring less time requirement for its adaptability to the changing market condition and the possibility for the expansion of both input and output markets beyond the country wherein capitalism grows first have been responsible for the difference between Marx's conclusion and reality so far as most developed countries are concerned.

Whatever may be the reason for not accepting his conclusion of a falling rate of profit, the supreme triumph of his analysis lies in his pointing to the inevitable destiny of capitalism like the increasing tendency towards polarisation of economic power which is a genus and whose species are monopoly power, market power and position in the market. His concept and analysis have led to the conclusion that centralisation of the means of production in a few hands is a must in a capitalist society and this results in the formation of monopoly power which is likely to act to the common detriment. The Report of the TNEC supports the claim that Marx is basically correct in his analysis.


3. Temporary National Economic Committee has probably been the most powerful body appointed to investigate the concentration of economic power in the USA. Each of the eighty four publications released by the committee contains valuable material showing the extent to which the ownership, management and control of industry have been concentrated.
and conclusion. The Report has pointed out the actual situation prevailing in a capitalist economy in contrast to the theoretical contention of the existence of a competitive price mechanism and thus inflicted a rude shock to the very basis of the dream house of the followers of Laissez-faire policy and hurled a severe blow at the protagonists of uninterrupted growth of the private sector economy. They realised that the Invisible Hand is no longer determining the course of economic events. In conformity with the Marxian conclusion big whales have been devouring up the small whales and getting much larger. Also the menacing problem of the increasing tendency of medium sized whales towards concentration through either horizontal or vertical integration has gradually been producing much stronger whales. People who are in favour of compromise have got anxious about the ominously gradual concentration of economic power in a few hands since this

4. Except in the USA monopoly is tolerated more or less in all capitalist countries. Believing in competition the USA has compromised with technology and accepted oligopoly. The UK appears to be more concerned with monopolistic practice than with monopoly as such and has abolished retail price maintenance which is held legal in many states of the USA, France, Germany and Italy with their traditional cartels or similar organisations under official patronage. Japan has practically returned to its pristine Zaibatsu, which are in many ways, comparable to our large business groups ... In the area where capital requirement is large, concentration of economic power may have to be tolerated in the interest of economic growth as an evil lesser than the economic sin of growth denial: R. K. Hazari - Monopolies and their regulation in India.
phenomenon has been making it increasingly difficult for the functioning of a suitable adjustment process by virtue of which a capitalist society runs smoothly. Policy makers therefore, have come forward to find out the relevant causes of this problem of concentration and their remedies and, as is to be always expected, have prescribed policies widely different from one another.

The second line of economic thought known as the classical economic thought expresses the concept of concentration or monopoly power in terms of the degree of control on supply and measures the power in terms of the degree of cross elasticity of demand. Of course, this line of thought does not deal with the problem of the emergence of monopoly power. In a market, it simply attempts to express the degree of monopoly power exercised by a firm or an industry by the cross elasticity of demand for the goods of the firm or industry as the case may be. The famous Lerner index or the Triffin formula for the measurement of monopoly power apart from their conceptual weakness, are not suitable for quantitative measurement.

5. Defining monopoly power by cross elasticity of demand

Triffin holds that a firm enjoys absolute monopoly power when the cross elasticity of demand for its product is zero.

The Lerner index expressed as \( [(P_q - M_c) / P_q] \) when \( P_q \) - price of the commodity, \( M_c \) means marginal cost of production can be rewritten as

\[
\frac{[P_q - P_q (1 - \frac{1}{e})]}{P_q} = \frac{1}{e} \text{ in terms of price elasticity of demand since in equilibrium } MR = MC.
\]
The third line of thought ushered in by the Chamberlin-Robinsonian concept has taken it for granted that each and every producer has some amount of monopoly power or market power to be exercised for its product in the market. This concept is based upon the phenomenon of product differentiation which is typically present in modern oligopolistic and monopolistic competition. It is important to note that Chamberlin's pointing out of this distinct phenomenon which apart from other factors acts as a barrier to entry and promises market power — a monopoly element prevailing in the market of a capitalist economy — has been a significant event. It bears a very good approximation to reality.

Therefore, with reference to price elasticity of demand at equilibrium output one can understand that the value of the index varies inversely with the elasticity of demand for the goods. Lerner's index of monopoly power varies from zero to unity. However, dealing with only the demand condition it fails to provide a measure for monopoly power which exists in the market characterised by interdependence among the firms together with competition in non-price area. Lerner index as observed by Chamberlin, 'passes over completely the important problem of competition and monopoly in the non-price area, quality and other aspects of the product including location and advertising and other forms of selling cost' : E. H. Chamberlin -- Measuring the degree of monopoly and competition, Towards a general theory of value pp-83.


Product differentiation stemming from both the input and output sides exhibits the existence of imperfection in competition. The rivals compete with one another more by differentiating their products than by cutting prices against one another.

We have taken up this phenomenon of imperfect competition for our study primarily for investigating the relationship between this phenomenon and profitability of the 'established firms' since profitability is supposed to provide a measure for market power and market position enjoyed by a firm or firms.

The period marked by the beginning of the decade of sixties and covered by the first half of the seventies has been fertile enough to provide a number of studies on different factors responsible for the growth of monopoly power and its variant market power. The most noteworthy studies in the occidental countries have been made by J. S. Bain, N. L. Collins and L. E. Prestone, F. M. Scherer, I. M. Grossack, G. Stigler, G. I. Nelson, Shoppeid, Dorr, M. Hall and L. W. Weiss, Mansfield, E. M. Marcus, H. O. Steckler, S. Hymer and P. Pashigian and W. F. Mueller and L. G. Hun. In India, similar studies have been made by S. R. Mohanot, M. M. Mehta, R. K. Hazari and Vinod K. Gupta7. Particularly in oligopoly the product differentiation variable which acts as a barrier to entry and exerts positive influence over the market power of the established firm or the market power exercised by the Penrosian 'Head Start'8 has been dealt with from different angles in these different studies.

7. Vide the reference list appended to this study.

8. E. T. Penrose's Theory of the 'Head start' states simply that the earlier - established and large firms have a head start.
A number of economists have made attempts to study the relationship between market power and product differentiation. It is necessary to note here in this context that there is no specific theoretical definition of the term 'Product differentiation' which can conveniently be used for quantitative measurement of the variable. However, some workable definitions of the variable have been provided by a number of economists in conformity with the respective conceptual frameworks of the studies. For instance, W. G. Shepard, W. S. Comanor and T. A. Wilson and Ferguson have considered the profit rate to be an indicator of market power and made studies on the hypothesis that product differentiation and profitability are positively

Over younger and smaller firms that give them certain advantages enabling them to maintain their position and to grow at the expense of younger firms and the firms not yet established. As stated, Galbraith, 'when, anywhere in the course of producing, processing or distributing a particular product, one or a few firms first succeed in establishing a strong market position they may be considered to be the possessors of original market power. They are able, as the result of their power over the prices they pay or charge, to obtain more than normal margins and profits. These are at the expense of the weaker supplier or customer: J. K. Galbraith - American Capitalism - Countervailing power and the State pp-143-144.
related. On the other hand, taking product differentiation as an indicator of market position of a firm or industry, P. K. Else holds that product differentiation improves competitive position of a firm. Moreover, while Bain in his sample of twenty manufacturing industries has found a positive relationship between product differentiation and sellers' concentration which indicates the existence of monopoly power, Telser has found the correlation between these two variables unimpressive. Despite differences in results, studies on this particular aspect of market power have been going on in the Western countries. In India no attempt seems to have been made to study this area of non-price competition although a number of problems frequently


[iii] Frances Ferguson Esposito Louis Esposito: Excess capacity and market structure, The said Review, May, 1974


invite our attention. For instance, we may face questions like:

[i] what is the degree of product/in the oligopoly market in India
[ii] what is the degree of product differentiation practised by the established firms in the respective industries
[iii] has the degree of product differentiation been increasing or decreasing or remaining constant over time in industries and established firms
[iv] what is the degree of importance given to selling efforts by the established firms as well as industries
[v] how far is it reasonable to accept the 'maintained hypothesis' that product differentiation bears a positive relationship with profitability
[vi] what is the relationship between profitability and the 'structure of aggregate capital investment expenditure' of the established firms in different industries
[vii] what is the nature of relationship between product differentiation and the size of the established firms
[viii] what is the elasticity of sale with respect to product differentiation firms as well as industrywise

As regards questions [vi] and [vii] we feel it necessary to have a brief discussion for streamlining the variables appearing in our conceptual framework of the study.

In a market characterised by monopolistic competition, equilibrium in the long run, is attained at less than optimum level of output and thus excess capacity emerges. Excess capacity of either a firm or an industry represents the unutilised productive capacity which if exhausted would have provided the society with output more than the existing level of output with the cost less than the existing per unit cost. This sort of
wastage of social productive capacity can also be found in existence from a slightly different perspective. In the long run a firm's equilibrium output under perfect competition is, from the social point of view, an optimum output and even in monopoly sometimes the equilibrium output becomes an optimum output even though normal profit emerges in the former case and a supernormal profit in the latter. The meaning of the term 'optimum output' in this context is that per unit cost of placing the product on the market with the help of existing aggregate capital investment expenditure is at a minimum. In a market characterised by either oligopoly or monopolistic competition the existence of non-price competition makes the firm and industry attain equilibrium characterised by the emergence of unutilised productive capacity. Of the total unutilised productive capacity of a firm or industry a part may be used for non-productive purpose and no wonder may create employment opportunities; but this non-productive employment ultimately contributes to further aggregate demand and discrepancy between aggregate supply in an economy. However this line of thought is beyond the scope of this present study.

*In the absence of non-price competition, an industry i.e. a group of firms is forced to attain equilibrium by price competition at a point on the average cost curve, which is not a minimum point and therefore, there remains some unutilised productive capacity. In the presence of both price and non-price competition the amount of unutilised productive capacity must be more than that when only price competition prevails. Now a part of total non-productive capacity is used for unproductive purpose such as advertisement, canvassing, after sale
Resuming our previous discussion let us try to understand the relationship among the existence of non-price competition represented by the degree of product differentiation, profitability and the unutilised productive capacity in the following way:

For a business firm aggregate capital investment expenditure overtime has been defined in this study as net asset flow plus the expenditure incurred for purposes other than capital creation \([M]\). Since the rate of asset formation at time \(t\) is identical with the rate of net asset \([v]\) flow at time \(t\), asset and net asset are related by

\[
\frac{dA}{dt} = v[t] \quad \text{and} \\
A[t] = \int v[t] dt = \int \frac{dA}{dt} dt = \int da \\
\text{where} \ A[t] \ \text{denotes asset formation which is essentially a process.}
\]

Correspondingly, the aggregate capital investment expenditure \([I]\) can be expressed as

\[
I[t] = \int da + \int M[t] dt
\]

service, window display and so on and thus some amount of employment is provided for these purposes; but this type of employment does not in reality produce any commodity but increases the total purchasing capacity of the economy. Correspondingly, aggregate demand exceeds aggregate supply.
As we desire to find out the aggregate capital investment expenditure during some interval of time rather than the time path of \( \int_I \) we can write

\[
I(t) = \int_0^t dA + \int_0^t M(t) \, dt
\]

Expression [1] implies that aggregate capital investment expenditure during a period of time is based upon change in asset rate of expenditure for the purpose other than capital creation and time elapsed.

Regarding one pertinent question: How have we obtained the variable \( M \), we can say that obtainability of \( M \) from total expenditure head \( E \) as shown by the profit and loss account of a firm has become necessary for minimising the probability of double counting of asset \( A \).

A part of asset \( A \) in fact is supposed to be present in the total expenditure \( E \) head in the form of purchasing new machineries, constructing ware houses and factory building etc. and this expenditure may be incurred either from previous reserves or from borrowing. It is not possible to know how much of it has been met from previous reserves and how much from borrowing. However, as we are interested only in knowing how much expenditure has been incurred for purposes other than capital creation \( QV \) in the total expenditure head \( E \) we can obtain \( M \) by subtracting \( QV \) from \( E \) i.e.

\[
E - QV = M
\]
In a differentiated oligopoly a part of aggregate capital investment expenditure \([I]\) represents the cost of placing the product on the market denoted by \([M + QV]\). Now \(M\) can be supposed to be split up into two parts: \(nM\) and \(mM\). While \(nM\) represents expenditure incurred in selling effort \(mM\) denotes the part of total expenditure incurred in the production sector. This \(mM\) together with \(QV\) represents total expenditure in production sector since expenditure on capital creation \([QV]\) is, in reality, incurred for the purpose of production, hence we can write. 

\[mM + QV = pE\]

which represents total expenditure in production sector.

Then the fund \(nM\) which could have been used for either improvement of quality or to increase the quantity of the product or both in real terms by a firm is now used for the creation of artificial quality to attract the allegiance of the existing as well as the potential buyers. Consequently, \(nM\) can be regarded as 'potential social productive capacity'.

Now of the total net asset \([V]\), while \(QV\) represents the used part of \(V\), the remaining \(V[1-Q]\) may either remain in idle form or may be invested in the equity of a subsidiary company or companies. Untill and unless \(V[1-Q]\) is found in the balance sheet of a firm as an investment in the equity of the subsidiary company or companies we may understand it from social point of view as an 'unused potential social productive capacity'. So while \(nM\) is regarded as an used part of \(I\) representing 'potential social productive capacity', \(V[1-Q]\) is understood as an unused part of \(I\), which also represents 'potential social productive capacity'.
Correspondingly writing

\[ K[t] = \frac{\int_0^t dA + \int_0^t P[t] \, dt}{\int_0^t P[t] \, dt} \]

we get information about the 'structure of aggregate capital investment expenditure' of a firm or industry. Secondly, the quotient indicates the magnitude of wastage of social productive capacity at each point of time.

Regarding the existence of relationship among the variables like the 'structure of aggregate capital investment expenditure \([K]\)', profitability \([\gamma]\) and the degree of product differentiation \([L]\), let us assume that \(K\) is a function of \(\gamma\) which again is a function of \(L\). Therefore, the composite function is

\[ K = f(g(L)) \]

Now an increase in the value of \(L\) may bring about a change [increase or decrease as the case may be] in the value of \(K\) through \(\gamma\). i.e.,

\[ \frac{dK}{dt} = \frac{dK}{d\gamma} \cdot \frac{d\gamma}{dt} \]

If we find over time that

\[ \frac{dK}{dt} / \frac{d\gamma}{dt} > 0 \quad \text{while} \quad \frac{d\gamma}{dt} \cdot \frac{dL}{dt} > 0 \quad \text{then} \quad \frac{dK}{dt} > 0 \quad \text{i.e.,} \]

an increase in the value of \(L\) overtime brings about an increase in the values of \(K\) in such a situation through the variable \(\gamma\). In otherwords, it can be said that an increase in the degree of product differentiation [non-price competition] overtime brings
about an increase in the magnitude of unutilised social productive capacity. It may of course be found that

\[
\frac{dK}{dt} / \frac{dL}{dt} < 0 \quad \text{while} \quad \frac{dL}{dt} / \frac{dK}{dt} > 0
\]

or

\[
\frac{dK}{dt} / \frac{dL}{dt} > 0 \quad \text{while} \quad \frac{dL}{dt} / \frac{dK}{dt} < 0
\]

or

\[
\frac{dK}{dt} / \frac{dL}{dt} < 0 \quad \text{while} \quad \frac{dL}{dt} / \frac{dK}{dt} < 0
\]

and accordingly we are to understand the nature of relationship among the variables.

As regards the relationship between the degree of product differentiation and the size of a firm there are already some studies to which reference can be made. For instance, L. U. Weiss found that sales promotional expenditure changes the size distribution of firms and expand market share of the firm whose product attracts consumers' allegiance. It is necessary to note that we are concerned with the change in the size of the established firm since change in size of a firm indicates in fact the power and position of the firm concerned in a market.

For a precise definitional delimitation we have, in our study, defined the terms market power and product differentiation in a somewhat different manner. This may be regarded as a 'technical definition' which implies that the two terms have been defined in a special way so that both qualitative and quantitative aspects of the terms can be taken care of and also they conform to the market structure and market performance found now a days especially in countries like India. In defining the

the relevant variables technically we are led to adopt an indirect method or to use the more apt expression 'The mirror method', because, first, the term 'power' is essentially a qualitative concept and we like to measure it quantitatively. It should obviously be defined in terms of another variable amenable to measurement. Second, the concept of product differentiation is also a qualitative one and it has also got to be measured quantitatively. However, we are fortunate enough to get the relevant rods of measurement of these two variables from the treasure vault built by some leading economists cum empiricists of this century.

Among the factors categorized as social, political, economic, technical, and scientific which are thought to be conducive to the generation of market power of a firm and indicate the magnitude of wastage of social productive capacity, we have considered only one factor viz., the degree of product differentiation*. It will not be out of place to note here that we do not consider the cumulative effect of social and economic variables upon the structure of aggregate capital investment expenditure of the established firms.

12. It means a method which the estimation of both qualitative and quantitative aspect of a variable say, x uses another variable say, y as a proxy for x which is difficult to be measured directly but y is amenable to measurement with some extent of precision.

* Originally, the mode of production determines production relation and accordingly, the social framework is built up. Once built up this typical social conditions favour the growth of market
Our analysis deals with several manufacturing industries of different categories. We have considered, according to availability of data, the relevant problems in different industries during different specific time periods. This sample study has been conducted on eleven manufacturing industries and established firms. We have tried to maintain homogeneity of the firms in each industry by selecting those firms which have been purchasing and marketing more or less similar commodities.

Power of a firm. For instance, existence of a large army of labour, vastly uneducated people, custom and tradition, poverty and prejudice together with the existence of different income groups acts as a factor conducive to the creation of a favourable market for an established firm. That is why the 'head start' enjoys special advantages in the society.

Political set up of a country is largely responsible for the growth of market power of an established firm. Bourgeois administration leads to the emergence of corruption inevitably and pollutes the society for holding power which largely depends on economic assistance which again comes from the funds of the established firms. Economic assistance is rewarded in the form of advantages granted to the firms by the state authority. Mutual understanding between the state authority and the established firms is a fact. For example, licensing system and the corporate industrial structure in India focuses sufficient light upon this fact.

Economic factors like growth rate, product differentiation, firm's size, fiscal policy, monetary policy, foreign trade policy
The study covers approximately the period of time from 1956 to 1976.

For convenience, the study falls into ten chapters. In chapter I the definition and measurement of the variables used and the method of study are set forth. Chapter II provides the estimate of the degree of product differentiation existing in the sample industries and the established firms in the respective industries. Chapter III measures the nature of trend of the degree of product differentiation existing in the sample industries and the established firms respectively. Chapter IV studies consistency and variation of product differentiation industrywise and established firmwise. In Chapter V we have considered the relative importance given by different etc. can favour the growth of the market power of an established firm and we have got already plenty of studies in these fields.

Technological development and scientific invention used for commercial purposes bring about a larger margin of profits for the established firms. Having all types of advantages, specially, the availability of finance capital being easy, the established firm can successfully exploit the economies generated from the development of technical and scientific fields and thus can assume more market power at the expense of the small and relatively weak firms.
industries to selling effort, the nature of trend of the 'importance given to selling effort' and variability of the said variable industrywise. Sales elasticity with respect to product differentiation/industries and established firms has been studied in Chapter VI. In Chapter VII we have studied the relationship between the size of the established firms and the degree of product differentiation. Chapter VIII studies the relationship between profitability and the degree of product differentiation in the established firms. Chapter IX studies the relationship between the degree of product differentiation, profitability and the structure of aggregate capital investment expenditure of the established firms in different industries. Chapter X contains the conclusion. In the appendix we give a reference list of the books and articles that we have found useful for this study.

B

Sources of data

For each of the manufacturing industries included in our sample we have considered four to seven firms depending on the availability of data. The study relies heavily upon the primary data collected from the Annual Reports of the companies submitted to the office of the Registrar of companies Calcutta, and partially on the data provided by Kothari's Hand
The study accordingly has been carried out within the limitations of the data provided by the profit and loss accounts and balance sheets of the companies concerned.

### Industry Classification

Each company is supposed to represent one firm and firms have been classified under eleven industrial heads according to their principal business as revealed by their annual reports and accounts. Industries have been broadly classified under two categories: [A] Consumer goods producing industries and [B] Intermediate goods producing industries. The names of the industries studied under the two heads are given below:

<table>
<thead>
<tr>
<th>[A] Consumer goods industries</th>
<th>[B] Intermediate goods industries</th>
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<tbody>
<tr>
<td>1. Tea</td>
<td>9. Rubber goods</td>
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<tr>
<td>2. Biscuits</td>
<td>9. Electrical goods</td>
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<tr>
<td>5. Cigarettes</td>
<td></td>
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<tr>
<td>6. Cosmetics</td>
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<td>7. Shoes</td>
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The selected industrial markets included in this study are in fact exhibiting the characteristics that are usually present in differentiated oligopoly. Only the tea industry is an exception being an industry based upon agriculture. The large scale industries in India are more or less oligopolistic in structure and the selected industries in this study do, in fact, exhibit the oligopolistic characteristics. Regarding the location of the industries we have studied the industries which are located in West Bengal.

D

Conceptual Difference With the 'Maintained Hypothesis'

In the 'maintained hypothesis' the firm's size and profitability are positively related. Profitability has been assumed as a dependent variable and the firm's size an independent variable. In our study, on the other hand, a firm's size being conceptually an indicator of both market power and position we have treated 'profitability' as an independent variable while the firm's size has been assumed as a dependent variable. A firm's size being defined in this study by its asset which is composed of paid up capital and reserve and profit reaped by a firm being supposed to go to the reserve fund if not wholly at least partially. Profitability, therefore, logically should be an independent variable in a two variable
function such as

\[ \alpha = f(\pi) \]

where \( \alpha \) denotes firm's size and \( \pi \) means profitability. In fact we have dealt with a composite function

\[ \alpha = f(g(L)) \]

which states the size of a firm and profitability is a function of profitability as again a function of the degree of product differentiation. Thus in conformity with the 'maintained hypothesis' we have, in this study, assumed the existence of a positive relationship between profitability and the degree of product differentiation, the former variable being dependent and the latter being independent, but unlike the 'maintained hypothesis' we have assumed the firm's size variable as a dependent variable and profitability an independent variable since a firm's size, apart from particular policy decisions adopted by the firm concerned, depends upon the size of profit.

13. It is often found in the case of an established firm that from the reserve fund bonus shares are floated and after some years this type of share capital is converted into paid up capital.